

# Rārangi take Kaunihera Whanokē

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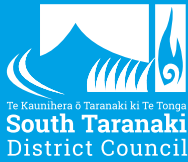
# Extraordinary Council Agenda

To discuss the next stages of the Three Waters  
Service Delivery Reform

Monday 27 September 2021, 1pm

Hāwera Community Hall, Albion Street, Hāwera





# Pūrongo Whaitikanga Governance Information

## Ngā Mema o te Komiti / Committee Members



Phil Nixon  
*Mayor*



Robert Northcott  
*Deputy Mayor*



Andy Beccard  
*Councillor*



Mark Bellringer  
*Councillor*



Gary Brown  
*Councillor*



Celine Filbee  
*Councillor*



Aaron Langton  
*Councillor*



Steffy Mackay  
*Councillor*



Jack Rangiwahia  
*Councillor*



Diana Reid  
*Councillor*



Bryan Roach  
*Councillor*



Brian Rook  
*Councillor*



Chris Young  
*Councillor*

## Apatono / Delegations

The Full Council's role is to carry out responsibilities under the Local Government Act 2002. It is the final decision-making authority within the Council and generally ratifies recommendations made by other committees. It is made up of all Councillors and the Mayor.

### Powers that cannot be delegated

The powers that cannot be delegated by the Council are:

- (a) the power to make a rate
- (b) the power to make a bylaw
- (c) the power to borrow money, or purchase or dispose

of assets, other than in accordance with the long-term plan

- (d) the power to adopt a long-term plan, annual plan or annual report
- (e) the power to appoint a chief executive
- (f) the power to adopt policies required to be adopted and consulted on under the Local Government Act 2002 in association with the long-term plan or developed for the purpose of the Local Governance Statement.
- (g) the power to adopt a remuneration and employment policy

## He Karere Haumarū / Health and Safety Message

In the event of an emergency, please follow the instructions of Council staff.

If there is an earthquake – drop, cover and hold where possible. Please remain where you are until further instruction is given.

## He Pānga Whakararu / Conflicts of Interest

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as an elected member and any private or other external interest they might have.



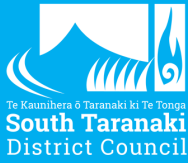
# Rārangi Agenda

## **Extraordinary Council Meeting**

Monday 27 September 2021 at 1pm

To discuss the next stages of the Three Waters Service Delivery Reform

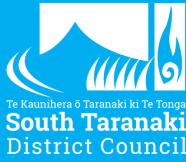
1. **Matakore / Apologies**
2. **Whakatakoto Kaupapa Whānui, Whakaaturanga hoki / Open Forum and Presentations**
3. **Pūrongo / Report**
  - 3.1 [Feedback to Government on Three Waters Proposal](#) ..... Page 6



# Matakore Apologies

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**Leave of Absence:** *The Council may grant a member leave of absence following an application from that member. Leave of absences will be held in the Public Excluded section of the meeting.*



# Whakatakoto Kaupapa Whānui, Whakaaturanga hoki

# Open Forum and Presentations

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*The Council has set aside time for members of the public to speak in the public forum at the commencement of each Council, Committee and Community Board meeting (up to 10 minutes per person/organisation) when these meetings are open to the public. Permission of the Mayor or Chairperson is required for any person wishing to speak at the public forum.*



# Pūrongo Report

To	Extraordinary Council
From	Kaiarataki Ratonga Hapori me te Pūhanga / Group Manager Community and Infrastructure Services, Fiona Aitken
Date	27 September 2021
Subject	<b>Feedback to Government on Three Waters Proposal</b>

(This report shall not be construed as policy until adopted by full Council)

## Whakarāpopoto Kāhui Kahika / Executive Summary

1. Over the past four years central and local government have been considering the issues and opportunities facing the system for regulating and managing the three waters (drinking water, wastewater and stormwater).
2. The Government has concluded that the case for change to the three water service delivery system has been made. During June and July 2021, it released information and made announcements on the direction and form of the Three Waters Reform including four proposed new Water Service Entities (WSE), their governance and ownership arrangements. South Taranaki has been placed in Entity B.
3. The Government also gave councils an eight week period to understand the implications of the reform announcements and provide feedback to Government by 1 October 2021.
4. There are a number of issues, concerns and uncertainties for the Government and councils to work through before a robust Council decision (and decision-making process) can be produced. These include whether legislative change will enable or require the WSE approach to be adopted. Therefore, there is no expectation that councils will make a decision to opt-in (or out) or commence community consultation over this eight week period.
5. While Government has agreed to a preferred set of entity boundaries, they remain interested in continuing discussion with Taranaki councils and Iwi/Māori about whether Entity C has better whakapapa connections and economic and geography/communities of interest. Council's preferred option, should the reform proceed, is to be in Entity B.
6. Government decisions on entity boundaries, governance, transition and implementation arrangements will occur at the end of this feedback period.
7. Council should consider all the information that has been provided through the six workshops held over this feedback period and provided in this report when confirming the draft feedback, attached as [Appendix I](#), to this report to go to Government by 1 October 2021.

## Taunakitanga / Recommendation(s)

THAT the Council;

- a) **Approves** the feedback attached as Appendix I to be sent to the Government on the Three Waters Reform proposal; and
- b) **Notes** that the Government has signalled territorial authorities will need to decide whether to remove themselves from the Three Waters Reform, however, the Government has acknowledged that all-in participation of councils is required to achieve the objectives of the reform programme which could mean that Council is not given an opportunity to make a decision.

## Kupu Whakamārama / Background

8. Following the serious campylobacter outbreak in 2016 and the Government's Inquiry into Havelock North Drinking Water, central and local government have been considering the issues and opportunities facing the system for regulating and managing three waters (drinking water, wastewater, and stormwater).
9. The focus has been on how to ensure safe drinking water, improve the environmental performance and transparency of wastewater and stormwater networks and deal with funding and affordability challenges, particularly for communities with small rating bases or high-growth areas that have reached their prudential borrowing limits.
10. The Government's stated direction of travel has been for publicly-owned multi-regional models for delivering three waters services (with a preference for local authority ownership). The Department of Internal Affairs (DIA), in partnership with the Three Waters Steering Committee (which includes elected members and staff from local government) commissioned specialist economic, financial, regulatory and technical expertise to support the Three Waters Reform Programme and inform policy advice to ministers.
11. The initial stage (Tranche 1 - MOU, Funding Agreement, Delivery Plan and RFI process) was an opt in, non-binding approach. It did not require councils to commit to future phases of the reform programme, to transfer their assets and/or liabilities, or establish new water entities.
12. Councils completed the RFI process over Christmas and New Year 2020/21 and the Government has used this information, evidence, and modelling to make preliminary decisions on the next stages of reform and has concluded that the case for change has been made.
13. On 30 June 2021, the Minister of Local Government, Hon Nanaia Mahuta, announced the Government's proposed reforms. On 15 July the Minister also announced a financial support package for councils.
14. The Government has, through Local Government New Zealand, sought feedback on the proposals for Three Waters Reform from affected local authorities. This provides an opportunity for Council to outline any concerns it may have with the detail of the proposal at this stage.

**Local Government Purpose**

- 15. This matter relates to the provision of three waters infrastructure for the South Taranaki community which the Council is legislatively required to provide. Providing feedback to the Government on any legislation or policy they are developing contributes to democratic local-decision making on behalf of the community.

**Ngā Kōwhiringa / Options – Identification and analysis**

- 16. The focus of the Government has been on how to ensure safe drinking water, improve the environmental performance and transparency of wastewater and stormwater network, while also dealing with funding and affordability challenges (particularly for communities with small rating bases or high-growth areas that have reached their prudent borrowing limits).
- 17. There are a wide range of papers, analysis and other materials available from Government. In combination, these sources of information collectively establish the Government’s, and not Council’s, case for change.

**What has the Government proposed?**

- 18. The Government has proposed a substantial reform of what is known as the Three Waters services.
- 19. The Government has proposed that territorial authorities will no longer be responsible for the delivery of drinking water, wastewater or stormwater services. Instead, these services will be run by specialist water entities. These entities will own and operate the water assets.

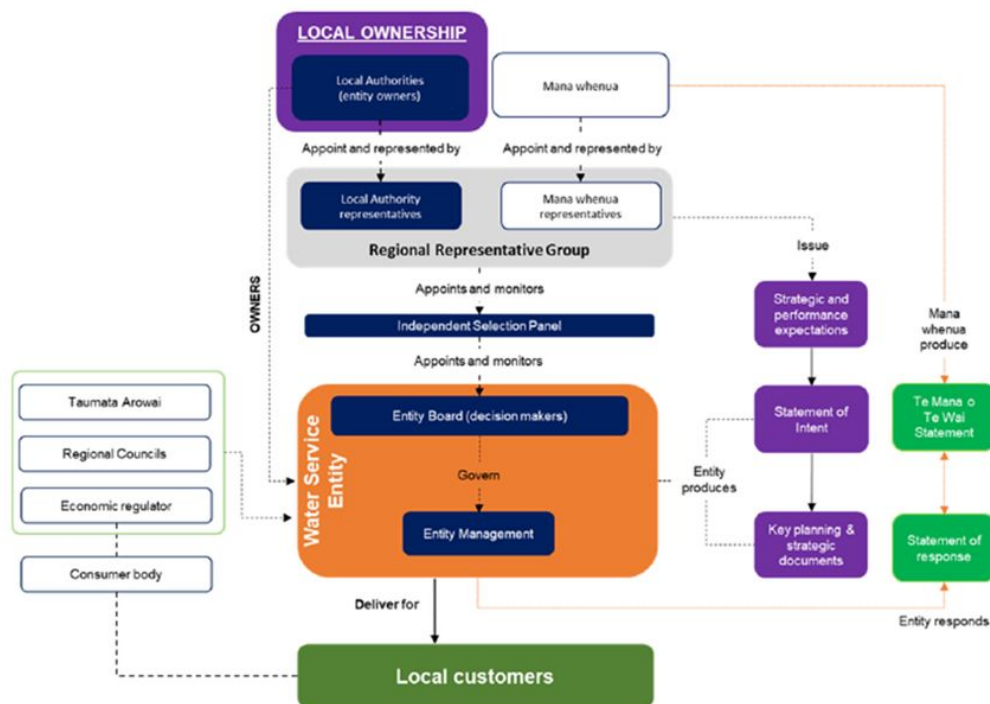
- 20. The Government has proposed four new water services entities (WSE). The map to the right shows the proposed entity boundaries. South Taranaki District and the rest of Taranaki are in Entity B, which also includes the Bay of Plenty and Waikato regions, as well as Whanganui, Rangitikei and Ruapehu Districts (part of the Manawatū-Whanganui region).



- 21. While these WSE will be owned by the local authorities within each respective area, the ownership is effectively a trustee status on behalf of communities. The WSE will be prohibited from paying dividends.
- 22. There will be structural and balance sheet separation between local authorities and the WSE. The WSE will be able to raise debt on their own and will have their own funding tools.
- 23. The proposed governance model has the relevant local authorities appointing half of a ‘regional representative group’ through a voting method, with the other half appointed by Iwi; and the total number of the group capped at 12 members. That group then appoints a much smaller ‘independent selection body’ (ISP), which in turn appoints the board of the WSE. The board governs the WSE’s management.



24. The regional representative group issues a 'strategic and performance expectations' document. Mana whenua will issue 'Te Mana o Te Wai' statements, with the WSE having to issue a response. The Government will issue a 'Government Policy Statement' for the WSE to consider. These three documents provide the external strategic framework for the new WSE.
25. Each WSE will produce an annual Statement of Intent, an Asset Management Plan outlining investment priorities and a Funding and Pricing Plan.
26. The WSE will be subject to three different regulators:
  - a. Taumata Arowai to regulate drinking water quality and infrastructure performance of wastewater and stormwater services. Taumata Arowai will receive its regulatory powers from the Water Services Bill currently before Parliament. This includes being able to prosecute with both civil and criminal offences (with imprisonment for some offences).
  - b. Regional councils for environmental regulation. Regional councils receive their powers under the Resource Management Act 1991 (RMA). The National Policy Statement on Freshwater Management 2020 places an obligation on regional councils to increase their environmental regulation for freshwater quality. The RMA reforms are likely to obligate regional councils to regulate to a higher level of environmental performance through the proposed environmental bottom line approach.
  - c. An economic regulator is to be confirmed, potentially the Commerce Commission. The economic regulator will be established in a later round of reform and will protect consumer interests, set price pathways, and act as a driver of efficiency.
27. The following diagram, from the Department of Internal Affairs, provides a high-level overview of these arrangements.



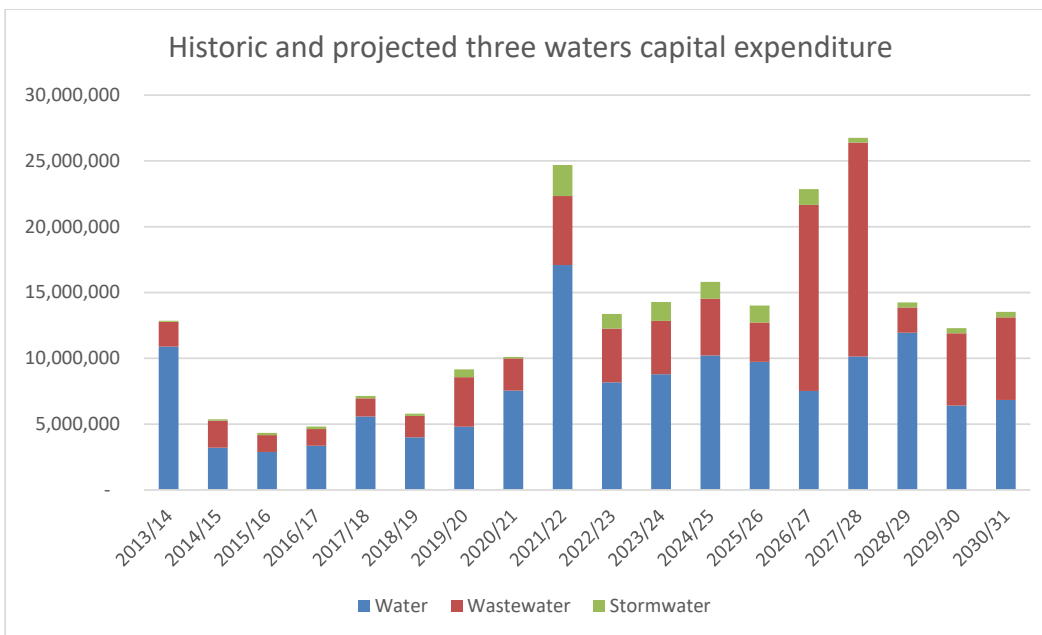
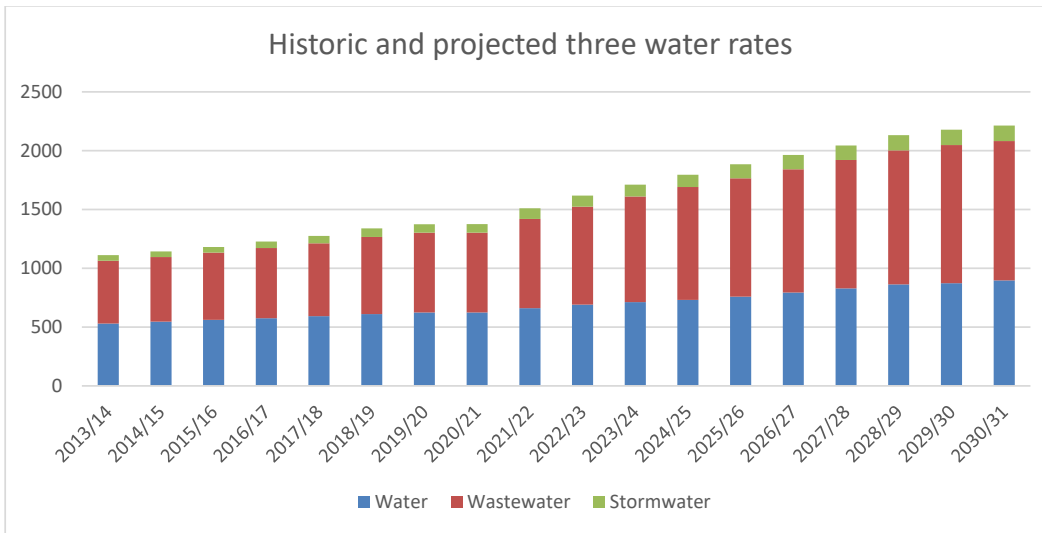
28. The Government is also proposing a range of Crown powers. These include the previously mentioned Government Policy Statement. The proposal also includes a Crown intervention framework, starting with Ministerial directions on performance through to the appointment of a Crown Monitor.
29. The proposal includes protections against privatisation. These include a super majority (75 per cent) requirement for the Regional Representative Group, and a referendum of the WSE's area with a 75 per cent majority required. The prohibition of dividend payments and the governance structure also discourages privatisation.
30. The transitional arrangements to move to these new WSE is not detailed. However, the proposal does set out the intention that local authorities will transfer three water assets, relevant reserves, debt and revenue to the new WSE. Three Waters staff will also have their employment transferred and a commitment has been given to protect the terms and conditions of any transferring employees. However, executive and indirect support staff do not have the same assurances. There may be a transitional period where territorial authorities provide some services to the new WSE, such as billing, payroll etc., until the WSE are able to undertake these roles themselves.
31. The Government has also included three different funding allocations to territorial authorities. These are:
  - a. A 'no worse off' pool of \$500million to support territorial authorities to meet unavoidable stranded overheads and to address adverse impacts on the financial sustainability of some territorial authorities. South Taranaki's allocation from this pool is \$18million.
  - b. A 'better off' pool of \$2billion to be used for "local wellbeing outcomes associated with climate change and resilience, housing and local placemaking". Half of this pool is a payment from the Government, while the other half is placed as debt onto the balance sheets of the new WSE. An indicative amount for South Taranaki from this pool is \$2million, although further detailed due diligence is required before this amount can be finalised.
  - c. A transitional funding pool of \$296million to establish the new WSE, including meeting territorial authority costs.
32. The options available to Council at present are constrained to providing feedback to the Government on its proposed reforms. It is not a reasonably practicable option, at this stage, to go further and seek to make decisions on the future of three water services in the District.

**What does this mean for South Taranaki?**

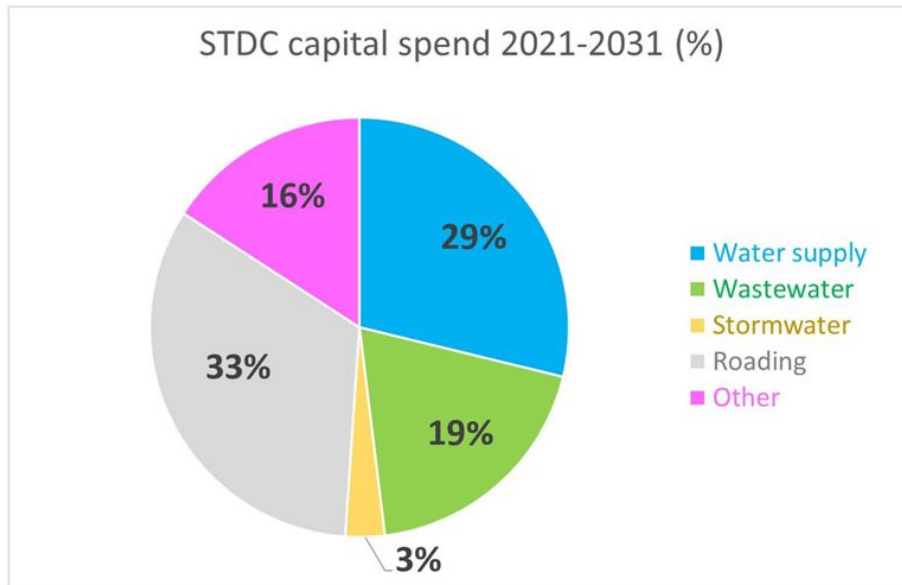
33. Council is responsible for the delivery of water and wastewater services to the urban communities in South Taranaki. The Council has ten potable water supplies, eight wastewater schemes and 96km of reticulated stormwater. The current replacement value of the assets in three waters is \$462.5million.

<b>Asset summary</b>	
<b>Water Supply</b>	10 treatment plants 641 km of pipes 71 pipe bridges 37 reservoirs 10,899 connections
<b>Wastewater</b>	9 wastewater treatment plants 189km of pipes 8,109 connections 35 pump stations
<b>Stormwater</b>	96km of pipes 23km lined and unlined channels 2,086 inlets 322 outlet structures

34. Council's compliance with the Drinking Water Standards is generally very good.
35. Fifteen years ago, the Council embarked on a capital works programme to bring its drinking water infrastructure up to standard. This work has now been largely completed. Water treatment plant upgrades have been focused around meeting the Drinking Water Standards with significant upgrades completed at Kāpuni, Ōpunakē, Eltham, Rāhotu, Pātea, Waverley and Waimate West, all of which now comply with the latest standards.
36. Plans in the 2021-31 Long Term Plan (LTP) include enhancing the treatment processes for Pātea and Ōpunakē, securing additional water sources (bores), and building additional reservoirs and duplicating water mains to improve the resilience of the supply networks.
37. Renewals for wastewater are planned to address the inflow and infiltration that can currently overload our treatment plants and cause overflows at pump stations during heavy rain events. A five-year programme of defect identification, inspections and remedial works should improve the performance of the pipe networks to meet the required level. As water quality standards are increased for watercourses based on the National Policy Statement for Freshwater Management and other environmental pressures, disinfection of wastewater treatment discharges will be required. Over the next ten years \$36.9million has been budgeted to address this.
38. The District's stormwater reticulation network is relatively small and has had the least amount of condition assessment work carried out. The current database has asset installation years by decade, which needs refining into specific years. Additional investigations including CCTV inspections, are planned over the next few years to refine the renewals programme. An increase in renewals expenditure is forecast from 2030 onwards, primarily due to ageing infrastructure and climate change impacts in design.
39. The graphs below show the historic and projected investment in three waters in rates and capital expenditure. Income from three waters rates and metered water in the last two years has been 44% of total rates and going forward it is projected to raise to 48% by 2031.



40. The significant investment in the current year for drinking water is largely related to the tranche 1 funding from Government (\$5.4million) and the cost of an additional reservoir for the Waimate West scheme (\$4million). The large investment planned in 2026/27 and 2027/28 in wastewater is the planned new wastewater treatment plant in Hāwera in order to meet the National Policy Statement for Freshwater Management and other environmental pressures.
41. Over half (51%) of all capital expenditure in the 2021-31 LTP is in the three waters activities. Drinking water is the single biggest spend over that time.



42. The 30 Year Infrastructure Strategy outlines a total of \$286million capital investment into the three waters across 30 years. However, estimates in years 11-30 are based on renewals only, from our assets database. New capital beyond the current LTP is excluded from our estimates due to the uncertainty in cost estimates and timing. Similar to the Government model, the \$286million figure is likely to be an under-statement of the true costs required over the next 30 years, particularly as the cost of meeting new environmental regulations becomes clearer.
43. Technical support to help councils understand the reform proposal and the potential impacts on their communities was provided during the eight week period by LGNZ through Tuhura Partners who developed a process for assessing the reform proposal against four key areas:
- Service
  - Finance and Funding
  - Social, Community and Economic Wellbeing
  - Workforce Delivery and Capability

44. Comparing the reform proposal with Council’s LTP, highlighted the following opportunities and challenges for Council:

Driver	Council Model	Reform Model
Service standards	Good for water, but variable for wastewater and stormwater with growing compliance risks	Increased capacity of new Water Service Entity (WSE) to deliver on wastewater compliance + transfer of future risk
Strength of council balance sheet	Advantage of significant investment fund meaning Council has a very strong balance sheet	Three waters debt removed from Council balance sheet, but not a significant driver of decision-making
Rates affordability	Relatively high rates levels currently with forecast increases	Opportunity for increased investment without a corresponding increase in rates
Post reform viability	Effective current operating model but some scale challenges	Challenges for Council in resizing without three waters
Local voice	Strong ability to influence local planning and delivery to meet community needs	Real concern that local voice will be lost in much larger WSE
Staff and supply chain	Small fit for purpose team and agile local supply chain	Initial staff protections help but longer-term concerns about how reform will impact local staff and businesses

SUMMARY SCORING KEY			
Score	Colour	Quality	Risk
3	Dark green	Much better	Significant opportunity
2	Light green	Better	Opportunity
1.5	Yellow	Neutral	Neutral
1	Orange	Worse	Threat
0	Red	Much worse	Significant threat

45. Initial financial analysis highlights that if the reform proceeds, the Council is likely to have approximately \$750,000 in stranded overheads per annum. There is more information required and further analysis to be done before exact figures can be determined. However, the DIA financial impact dashboard indicates an amount of \$2million for South Taranaki (subject to detailed due diligence) from the no-worse off package Government announced to help councils with stranded costs.

46. During this eight week feedback period, six workshops have been held with Councillors, with three of these also including the Community Boards and Iwi Liaison Committee. A summary of the workshops follows:
- a. Workshop 1: A webinar with Local Government New Zealand which provided an overview of the Reform, what the Government’s proposal means for local government and outlined the next steps. This was followed by a presentation from Malcolm Alexander of Yule Alexander consultants which provided an alternative view on the Government’s proposal.
  - b. Workshop 2: The view of the Council’s three waters staff on how the Council is performing and what challenges they believe are in front of us.
  - c. Workshop 3: LGNZ Deputy Chief Executive Jason Krupp outlined the Government’s case for change and answered questions from Councillors about the detail of the reform.
  - d. Workshop 4: Tuhura Consultants worked through the results of their analysis of Council’s current LTP and how that compares to the reform model from a balanced scorecard perspective (not just from an economic point of view).
  - e. Workshop 5: Officers took Councillors through the Financial Impact Dashboard and officer’s high level analysis of the financial impact.
  - f. Workshop 6: this workshop considered the draft feedback officers had compiled based on the previous five workshops to ensure that the draft was capturing the key points Council wanted to make to Government.
47. The proposed feedback is attached as Appendix I. The below table summarises other feedback recommended.

Issue	Summary of feedback point
Governance model	Council believes a regional model for service delivery will present better governance and local decision-making.
Financial model	Council has the LTIF which the analysis by Government did not take into account. Council is in a good financial position to enable it to meet increasing costs. Our community should be given the opportunity to decide whether they are prepared to pay for the levels of service they currently enjoy.
Iwi/Māori engagement	Council is concerned that in large entities local Iwi/Māori will not be represented.
Local priorities	One of the biggest concerns Council has with the proposed model is how South Taranaki’s priorities will be met and delivered.
Future Privatisation	There is a need for greater protection against future privatisation in the legislation and suggest any privatisation proposal must be referred back to the individual owners of the assets (councils).
Government reforms	Taumata Arowai should be afforded the time to become operational and ensure compliance is being achieved while the future for local government and RMA reforms are completed so that all three pillars of reform can be considered together.

Issue	Summary of feedback point
Stormwater	Council recommends that should three waters reform continue it should include only two waters – drinking water and wastewater due to stormwater being linked with other council assets such as Roading and Parks and Reserves.
Workforce	The existing workforce in three waters needs to be protected and kept informed throughout the process.
Community survey	Council undertook a brief community survey which highlighted that there is a strong expectation that the community will be consulted about any decision to opt-in (or out).
Entity B or C?	Council would support, subject to the reform proceeding, the placement of South Taranaki in Entity B.

### Option(s) available

48. Option One: Provide the feedback as attached to the Government.  
Option 1 would see the Council provide the feedback as attached in Appendix 1 to the Government. The feedback focuses on the main issues identified by the Council, Community Boards and Iwi Liaison Committee from the six workshops held during the eight week feedback period.
49. Option Two: Provide the feedback as attached, with amendments, to the Government.  
Option 2 would see the Council provide the feedback as attached in Appendix 1 with some identified changes, to the Government. Any changes would need to be made immediately in order to meet the feedback deadline of 1 October 2021.
50. Option Three: Do not provide feedback to the Government.  
Option 3 would mean the Council would not provide any feedback to the Government. This would mean the Government would not be aware of some of the concerns the Council has with the proposal.

### Risks

51. There is low risk in providing feedback. Some in the community may consider that Council’s feedback represents a decision to opt-in or opt-out, and it is important to reiterate that this is not within scope of Council decision-making at this time.
52. The reforms if they proceed, will create risks for Council, particularly during a transitional period.

## Whaiwhakaaro me ngā aromatawai / Considerations and Assessments

### Assessment of Significance and Engagement

53. The future of water services delivery is a significant issue. This report however does not commit to the Council to a decision relating to that reform. Instead, it provides initial analysis of the reform proposals for Council’s information and highlights the uncertainties around information and next steps.



54. South Taranaki District Council’s general approach to determining the level of “significance” will be to consider:

Criteria	Measure	Assessment
Degree	The number of residents and ratepayers affected and the degree to which they are affected by the decision or proposal.	The degree that residents and ratepayers will be affected by the Council providing feedback to the Government will be minimal at this stage in the process. However, it is important that the South Taranaki District Council provide feedback on the Government’s proposal.
LOS	The achievement of, or ability to achieve, the Council’s stated levels of service as set out in the Long Term Plan.	Providing feedback to the Government does not impact on Council’s LOS.
Decision	Whether this type of decision, proposal or issue has a history of generating wide public interest within South Taranaki.	Providing feedback to the Government has not generated public interest in the past, however there has been public interest in the proposal for the delivery of three waters in the future. A decision on whether the Council will opt in or out is not being made at this time.
Financial	The impact of the decision or proposal on the Council’s overall budget or included in an approved Long Term Plan and its ability to carry out its existing or proposed functions and activities now and in the future.	There are minimal financial impacts in providing feedback to the Government
Reversible	The degree to which the decision or proposal is reversible.	Once the decision to provide feedback is made, the feedback will be sent to the Government.
Environment	The degree of impact the decision will have on the environment.	The decision to provide feedback to the Government does not impact on the environment.

55. A brief survey for residents is currently being undertaken to gain their views on what the Government is proposing. The survey closes on 29 September and while the final results of this survey are not yet available, officers are aware of varying views within the community on the proposal.

56. As of Friday 17 September, 297 survey responses had been received and of these 76.8% responded that it is extremely important that three water services are delivered by local government and 53.2% would be happy to pay more rates for three waters to remain with the Council.
57. Officers expect that the community will be able to have their say on the Government's reform programme through the Parliamentary select committee process. The Government has also previously signalled that if Council is given the opportunity to make an opt-out decision, this would include community consultation requirements.

### **Legislative Considerations**

58. Council cannot make decisions to opt-in, or support, the Government's proposal. This is because of sections 97 and 130 of the Local Government Act 2002. Council is obligated to continue to provide water services and can currently only transfer them to another local government organisation. To make a decision to transfer the ownership or control of a strategic asset also requires explicit Long Term Plan decisions. As such, Council does not have the legal powers to opt-in to the proposal, or to explicitly support it.

### **Financial/Budget Considerations**

59. There are minimal implications in providing feedback. There may be some limited impacts if the Department of Internal Affairs seeks further detail from officers on the feedback.
60. Obviously, the reforms will have very significant implications for the Council's financial position in the future if the Government proceeds.

### **Environmental Sustainability**

61. The provision of water services does have an impact on the environment from the abstraction of raw water from our rivers to the discharge of wastewater to freshwater courses and sea. This is the case whether councils continue to operate water services or new entities are established to take this function over. The Government is putting in place policies and regulations which will require operators of water services to improve environmental outcomes into the future.
62. The decision to provide feedback on the Government's reform proposal does not impact on the environment or the Council's Environment and Sustainability Strategy.

### **Consistency with Plans/Policies/Community Outcomes**

63. The decision to provide feedback to the Government on their three waters reform proposal is not inconsistent with any Council policies and plans.
64. If the Council agree to provide feedback to the Government, this feedback relates to all four community outcomes:
  - Vibrant South Taranaki – *Cultural well-being*
  - Together South Taranaki – *Social well-being*
  - Prosperous South Taranaki – *Economic well-being*
  - Sustainable South Taranaki – *Environmental well-being*

### Impact on Māori/Iwi

65. A concern that has been raised consistently at reform workshops and meetings is that the Government has not engaged with Iwi appropriately throughout the reform process to date. In regard to the current feedback period, Iwi Liaison Committee members have been invited to participate in three of the workshops with Council and have also been asked to provide any feedback they wish to make to the Government in order for us to include this in Council's feedback.

### Affected Parties Consultation

66. Community Board members have also been invited to participate in three of the workshops with Council in order to ensure that their local community input was considered by the Council when developing the feedback.

### Whakakapia / Conclusion

67. The Government has proposed that territorial authorities will no longer be responsible for the delivery of drinking water, wastewater or stormwater services. Instead, these services will be run by four specialist water entities. These entities will own and operate the water assets.
68. The Government's proposal has South Taranaki District and the rest of Taranaki in Entity B, which also includes the Bay of Plenty and Waikato regions, as well as Whanganui, Rangitikei and Ruapehu Districts (part of the Manawatū-Whanganui region).
69. The Council has until Friday 1 October to provide feedback to Government on their proposal and the attached draft feedback has been developed after analysing the proposal and seeking input from specialists. The preferred option is for Council to provide feedback to the Government so that their concerns can be made known to Government as they proceed to make further decisions about the next steps in the three water reform proposal.
70. Overall Council believes reform in the form of greater regulation is necessary but is not convinced of the case for wholesale changes which Government is proposing. The draft feedback to Government reflects this position.



Fiona Aitken

**Kaiarataki Ratonga Hapori me te Pūhanga /  
Group Manager Community and Infrastructure Services**



[Seen by]

Waid Crockett

**Tumu Whakahaere /  
Chief Executive**



## **DRAFT FOR COUNCIL CONSIDERATION**

### **Feedback on the Government's Three Waters Reform Proposal**

Local authorities have been encouraged to review and consider the Government's Three Waters Reform (the reform) Package and the implications this may have for communities we serve.

South Taranaki District Council (STDC) acknowledge and welcome the Government's commitment to partnering with local government around these reforms. And whilst we welcome this approach, the fixed view on the best way forward and not carrying people with you on the journey makes the partnership feel very unbalanced.

It is also clear that the reforms are being completed without the review on Local Government being undertaken first. If this was completed first, then a number of alternative options and potentially better outcomes could have been presented to the sector. We are seriously concerned about what the impacts of a 'one-size fits all' and centralisation approach will have on our communities.

We also acknowledge that better regulation of the Water sector is needed and the introduction of Taumata Arowai is a welcomed addition.

We understand that the eight-week period for feedback on the reform was not an opportunity for STDC to make any decisions. We wish to be clear that STDC has not formed any position at this stage on whether to remain in the reform process or opt-out. Our expectation is that STDC and the South Taranaki community will be engaged and consulted with before making such a significant decision.

STDC has carried out its own analysis to understand the potential impact of the reform. Over the past eight weeks STDC has held some six workshops with our Councillors specifically on this subject, of which three included a wider group including Community Board members and representatives from our four Iwi partners. Being in Covid-19 lockdown has made the eight-week timeframe challenging as several of these workshops were held electronically, which is not as conducive to robust discussion than if the Council had all been in the same room. A request was made in writing to LGNZ for an extension to this timeframe. We did receive a response from LGNZ, which stated that they were waiting for a reply from Government.

STDC invited a number of guests to speak to the workshop attendees in order to better understand the reform proposal, the data and information and to ask questions. This has assisted STDC with the preparation of its feedback.

STDC's feedback primarily focuses on the modelling, themes that have presented themselves during this period and items that require further consideration.

Again, this feedback should not be taken as STDC taking a position on the reforms in any way. As noted above our community expects to be able to have their say.

## **Governance Model**

We understand the single proposed ownership arrangement for the assets however, nominal ownership as stated, even if it was provided for in legislation, will come with none of the benefits of being an owner and effectively mean nothing. Effectively our local communities through their elected representatives will have no direct control over the proposed water services entities and are giving away our assets.

Under this model we fail to see how the new entities will be responsive and accountable to our communities, and it appears they are effectively accountable to no-one. The complex accountability framework, with performance overseen by regulators, guidance coming from a national policy statement, oversight from a Regional Representative Group, board performance oversight from an independent selection panel and regulatory oversight from regional councils, is nothing short of unnecessary bureaucracy.

STDC had, in conjunction with the other two Taranaki District Councils developed a proposal to aggregate the three waters across the region, whilst maintaining local ownership arrangements and oversight. STDC believes that this step would present better governance arrangements and resolve a number of the outcomes that the Government is trying to achieve. This would also have the benefit of ensuring that our policies, plans and community aspirations that have been developed and funded through our Long Term Plan (LTP) are achieved. STDC believes this can be achieved through a Taranaki Region Asset Owning Entity that:

- Is a stand-alone asset owning entity with a separate identity and direct relationship with customers, including direct billing for services.
- Has Council as shareholders, proportions to be determined, governance structure that includes Council and non-Council directors.
- Is able to borrow in its own right.
- Meets the above points and other Three Water Reform outcomes but focused on the Taranaki region only.

STDC is also concerned about how Iwi/Māori rights might be effectively addressed in the governance arrangements for the new entities. We understand that there would be up to 12 seats on the Regional Representative Group – six for Elected Members and six for Mana Whenua. Finding six representatives from 22 councils (Entity B) will be difficult enough, however finding six representatives from some (as we have been informed) 70+ Iwi/Māori/Hapū organisations to represent their interests will be, in our view, considerably more difficult and disingenuous.

## **Financial Model**

Our analysis of the dashboard and financial modelling has highlighted some concerns relating to the accuracy of the detail and the assumptions that have been made. We acknowledge that STDC provided the data as part of the analysis from the 2018 LTP and that the modelling has been peer reviewed, however it appears that factors specific to each Council may not have been considered such as our Council's Long Term Investment Fund (LTIF). This fund is currently worth \$166million and has been effectively utilised to increase our investment in the Three Waters space and make operational efficiencies and gains that might not have been achieved otherwise. We believe that the calculations in the model particularly around (net) debt appear to have skewed the results

incorrectly. STDC is also very concerned about the debt that the new entities will be able to carry. STDC is equally concerned about the potential liability that will be placed on it if it is a named owner in the new entity but yet has no say or control in managing that liability.

In addition, the potential responsibility for small rural and other water schemes should these structures become non-complying is a complete unknown, a high risk likely to have been underestimated no matter who is responsible for water.

We would like to see how the assumption underlying the average cost 'with transfer' was made. In our case this number is \$1,220. This should be included in simple terms, in the assumptions behind the dashboard and financial assessment tool. This will allow councils to better understand the significant efficiencies the DIA has signalled. We doubt that the Government will guarantee that any new entity will have water accounts not exceeding \$1,220pa in 30 years' time.

STDC also undertook an independent 'balanced scorecard' process, which highlighted that there was very little difference between STDC delivering on its planned 2021-31 LTP compared to being part of the reform. In fact, in one category, Social, Community and Economic Wellbeing, the result highlighted a deteriorating result.

We do however acknowledge that the costs for delivering three waters will increase across the course of the LTP. What we expect to be able to do is at the very least ask our community (with accurate figures) if they are prepared to pay for the continued level of service they currently enjoy and retain control of the assets they have paid for over many generations.

STDC is aware from its modelling of some potential unintended consequences from the reform including impacts on the current rating systems Council has in place (Urban v Rural). We recommend that should the reform proceed that the Government consider changes to the Rating Act to ensure that no ratepayer is worse off.

### **Iwi/Māori Engagement**

STDC has included our Iwi partners (Ngā Rauru, Taranaki, Ngāruahine and Ngāti Ruanui) throughout the feedback development and participated in our workshop sessions. Our current arrangements when undertaking, for instance capital works is to engage directly with our Iwi partners and work together on outcomes that are mutually acceptable.

It is unsure how the large entities, as proposed, will engage with some 70 plus Iwi/Māori and hapū in Entity B to deliver the programme that is being purported and/or retain the same level of engagement that is currently in place.

We understand that Taranaki Iwi have more of an affiliation South/East than they do North/East. STDC acknowledges that Iwi/Māori and hapū have limited resources to consider these matters fully and that more time should have been afforded for meaningful engagement.

### **Local Priorities**

One of the biggest concerns STDC has with the model is how will local priorities be met and delivered. STDC understands that all of its LTP three waters projects will be picked up and delivered by the new entity. This may very well cover off the maintenance and renewal work however there is no guarantee that the priorities won't change when our area is reviewed against the other 21 Council areas across Entity B.

We are gravely concerned that STDC's growth and development aspirations, albeit small compared to other high growth areas, will have to wait in line. For example, we have been able to undertake a detailed assessment for future economic development and growth, engaged with our community through the LTP process on the plan and obtain a mandate from them to deliver this. This sort of connection will be made considerably more difficult in future.

It is our view that we are able to get alongside our development community more effectively than a larger entity ever could and our fear is that the good relationships that have been forged will deteriorate under the new arrangements. This was also recently highlighted at a LGNZ led 'Three Waters Integration with the Planning System' workshop in which issues were raised by local government representatives such as:

- The proposal is not clear on how we get alignment between communities and their aspirations for future growth and where growth happens and when?
- Water is a key tool for shaping how communities develop and grow, so how do we ensure councils can develop and grow and how would WSEs understand exactly what is happening and needed locally along with being flexible and respond to local needs and changes?
- A major concern is the lack of clarity on how the reform of the RMA will impact and what direction will be provided for the new WSE's. This has clearly highlighted that the Three Waters Reform should have been completed after the RMA reforms and Review of Local Government.

Our communities ring their local councillor when they have an issue and they sort it out on their behalf. The concern is that this sort of connection and 'localism' approach to resolving matters and maintaining a level of service built up over many years will simply disappear.

### **Future Privatisation**

STDC is also concerned about the potential future privatisation of the water assets. Whilst the assets are in Councils' hands it is certain and legislated that these assets would never be privatised. No matter how many safeguards the Government puts in place, once these are in the hands of a new entity the path to privatisation will be made easier for any future Government.

We do acknowledge that safeguards are being put in place, however these should be strengthened further by having any privatisation proposal referred back to the original asset owners for a resolution, should the reform proceed.

### **Government Reforms**

STDC believes that with the considerable amount of reform currently underway and the pace that this is moving at, along with the interconnectivity between them all that the order in which they are being undertaken gives rise to critical matters not being achieved. This was highlighted, as mentioned above in the recent 'Three Waters Integration with the Planning System' workshop.

STDC agrees that the implementation of the water regulator Taumata Arowai is an essential step in ensuring that water standards are achieved and maintained. Council believes that if you stand up both the Regulator and WSEs at the same time, you may not know which one is providing the benefits and outcomes the Government is seeking. Council strongly believes that Taumata Arowai should be afforded the time to become operational and ensure compliance is being achieved.

While this is underway the two other significant reforms, the Review of Local Government and the RMA could be completed. Once this is achieved then a conversation with the Community could be held on what is the appropriate journey to realise the changes that are needed.

It is also STDC's view that this would enable Iwi/Māori to be more effectively included in the conversation, particularly given our changes to representation at the next Local Government election.

### **Stormwater**

STDC has considered the inclusion of Stormwater and how this asset fits in the proposal. For our Council, stormwater systems are more complicated with a multitude of interfaces with other assets and systems.

Stormwater is also funded differently to the other two waters, given its much wider implications across the entire District. It is also difficult for Council to see how stormwater assets can be accounted for given their proximity to parks and reserves (ponds, rivers and streams), roads and drains and hard infrastructure (culverts).

We do however acknowledge that it may be difficult to retain suitably qualified staff for this asset alone, should the reform proceed.

### **Workforce**

STDC has undertaken an internal survey of its staff during this period of time. Interestingly our staff, and if our result is reflected across the country, it would appear that Water Services staff in general are neither for, nor against the reform process.

It is acknowledged that the Water Services entities would create some opportunities for our staff that we wouldn't necessarily be able to provide. However, the survey did highlight concerns around the security of jobs and the possibility of having to relocate. The Government have said that 'no jobs will be lost' and that their existing employment conditions and existing location will be retained.



We are aware that any transition to a new entity will come with challenges such as the disparity in remuneration and other employment conditions particularly between the rural/provincial and metro sector. STDC believes that, should the reforms go ahead, the Governments timeframe for transitioning is unrealistic.

We have kept our staff informed during the reform process however a considerable amount of work to ensure that any transition occurs seamlessly still needs to be achieved. We are committed to ensuring that the welfare of our staff is of paramount importance and that they are no worse off should the reforms proceed and equally committed to ensuring that we have an appropriately engaged and skilled workforce in place to continue should a different path be taken.

### **Community Survey**

Although this feedback period was not a time for councils to make a decision, our Elected Members fielded a considerable number of queries during this time, which was heightened by what can only be described as an appalling advertising campaign.

We have undertaken a short community survey to gauge the feeling from our community on what has been proposed. We have received a high level of response in comparison to other council matters that we engage with our community on. It is clear that our community places a high level of importance on three waters continuing to be delivered by STDC.

No matter the actual result, it was clearly highlighted that our community expects to be consulted with on this proposal and STDC expects the Government to consult with our communities in partnership with us.

### **Entity B or C**

At the start of the feedback period and when the proposed reform boundaries were released, our Council was asked, if the reform was to proceed or Council remained in, to consider its preference for inclusion in either Entity B or Entity C.

Council would support, subject to the reform proceeding, the placement of South Taranaki in Entity B. As stated in the Governance Model section above, STDC believes the Governments outcomes can be achieved through a Taranaki Region Asset Owning Entity and we would be seeking to pursue this model.

We do however acknowledge that in discussions with our Iwi Partners that there are potentially closer ties to the South/East than there is North/East of the Taranaki rohe.