



Local Government briefing

Hon Nanaia Mahuta
Minister of Local Government

Title: Three waters reforms – update on entity numbers and boundaries work

Date: 23 February 2021

Key issues

We are meeting with you at 3pm on Monday 1 March 2021 to provide an update on work relating to the numbers and boundaries of the proposed new water services entities.

We have prepared the attached slide pack (**Appendix A**) to support and inform the discussion. We will talk through this material at the meeting.

Action sought

Read the slide pack provided in **Appendix A** prior to our discussion with you.

Timeframe

By 3pm on Monday 1 March 2021

Contact for telephone discussions (if required)

Name	Position	Contact Number	Suggested 1 st contact
Allan Prangnell	Executive Director, Three Waters	021 865 809	✓
Sarah Baddeley	Consultant	9(2)(a) [REDACTED]	
Return electronic document to:	Jane Fleetwood, jane.fleetwood@dia.govt.nz		
Ministerial database reference	LG202100182		

Purpose

1. We are meeting with you at 3pm on Monday 1 March 2021 to discuss work relating to the numbers and boundaries of water services entities.
2. This briefing provides material to support and inform this discussion (**Appendix A**). We will talk through this material at the meeting.

Comment

3. You have asked for an update on work relating to entity numbers and boundaries.
4. At the meeting, we propose to provide you with:
 - 4.1 an update on the Request for Information (RFI), and insights from that process;
 - 4.2 an update on the numbers and boundaries analysis;
 - 4.3 an overview of the Geographic Information System (GIS) decision support tool that is being used to inform the analysis, including a 'live run through' of the tool.
5. The attached slide pack (**Appendix A**) includes further information on these items.
6. We would also like to talk to you about the interplay between the reform strategy (voluntary, opt-out approach) and decisions about the numbers and boundaries of water services entities.

Recommendations

7. We recommend that you **read** the slide pack provided at **Appendix A**, prior to our discussion with you about the numbers and boundaries of entities work on 1 March 2021. **Yes/No**



Allan Prangnell
Executive Director, Three Waters

Hon Nanaia Mahuta
Minister of Local Government

_____/_____/_____

Appendix A: Slide pack – number and boundaries update, for meeting on 1 March 2021

Attached

Released under the
Official Information Act

Three Waters Review

Meeting with
Minister of Local Government
1 March 2021

*Numbers and boundaries
update*

IN CONFIDENCE
NOT GOVERNMENT POLICY

New Zealand Government

Focus of session

1. Update on the Request for Information (RFI), and feedback on process
2. Update on the numbers and boundaries analysis
3. Overview of Geographic Information System (GIS) decision support tool (with a live run through)

Update on the RFI

- All territorial authorities have submitted a completed RFI (of either a simplified, financially-focused RFI, or a more complex, detailed financial and operational RFI)
- This represents the single biggest data and financial picture of the three waters sector that has been undertaken nationally
- This has involved a significant effort across the 67 territorial authorities (10 of which opted into the more complex request on a voluntary basis)
- The information will enable analysis to better understand the
 - current state of the three waters related asset base
 - condition of the assets
 - operating environment
 - commercial and financial arrangements
 - forecast investment plans
 - potential impacts and advantages of reform on the local government sector

Insights from the RFI process

- A significant effort in a short period of time (with conflicting priorities), the complexity of which had not been anticipated in the sector
- According to WICS – the smoothest, fastest process they have encountered
- The majority of territorial authorities have provided positive feedback about the process and understanding the questions generated about their own assets
- Created a significant cohort of council officers who have experienced a step change in knowledge about their own assets
 - Integrated asset management and finance knowledge
 - Disconnect between council officers and elected members
- Some councils have expressed concern about the basis for comparison to Scotland and the UK, given the difference in the NZ sector. Processes are underway to address these issues – within the WICS work and independent reviews
 - Application of British quality standards (and EU standards)
 - Coverage rates

How the RFI information will input into the reform process

Our intention is that the RFI submissions and analysis will be made available publicly in due course.

RELEVANT ADVICE STREAMS

Economic and Financial Analysis (including WICS 2)

DIA leads policy advice to Steering Committee and Minister

Cabinet makes decisions on reform proposals (not limited to RFI analysis)

Anticipated release of WICS analysis and submissions following Cabinet consideration

February 2021

March/April

May

June 2021 onward

KEY ENGAGEMENT MILESTONES

RFI submissions received and quality checked

Councils receive informal feedback from DIA/WICS on submissions

Councils consider proactive release of individual submissions by 1 April

Webinars will occur on specialist topics

Councils will be provided with specific financial analysis related to their council

Guidelines for proactive release are issued (OIA/LGOIMA)

Zone workshops with councils/iwi

Technical and reference groups test and provide feedback

Numbers and boundaries – key trade offs

- ROHE, TAKIWĀ, WHAKAPAPA, WAKA AND OTHER CONFEDERATIONS
- COMMUNITY IDENTITY AND COMMON LINKS
- TERRITORIAL AUTHORITY BOUNDARIES

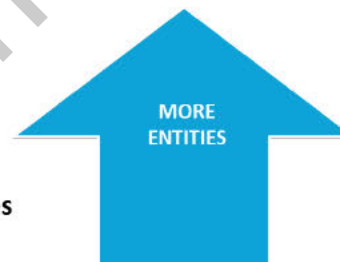
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1. Potential to achieve scale benefits from larger water service delivery entity to a broader population/customer base.

2. Alignment of geographical boundaries to encompass **natural communities of interest**, belonging and identity including rohe/takiwā.

3. Relationship with **relevant regulatory boundaries** including to enable water to be managed from source to the sea - ki uta ki tai.



1

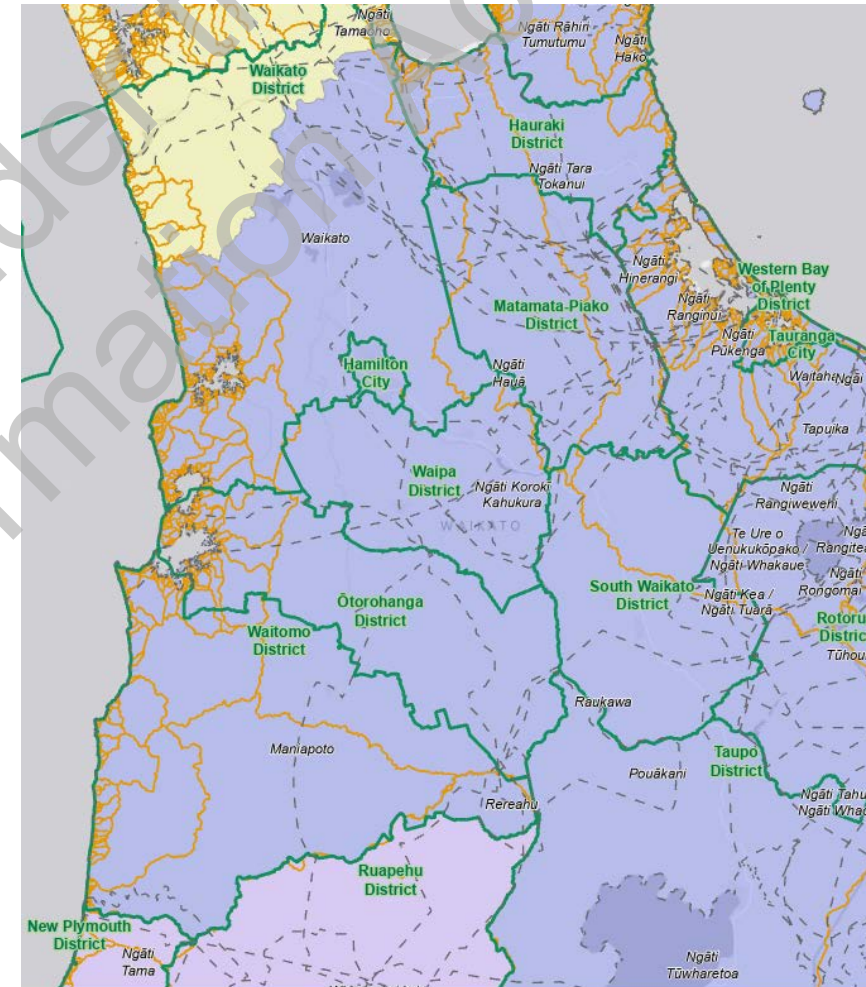
- POPULATION, SIZE AND DISTANCE
- ASSET LOCATION, CONDITION AND FUTURE INVESTMENT REQUIREMENTS
- FINANCIAL VIABILITY
- NUMBER OF COUNCILS THAT OPT OUT OF REFORM
- PRICING VARIABILITY

- LABOUR MARKET IMPACTS AND LOCATION OF WORKFORCE
- REGIONAL COUNCIL BOUNDARIES
- CATCHMENT BOUNDARIES

3

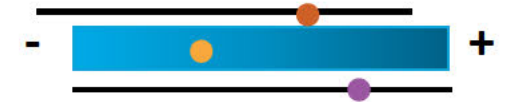
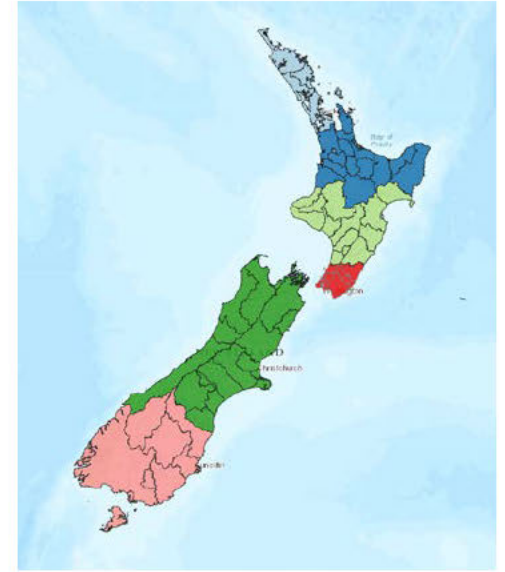
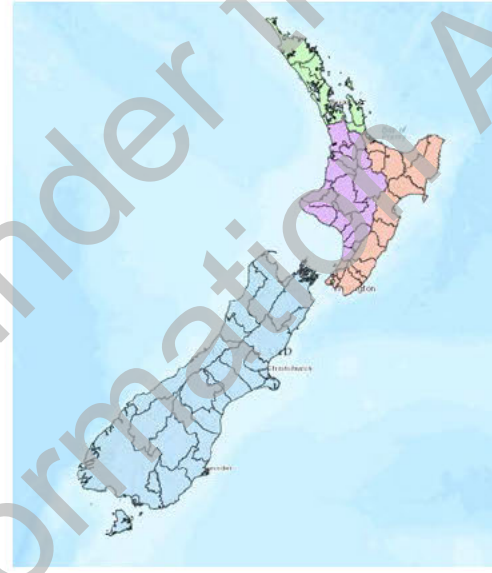
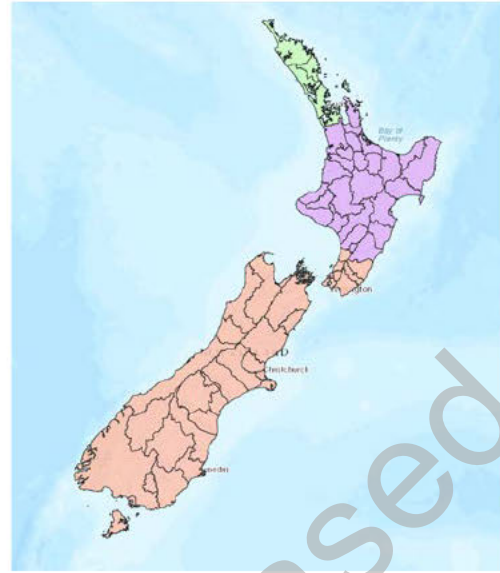
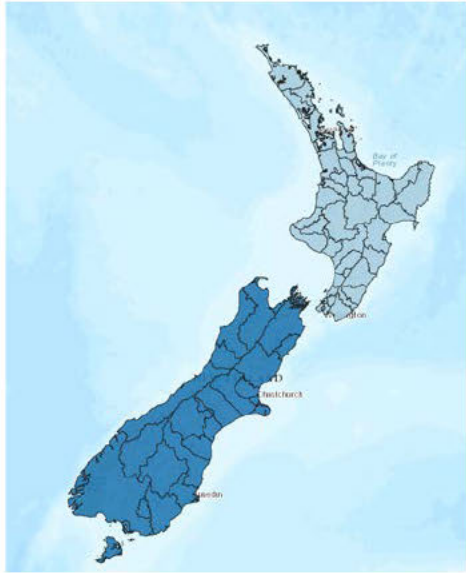
Our analysis is being informed by development of a GIS decision support tool

- We are using GIS mapping to assist decision making to reveal key areas of tension between the various boundaries identified
- To date, our work is focusing on existing known boundaries – however, it is expected that we will overlap boundaries informed by WICS Phase Two analysis
- Our analysis does assume that no individual local authority will be split by a geographical boundary
- We will provide a demonstration in our meeting with you



Illustrative snapshot from GIS TOOL

We will go out to the sector with a range of options to illustrate trade-offs



COMMUNITIES OF INTEREST

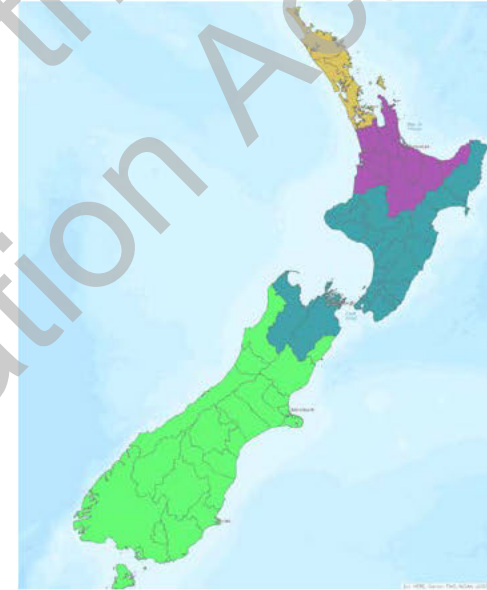
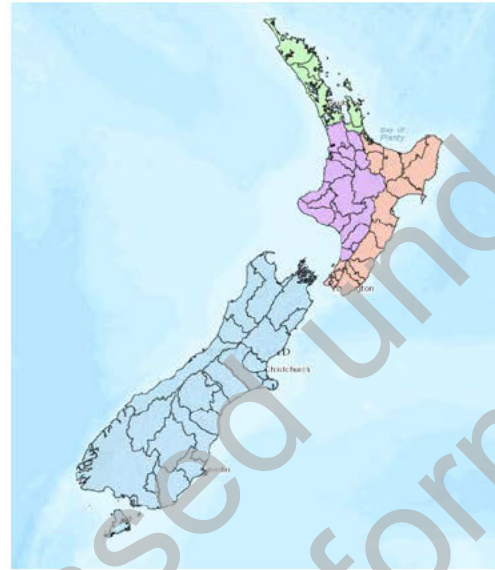
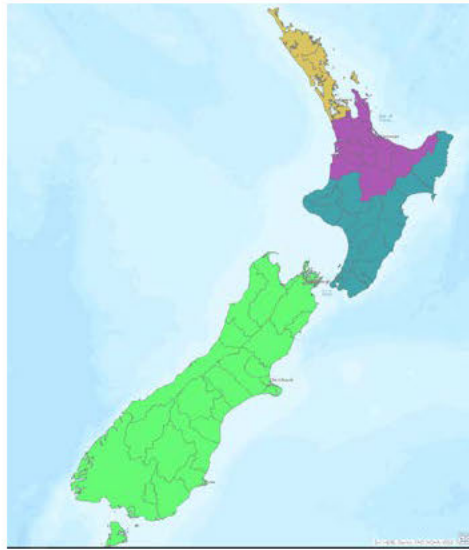


SCALE



REGULATORY ALIGNMENT

With each option there are sub-options



ILLUSTRATIVE
Four Entity
Variations



Numbers and boundaries under an opt-out scenario

- The decision on the number and boundaries of entities is key to ensuring entities have a sufficient asset and customer base to be financially sustainable, operate at an economically efficient scale, and so that prices are affordable for customers
- Evidence indicates each entity would need in the order of 500,000 to 1,000,000 connections to achieve minimum efficient scale
- If a significant proportion of councils were to opt out, this could result in sub-scale entities. It may also make it more difficult to achieve manage environmental outcomes at the catchment level
- A smaller number of entities would guard against the risk that opt-outs compromise the intended benefits of reform.
- Regardless of the number of entities, participation by the large metros (in particular Auckland and Christchurch) is important to achieving the benefits of the reforms
- Preliminary analysis indicates:
 - A voluntary (“opt out”) approach to reform would likely require two to three entities, and participation by nearly all major cities, to be confident that entities will be of a sufficient scale. Provided the large metropolitan councils participate, this approach could tolerate a significant number of opt-outs from an economic/viability perspective
 - A mandatory process could sustain up to six entities
- We will provide further advice on this following completion of further economic and financial analysis based on the RFI data



Local Government briefing

Hon Nanaia Mahuta
Minister of Local Government

Title: Three Waters Reform: Number and boundaries of proposed water services entities

Date: 31 March 2021

Key issues

Determining the number and boundaries of the proposed water services entities is a key decision as part of the three waters service delivery reforms. This briefing provides our 'first best' advice on the number of entities and where boundaries should be drawn. It is a companion paper to our 'Three Waters Reform Strategy' briefing [LG202100361 refers]. Specifically, this briefing:

- outlines the relevant considerations in determining the number and boundaries of the proposed water service entities;
- provides advice on how the relevant considerations should inform your decisions; and
- provides guidance on next steps ahead of Cabinet consideration of the advice in May 2021.

Action sought

Note the relevant considerations that will be required to inform Cabinet's decision on the number and boundaries of water service entities in May 2021;
Forward this paper to Three Waters Ministers as part of the material being prepared for their meeting on 12 April 2021; and
Note that the draft slides in **Appendix A 'Numbers and Boundaries of Entities'** will be updated following completion of the Water Industry Commission for Scotland Phase 2 analysis and associated independent review.

Timeframe

8 April 2021

Contact for telephone discussions (if required)

Name	Position	Contact Number	Suggested 1 st contact
Allan Prangnell	Executive Director, Three Waters	021 865 809	✓
Sarah Baddeley	Advisor, Three Waters	9(2)(a)	

Return electronic document to:	Allan.Prangnell@dia.govt.nz
Cohesion reference	{E3EB8019-EA54-458A-8226-7C5D01935A6A}
Ministerial database reference	LG202100360

Purpose

1. This briefing provides our 'first best' advice on the number of proposed water services entities and where boundaries should be drawn. It is a companion paper to our "Three Waters Reform Strategy" briefing [LG202100361 refers].
2. Specifically, this briefing:
 - 2.1 outlines the relevant considerations in determining the number and boundaries of the proposed water services entities;
 - 2.2 provides advice on how the relevant considerations should inform your decisions; and
 - 2.3 outlines next steps ahead of Cabinet consideration of the advice in May 2021.
3. We recommend that you include a copy of this briefing as part of material being prepared for the Three Waters Ministers meeting at 4:30pm on Monday 12 April 2021.

Executive Summary

4. Economic modelling by the Water Industry Commission for Scotland (WICS) estimates that investment in the order of \$120 billion to \$180 billion will be required over the next 30 to 40 years.
5. To deliver this investment efficiently, the three waters service delivery reforms propose to establish a small number of multi-regional entities, with operational and financial independence, and professional boards. Determining the number and boundaries of water services entities represents one of the more significant and high-profile decisions associated with the reforms.
6. Economic evidence indicates each entity would need to serve a connected population of around 600,000 to 800,000 to achieve the desired efficiency. International analysis by WICS shows that entities serving less than 800,000 are less efficient (in the order of 10 to 50 per cent less efficiency savings than larger entities).
7. Scale and efficiency are not the only considerations in determining the number and boundaries of entities. The role of communities of interest and relevant regulatory boundaries are also important. Through engagement with iwi/Māori and territorial authorities, the next most significant factor influencing advice on the number and boundaries of entities is a water catchment-based approach – ki uta ki tai.
8. We consider that policy objectives are best met by establishing either three or four entities:

Three entity options	Four entity options
Potentially access a greater range of efficiencies	Require a higher degree of tolerance for price variance over the long term across the country
Potential for greater uniformity of price over the long term	Provide a greater connection to the communities serviced by that entity
Provide some regulatory benchmarking, although entities could be of very different scales if South Island retains single entity	Enable the South Island (including a potential Ngāi Tahu/Tauihu takiwā approach) to be serviced by a single entity
	Enable more robust regulatory benchmarking

9. Provided that all territorial authorities participate in the reforms, three or four entities would be of sufficient size to operate efficiently (provided each entity serves at least 600,000 to 800,000 and has a robust growth outlook). The final choice between these two options is likely to be driven by which boundaries ministers consider will most likely resonate with iwi/Māori and councils, taking into account communities of interest.
10. A key consideration is whether the South Island has its own entity. There is a related choice regarding whether to have one entity for the whole of the South Island, or whether to draw the boundary at the top of the Ngāi Tahu takiwā, with Taihu joining an entity spanning the lower North Island and upper South Island.
11. Several options are set out in **Appendix A**. While these options provide an initial summary of the available choices for your consideration, we are not seeking decisions until we have received the final analysis from WICS Phase 2, and the accompanying independent review being conducted by FarrierSwier.¹ This is scheduled to occur before the meeting of Three Waters Ministers on Monday 12 April 2021 and material for that meeting will be revised to reflect these reports

Background

12. New Zealand's three waters system is facing a significant crisis and will continue to do so without transformational reform. The latest economic analysis indicates that the likely size of the infrastructure requirement facing local government water service providers over the next 30 to 40 years, informed by the recent request for information (RFI) process, could be in the order of \$120 billion to \$154 billion under one approach, or \$148 billion to \$185 billion under an alternative approach. Meeting this investment will be beyond the funding and operational capacity of most territorial authorities and communities under current arrangements.
13. New Zealand has a highly fragmented and dispersed system, in which services and infrastructure are delivered, operated, and paid for by a large number of providers – including 67 territorial authorities, and thousands of private and community organisations and marae. Most of these providers have a relatively small population/customer base. There is wide variation in the quality of services provided, the cost of provision of those services, and the price paid by consumers (customers and ratepayers). **Appendix B** sets out a comparison of current and forecast connection numbers and current estimated household costs across current territorial authority service providers, based on information provided in the RFI submissions.
14. Last year, Cabinet agreed to address this situation by reforming three waters service delivery arrangements to create large-scale water services entities. Reform would enable larger entities to realise scale efficiencies in the management and delivery of services and with sufficient balance sheet capacity to raise debt to fund these investment requirements. This would enable delivery of the necessary infrastructure

¹ FarrierSwier were engaged by the Department of Internal Affairs, overseen by Three Waters Steering Committee, to provide an independent view on the methodology and assumptions underpinning a proposed economic analysis to be undertaken by WICS.

upgrades more efficiently, and at lower cost to households, than would be possible under current delivery and funding arrangements.

15. Achieving the Government's reform objectives will require entities to have a sufficient asset and customer base to be financially sustainable, operate at an economically efficient scale, and enable prices to be affordable and levels of service to be comparable (or if not comparable, at least compliant with relevant standards and expectations) across the country. However, to ensure that the new entities can operate effectively within the three waters delivery system, it is important to consider factors in addition to economic efficiency.
16. Cabinet previously agreed [DEV-20-MIN-0099 refers] that, in relation to entity boundaries, further advice is needed to consider:
 - 16.1 scale benefits – including at least one very large urban centre within each entity to ensure the full benefits of scale are achieved through a large network and population base;
 - 16.2 communities of interest; and
 - 16.3 relationships with other jurisdictional boundaries, including catchments.
17. Iwi/Māori have also raised the importance of considering a Te Ao Māori expression of kaitiakitanga through ki uta ki tai – the passage of water from the mountains and great inland lakes, down the rivers to hāpua/lagoons, wahapū/estuaries and to the sea. Our advice on boundaries has also been informed by our understanding of rohe/takiwā boundaries.

Comment

The decision on number and boundaries is key to the reform's success

18. The decision on the number and boundaries of entities is key to ensuring entities have a sufficient asset and customer base to be financially sustainable and operate at an economically efficient scale. This will ultimately enable the new entities to address the significant infrastructure deficit, while ensuring prices are affordable for customers. This is particularly important given the scale of the likely investment challenge.
19. Evidence indicates each entity would need to serve a connected population of at least 600,000 to 800,000 to achieve a minimum efficient scale. Below this point, entities may find it difficult to fully realise the efficiency benefits that have been shown to be possible in other jurisdictions.
20. Analysis by WICS highlights that companies in the United Kingdom serving populations with less than 800,000 people are less efficient than larger companies (only managing to realise between 10 and 50 per cent of the efficiency savings² that the best performing larger companies were able to realise following reform). That is not to say that entities serving populations of less than 800,000 are inefficient; rather they are assumed to be less efficient than larger entities.
21. A 'first best' approach would see all communities able to access the benefit of reform. This implies full participation by all territorial authorities in the reform process. **Re**

9(2)(f)(iv)

² Measured by looking at the extent to which regulated water utility companies have been able to close the efficiency challenge issued by the regulator (Ofwat in England/Wales or WICS in Scotland) over the period of 1994-2002.

9(2)(f)(iv)

22. The Government intends 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:
 - 22.1 good public health and wellbeing;
 - 22.2 good environmental outcomes;
 - 22.3 economic growth and job creation;
 - 22.4 housing and support for population growth; and
 - 22.5 mitigating the effects of climate change and natural hazards.
23. Achieving these outcomes requires entities to:
 - 23.1 have a sufficient asset and customer base to be financially sustainable, and operate at an economically efficient scale, so that prices are affordable and levels of service comparable; and
 - 23.2 contain entire catchments within their boundaries to realise environmental outcomes by enabling effective catchment planning and management of associated infrastructure.

The RFI process has updated and expanded our understanding of the infrastructure required to achieve well-performing and resilient three waters services

24. In October 2020, the Department of Internal Affairs issued the largest request for information of the three waters service sector seen in New Zealand to date. The RFI was issued to ensure that the economic and financial analysis required to provide advice to Government and to local government decision makers was based on the most up-to-date information from the territorial authorities themselves. It comprised two parts:
 - 24.1 a general request to all territorial authorities to supply information that will be used to inform advice and commercial and financial analysis; and
 - 24.2 a detailed request to a sample of territorial authorities to supply further information (in addition to that above) to enable more detailed economic analysis to inform the options for reform without placing significant demands on the resources of all councils.³
25. The RFI was comprehensive, with the detailed request requiring at least 14,000 individual data points of information. The information related to an assessment of the asset base, asset condition, operating environment, current commercial and financial arrangements, and forecast investment plans.
26. The RFI was a significant first step in improving the quality of information available to better understand the provision of water services. Previous policy work has been hampered by poor quality and inconsistent data sets, meaning it has been difficult to determine the state of infrastructure, likely future investment requirements, and the

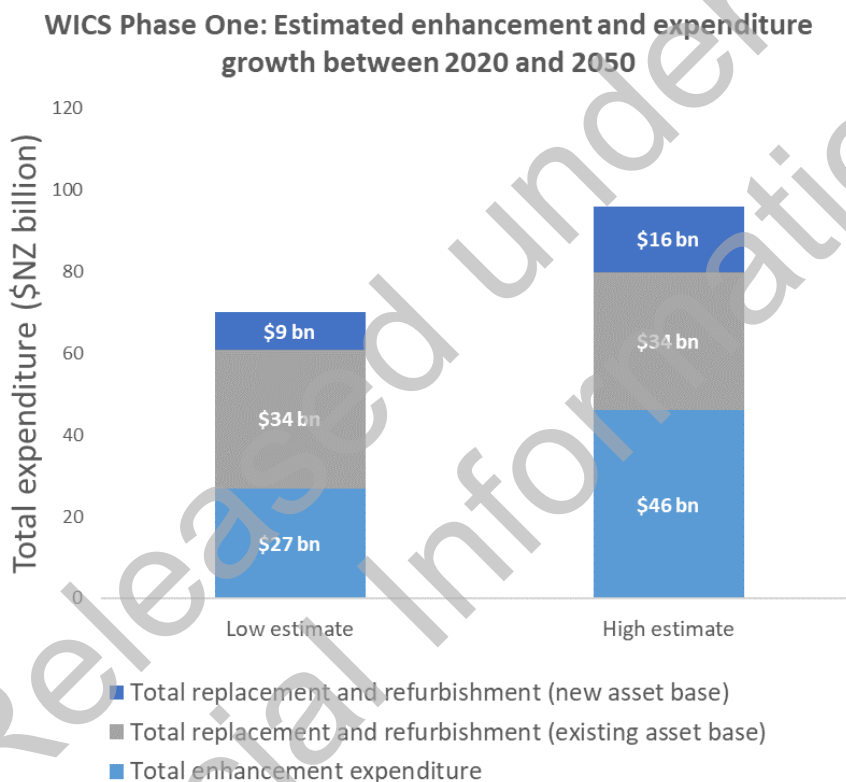
³ The original sample comprised 37 local authorities from across the country, however a further ten local authorities voluntarily undertook the more detailed request extending this detailed sample to cover approximately 80% of the population.

performance of the sector. While the RFI provides an impressive start, there remains significant room for improvement before the quality of information could be relied upon by regulators. However, the information is of a sufficient quality to support policy decisions, and indeed the poor state of information in the sector provides further evidence in support of reform. Our confidence in the sufficiency of information to support policy decision-making is informed by the state of information in other jurisdictions like Australia and the United Kingdom prior to similar scale reforms.

Evidence of the infrastructure deficit

27. In phase one, WICS identified a minimum need for \$27 billion for enhancement of infrastructure based on publicly available information. There was also the associated investment required for asset replacement as it reaches the end of its useful life, taking the total investment required between \$70 billion and \$96 billion.

Figure one: WICS Phase One



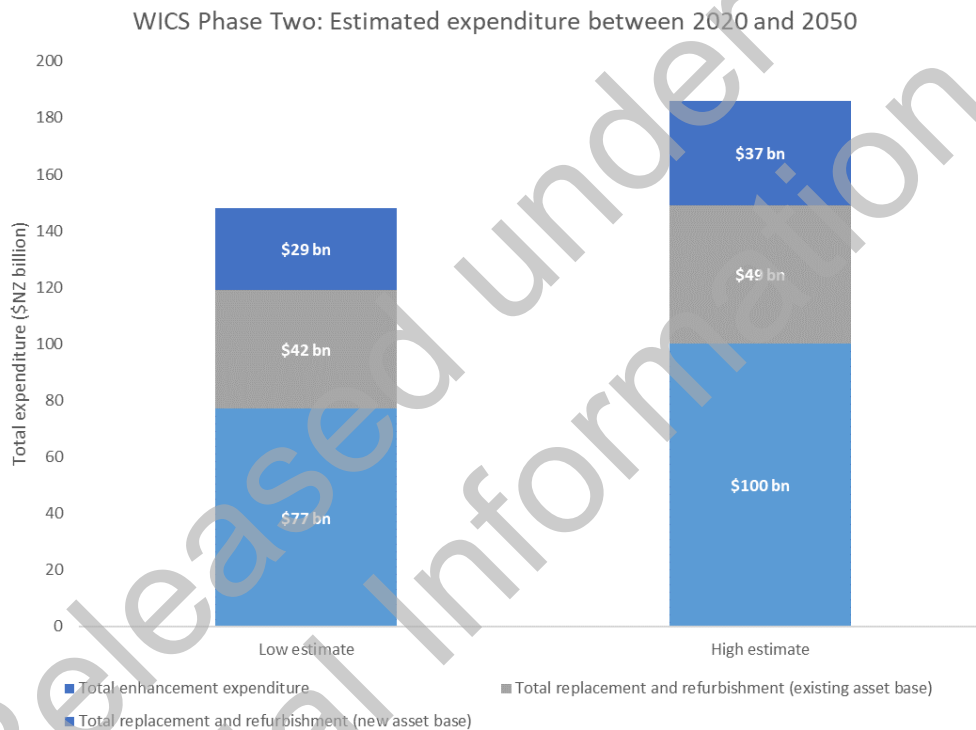
28. The Phase One analysis had several limitations, which we sought to address through the RFI. It was based on out-of-date public information (contained in 2018-28 LTPs), which did not cater sufficiently for population growth and made no allowance for resilience or climate change. The RFI was designed, in part, to address these information deficiencies.
29. At the time of the original analysis for Phase One, WICS' modelling also suggested that reported three waters asset values per connected person appeared to be low.⁴ This was a contributing factor in our decision to undertake the RFI, as understated asset

⁴ Low asset values are likely to be a function of: incomplete records of assets; over-estimated asset lives; low cost allowances for maintenance and replacement; and simpler less resilient and less compliant assets.

values result in systematic under-funding of asset depreciation creating an ongoing inability to adequately maintain the performance, condition, and risk profile of the assets. This contributes, over time, to a deterioration of service levels, quality, safety, and worsening environmental outcomes.

30. Following completion of the RFI process, the estimated investment requirement has increased from the Phase One estimate of \$70 billion to \$96 billion (in Phase One shown above) to \$120 billion to \$154 billion under one approach, or \$148 billion to \$185 billion under another (shown below). In arriving at these estimates, WICS used four different approaches to estimating the infrastructure requirement, including a cross-check against estimates provided by some local authorities through the RFI of their view of the likely investment requirements in a financially unconstrained environment. Each of these approaches provided reasonably aligned results.

Figure two: WICS Phase Two



31. To put this investment requirement in context, territorial authorities currently forecast investment of \$1.5 billion annually or \$45 billion over the next 30 years. The RFI results, and associated economic modelling, indicate that in order to meet quality and growth outcomes, investment spending would need to more than double over the next 30 years (at current levels of efficiency).
32. These numbers do not make additional provision for seismic resilience, climate change or responding to iwi/Māori expectations. These drivers for investment will have different impacts in New Zealand relative to overseas and will vary between different entity groupings. The absence of these investment drivers may mean that the total investment required over time is likely to be an underestimate.
33. To ensure that councils and government decision makers can be confident that the WICS Phase Two analysis is sensitive to, and recognises differences in, the three waters regulatory regime and industry practices between Scotland and New Zealand, officials have also commissioned a review of the analysis by Beca Ltd.

Addressing the infrastructure deficit

34. A combination of factors has contributed to the local government sector now having a better appreciation of the scale of the infrastructure deficit. Advice from territorial authority officers through the long-term planning processes underway, combined with a number of high-profile asset and network performance failures across the country (across metro, provincial and rural areas), is contributing to a greater awareness of the issue from elected members. At an officer level, the RFI has provided insight into the kinds of information demands that would be required from future regulators.
35. Meeting the infrastructure deficit will require a combination of four available sources of cost savings and funding:
- 35.1 **Scale efficiencies** – Enables more infrastructure to be delivered for the same cost, as the increase in investment is offset by realising greater financing, operating and capital expenditure efficiencies.
 - 35.2 **Debt/leverage** – Utilised to finance investment, enabling costs to be spread over present and future generations.
 - 35.3 **Water pricing/revenue** – Supports the funding of investment over time. Relying solely on revenue to fund the infrastructure deficit may mean pricing objectives are not delivered and/or the transition is steep for some communities.
 - 35.4 **Potential Government financial contribution** – Could provide targeted support and also ensure the cost of debt is efficient for water entities and/or vulnerable communities are not exposed to significant price increases.
36. Fewer entities (providing scale efficiencies) will require less of the other three forms of funding. This includes scale benefits that will accrue to individual households through lower prices relative to the counterfactual. The challenge in communicating the benefits of the reform will be to outline the opportunities that can be delivered through scale to address the infrastructure deficit, when compared to a counterfactual in which current revenue from communities is insufficient to maintain and replace existing assets, let alone to address the future investment requirements.
37. We note that the size of the investment deficit means reform does not imply lower absolute prices in real terms. Rather, reform helps to avoid future price rises under the current service delivery arrangements that would be unaffordable for many communities, particularly those served in small, rural areas.

Scale efficiencies

38. Scale will assist in meeting this investment challenge in several ways:
- 38.1 **Financial efficiency** – Increased financial capacity and capability with stronger, more flexible and resilient balance sheets, greater access to capital, and a more reliable investment pipeline.
 - 38.2 **Operating efficiency** – Improve operating efficiencies and lower operating costs by consolidating administration and overhead costs and improving organisational capabilities.
 - 38.3 **Capital efficiency** – Improved asset management, including opportunities to take a strategic and coordinated approach to consider infrastructure needs at a larger scale and in the context of wider catchment outcomes.

- 38.4 **Regulatory efficiency** – Increased ability to manage regulatory burden, minimise compliance cost, and enable quality and performance benchmarking.

International evidence on scale benefits

39. Drawing on evidence from the United Kingdom regarding the relationship between the size of water services entities and the efficiency gains achieved post-reforms, WICS assumes that scale increases on a logarithmic basis above a minimum size. This means there is no scope for efficiency benefits below 60,000 population, but efficiency gains are realisable at a diminishing rate from above this threshold, up to a maximum of 800,000, after which constant returns to scale are exhibited.
40. Outside of the WICS analysis, there is a wide range of international evidence on the benefits of scale. A range of studies find evidence of significant scale benefits, whereas others are more cautious. Evidence of scale efficiencies in relation to wastewater treatment are stronger than for drinking water provision.
41. In a New Zealand context, it is important to separate scale benefits that will likely accrue to larger, professionally managed organisations from scale benefits that arise from the provision of the water services (including network benefits). Both arguments hold, but the first is difficult to separate from the wider benefits of reform including professional governance, specialist management, and good regulatory discipline that are attributes of the broader system reform.
42. Drawing on the broader evidence base, on balance, each entity would need to have in the order of 500,000 to one million population served to achieve a level of efficient scale to contribute to meeting the investment deficit.

Scale is not the only factor to consider in determining the number and boundaries of water services entities

43. It is important that the potential to realise benefits from reform is not assessed on the basis of scale benefits alone. The ability for the proposed entities to realise any efficiencies will depend on several important pre-conditions. These pre-conditions have been identified by WICS and the independent review of its methodology conducted by FarrierSwier. They include:
- 43.1 clear policy direction for the water sector, as expressed for example through a Government Policy Statement;
 - 43.2 entities with effective governance arrangements, able to attract and retain appropriately skilled management;
 - 43.3 new regulatory arrangements for water quality and improved environmental outcomes are effective;
 - 43.4 establishment of effective economic regulation (that is, entities face a hard budget constraint); and
 - 43.5 entities with access to the necessary resources to fund the amalgamation processes and over time make the required investment.

The impact of scale on geographic equity

44. The extent to which the Government wishes to pursue a form of national equity by consumer type or equity by geographical region will affect decisions about the number

of entities. For example, wider tolerance for price variation allows for a greater number of entities whereas low tolerance leads to fewer.

45. In previous discussions, Three Waters Ministers have indicated a preference to prioritise consistent national quality of service over consistent national prices. This is consistent with our advice, given the balance of the policy challenges. A policy of consistent national prices is likely to require one or two entities, which may be subject to diseconomies of scale and concentrated risk of poor performance, as well as challenges in reflecting communities of interest and achieving alignment with relevant regulatory boundaries. Some variation in prices is natural given significant differences in economic geography across the country, and desirable from the perspective of achieving other outcomes (for example, providing incentives for resource conservation in dry areas).

Other relevant considerations

Communities of interest

46. A key focus of the reform programme is ensuring that the new water services system is responsive to community and consumer interests. We have outlined a range of options designed to support the inclusion of the community voice in the new service delivery system [LG202100219 refers]. These options include, among other things, the creation of a new Te Mana o Te Wai statement and response mechanism to support the rights and interests of iwi/Māori.
47. In analysing communities of interest, our focus has been on the geographical expression of communities including:
- 47.1 rohe/takiwā, common whakapapa and other confederations;⁵
 - 47.2 the electoral boundaries of territorial authorities and regional councils; and
 - 47.3 the labour market size and workforce location.
48. At the scale of the likely entities proposed, consideration of factors relating to communities of interest become most relevant if considering more than three entities.
49. We have attached a strong weighting to the probability that a community identity will warrant consideration of a South Island entity (including potential for a Ngāi Tahu/Tauihu takiwā approach) on a standalone basis. This means that any consideration of community of interest issues is likely to focus on how these interests manifest in the North Island, and relatedly, how these impact on the consideration of entity boundaries.

Relevant regulatory considerations

50. Our analysis has been informed by extensive GIS mapping, integrating physical boundaries, with catchment, rohe/takiwā and regulatory boundaries. Regulatory boundaries have been defined widely to include administrative boundaries as they relate to regional council boundaries, Waka Kōtahi boundaries for transport planning and investment, current district health boundaries and some other government agency relationship boundaries such as Te Puni Kōkiri.
51. Our view, and that of other stakeholders including members of the Three Waters Steering Committee, is that priority should be accorded to catchment boundaries.

⁵ This analysis has been informed by the Te Kahui Māngai directory managed by Te Puni Kōkiri.

Consistent with the Te Ao Māori concept of ki uta ki tai, a catchment-based approach will best support improved environmental outcomes. There is a strong alignment between rohe/takiwā and catchments, and aligning boundaries to catchments is a priority identified through our engagement with iwi/Māori.

52. Our analysis identifies the following most relevant considerations:

- 52.1 Catchments in the South Island are not well aligned to territorial authority boundaries. Many South Island territorial authority boundaries are defined by rivers, which means catchments are often split. This is only material if you were considering multiple entities within the South Island, particularly in Canterbury.
- 52.2 The central North Island is the most complex area in terms of overlapping catchments, rohe/takiwā, regulatory and communities of interest. Balancing those interests aligned to reform outcomes would warrant options where Taupō District Council geographical area follows the Waikato river catchment consistent with the approach taken by the Waikato River Authority. We note that in Waikato/Bay of Plenty, recognition of economic, transport and labour market linkages do not necessarily correspond with a catchment-based approach.
- 52.3 There is merit in considering options that incorporate both the Kaipara catchment and the Hauraki catchment into an entity that includes Auckland. Both catchments have faced long standing deterioration in water quality with both urban intensification (mixed contaminant load) and rural contaminants (sediments and nitrates/phosphates) being contributing factors across a wide range of local authority and regional boundaries and aligned mana whenua interests.

Number and boundary scenarios

53. A summary of the implications of the relevant considerations is provided in the table below:

Factors to consider	Assessment	Implications
Scale benefits	<ul style="list-style-type: none"> Addressing the large investment deficit requires new entities to have sufficient scale to be able to realise efficiencies and spread costs equitably Each entity would need in the order of 500,000 to 1 million population served to achieve scale efficiencies of a level sufficient to help address the investment deficit Fewer entities (1 to 2) will enable greater price harmonisation 	<ul style="list-style-type: none"> Between 1 to 5 entities are required to realise sufficient economies of scale – more than 5 entities would leave significant efficiency gains ‘on the table’ and would lead to wide variation in average costs across the country A high weight on price harmonisation objectives would suggest 1-2 entities

Communities of interest	<ul style="list-style-type: none"> • Strong community identity for South Island • Economic communities of interest including labour market and infrastructure links are relevant and sometimes at odds with the catchment-based approach • At the scale of the entities, we are considering – common whakapapa becomes more relevant than rohe/takiwā 	<ul style="list-style-type: none"> • South Island (including potential for a Ngāi Tahu/Tauihu takiwā approach) likely to require a stand-alone entity • Community of interest considerations more relevant when considering 3 or more entities
Relationships with other jurisdictional boundaries	<ul style="list-style-type: none"> • Catchments have become the most important of physical considerations. Consistent with ki uta ki tai, environmental outcomes benefit from a catchment-based approach • Regional Council boundaries and rohe/takiwā align with catchments • Some local authority boundaries have boundaries on rivers, and should be external boundaries for new entities 	<ul style="list-style-type: none"> • Boundaries should be situated along catchment boundaries • Avoid splitting local authority boundaries to prevent adding further complexity to the system

54. The final decision of the number and boundaries needs to be informed by the finalisation of economic and financial advice. Our first best advice, 9(2)(f)(iv) is that the balance of the Government's reform objectives will be best met through a three or four entity scenario.

54.1 A three entity scenario would:

- 54.1.1 potentially access a greater range of efficiencies;
- 54.1.2 provide a greater potential uniformity of average costs per household; and
- 54.1.3 likely require the South Island entity to be expanded to include Wellington to achieve broadly comparable population density and economic geography between the entities.

54.2 A four-entity scenario would:

- 54.2.1 Require a higher degree of tolerance for price variance over the long term across the country (a graph of options by estimated household price impacts is included as Appendix C);
- 54.2.2 Provide a greater connection to the communities serviced by that entity;
- 54.2.3 Enable the South Island (including Ngāi Tahu/Tauihu takiwā approach) to be serviced by a single entity; and
- 54.2.4 Enable robust regulatory and performance benchmarking

55. Ultimately, the choice between these options can be determined by which configuration of number and boundaries is judged most likely to:
 - 55.1 resonate with the iwi/Māori and territorial authorities impacted
 - 55.2 best manage environmental outcomes;
 - 55.3 ensure a smooth and effective transition; and
 - 55.4 best position the new entities to be able to engage with willing partners from establishment.
56. In reaching our 'first best' advice on three or four entities, it is worth noting that we have considered a single entity model, like those operating in Scotland and Tasmania. We do not consider a single entity model to be optimal given the limited evidence of significant additional scale economies above 800,000 connected customers, combined with a limited ability to adequately benchmark without comparable performance data. A single provider could also provide potentially perverse incentives in both labour market (shallow talent pools) and procurement (monopsony tensions).

Engagement with the Three Waters Steering Committee

57. The Steering Committee, at its recent meeting on 29 March 2021, considered advice from officials that the three waters system reform objectives are best met through either a three or four entity model.
58. The Steering Committee broadly endorsed this general conclusion based on the evidence presented to date, including preliminary findings from the WICS Phase Two analysis, subject to the final model obtaining a high level of participation by territorial authorities, especially the metropolitan councils. On balance, the Steering Committee considered that a four entity model was likely to have a broader appeal to the sector than a three entity option, given greater connection to communities of interest.
59. We note that the Steering Committee sees the determination of number and boundaries of entities as only one aspect of the reform programme, and reserves the right to consider the reform package as a whole.
60. The Steering Committee sought further consideration of several boundary issues including for example the top of the South Island and the catchment approach in Hauraki. It concluded that this issue would benefit from further engagement with the affected councils and their neighbours, and with affected iwi/Māori. It noted the importance of completing the independent review of the analysis, which is underway.

Next steps

61. Officials are awaiting finalisation of the WICS analysis, as well as the conclusion of the independent review by FarrierSwier. Notwithstanding this, we do not expect the finalisation of this advice for Three Waters Ministers to materially affect our conclusions on the number and boundaries of entities.
62. While we do not recommend taking final decisions until this work has been completed, we consider it would be beneficial for you to discuss this advice, and your own views, with Three Waters Ministers at their meeting on 12 April 2021. We recommend you forward this briefing to Three Waters Ministers as part of the material being prepared for that meeting.

63. We have prepared some draft slides (attached as **Appendix A**) that could be used as the basis for your meeting with Three Waters Ministers on 12 April. These slides will be updated once the final analysis by WICS, and the independent review by FarrierSwier, has been concluded.

Recommendations

64. We recommend that you:

- a) **note** the contents of this briefing; and
- b) **agree** to forward a copy of this briefing to Three Waters Ministers as background reading in advance of their meeting on 12 April 2021. **Yes/No**



Allan Prangnell
Executive Director, Three Waters

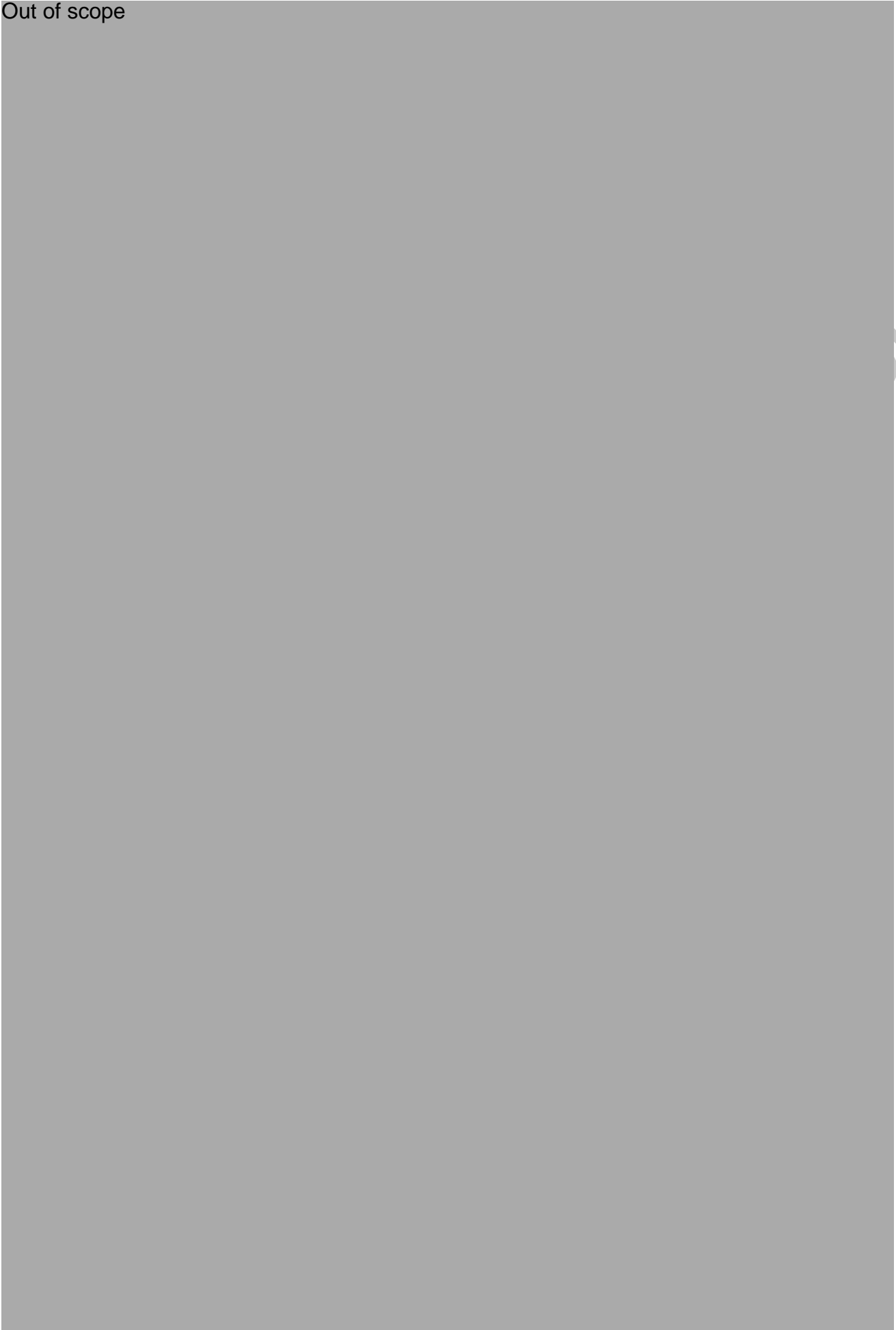
Hon Nanaia Mahuta
Minister of Local Government

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Appendix A: Draft slides for Three Waters Ministers Meeting

Released under the
Official Information Act

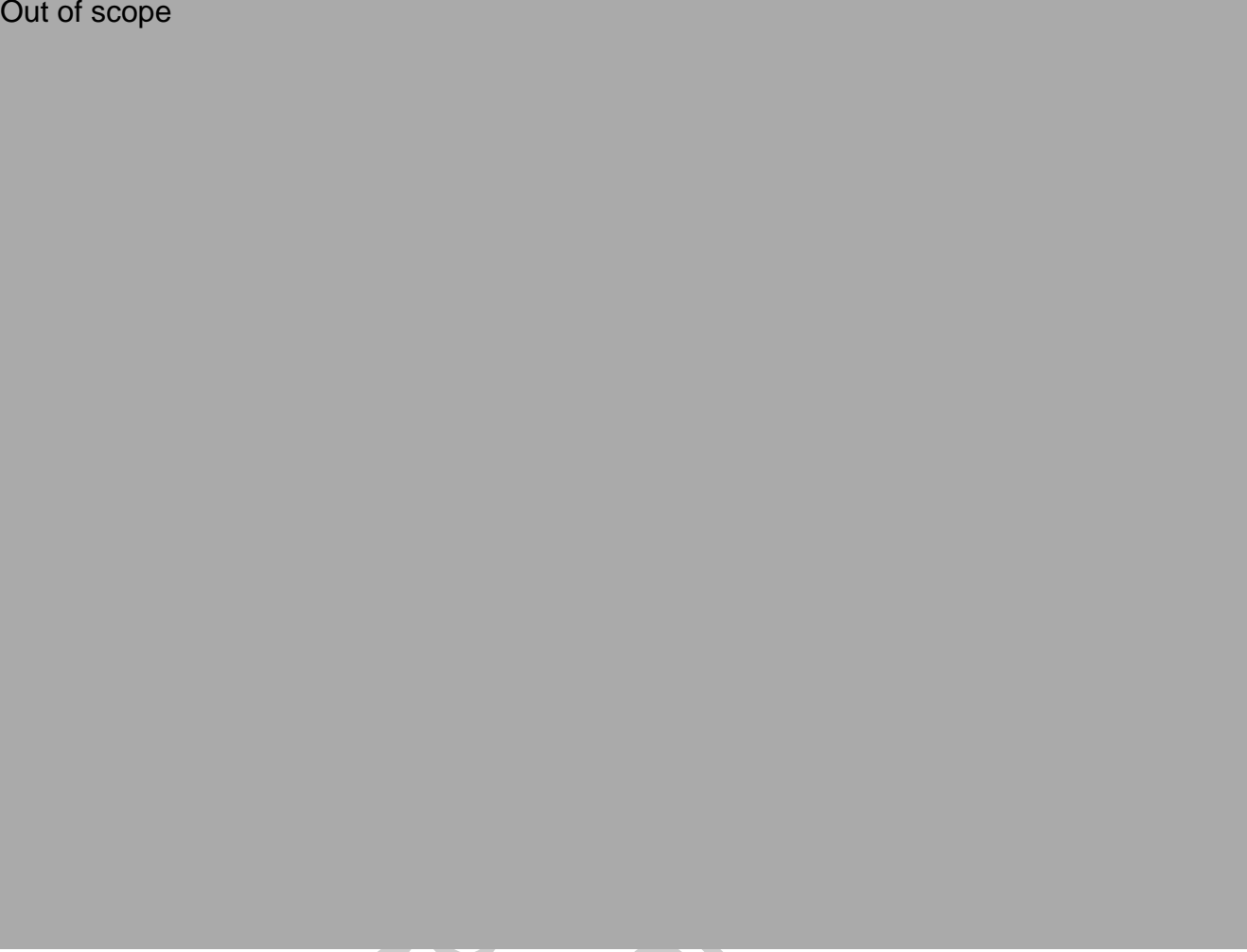
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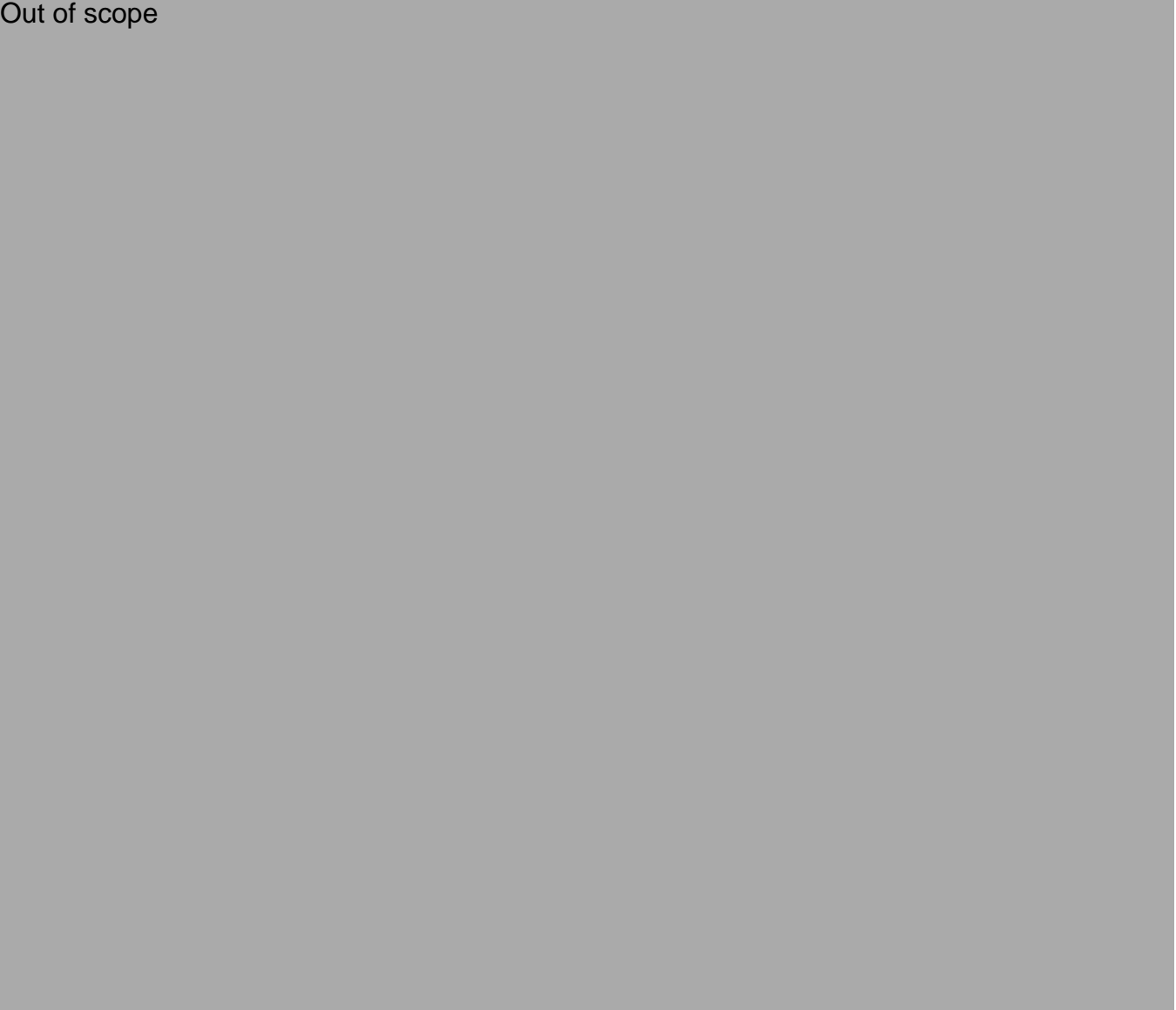


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Numbers and Boundaries of Entities

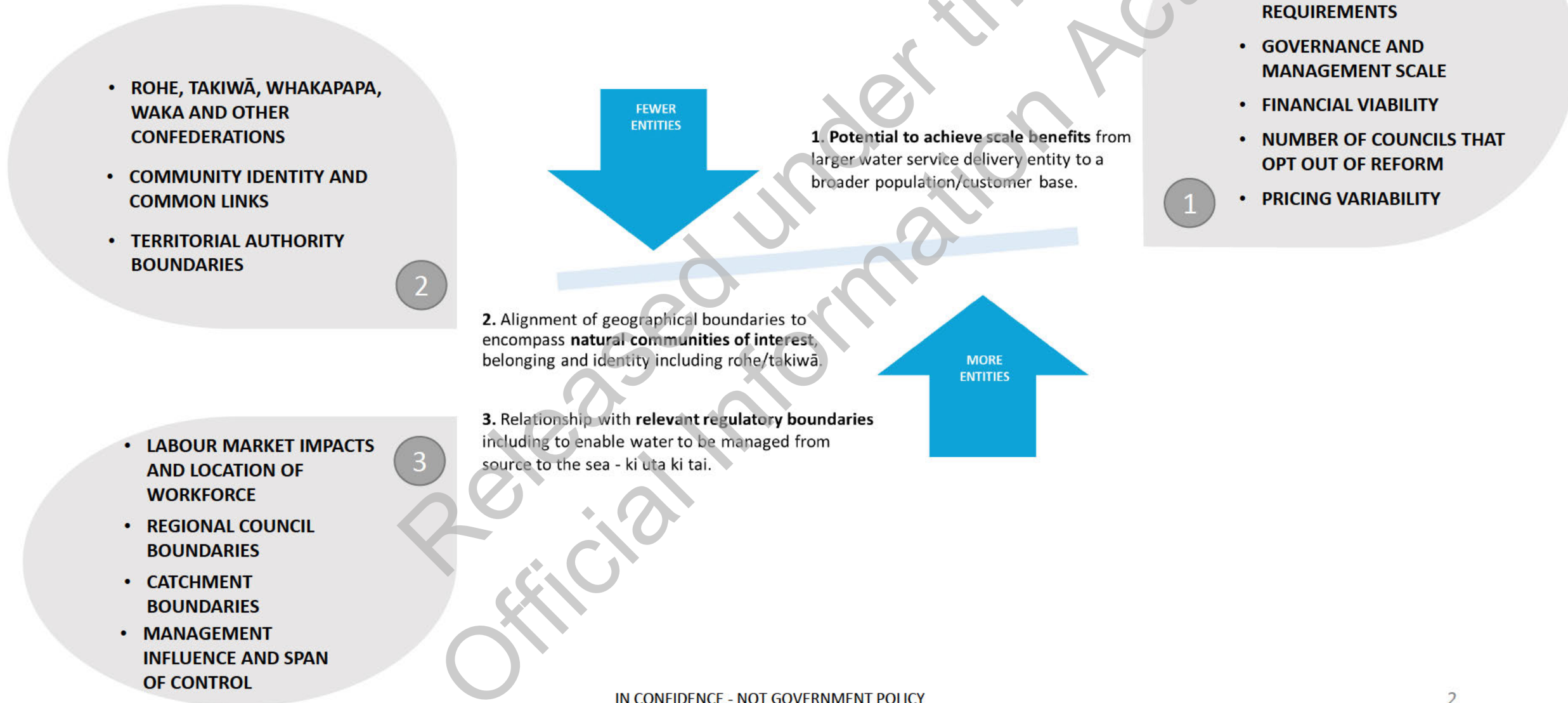
APPENDIX A

DRAFT AS AT 31 MARCH

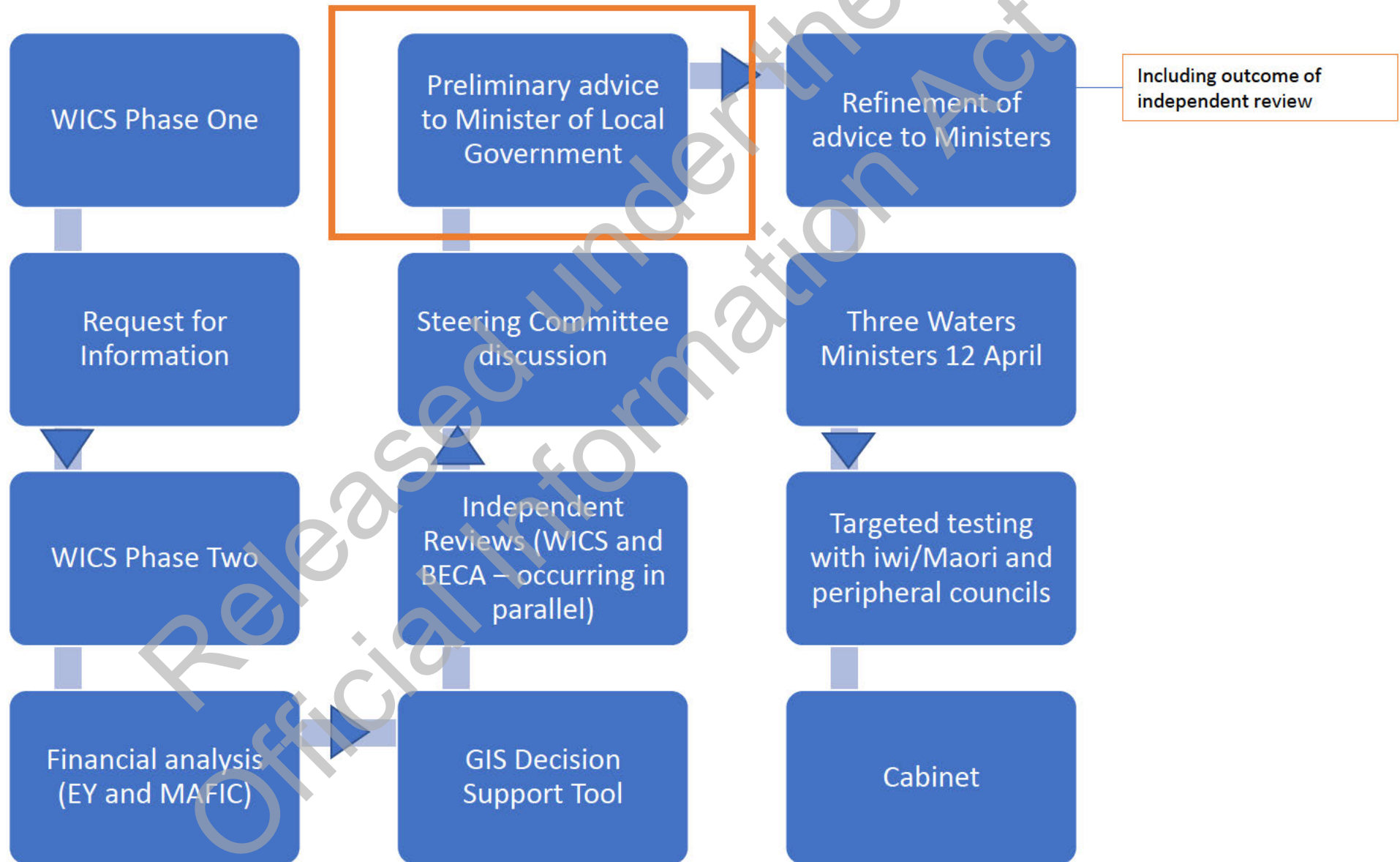


Te Tari Taiwhenua
Internal Affairs

Cabinet has provided us a framework to consider relevant tensions



Where we are in the process



WICS has used a multi method approach to update their estimation of the infrastructure deficit, and it is larger than originally estimated

- The RFI has updated earlier analysis that used local authorities' own data from their LTPs. The updated information from the RFI has increased the investment requirements from \$70 billion - \$96 billion to \$120 billion - \$154 billion for Approach 1, and \$148 billion to \$185 billion for Approach 2.

	WICS PHASE ONE		WICS PHASE TWO			
	Low	High	Approach 1:		Approach 2: Based on Scotland regional data (preferred)	
	Low	High	Low	High	Low	High
Total replacement + refurbishment (new asset base)	NZ\$27 Bn	NZ\$46 Bn	NZ\$21 Bn	NZ\$29 Bn	NZ\$29 Bn	NZ\$37 Bn
Total replacement + refurbishment (existing asset base)	NZ\$34 Bn	NZ\$34 Bn	NZ\$42 Bn	NZ\$49 Bn	NZ\$42 Bn	NZ\$49 Bn
Total enhancement expenditure	NZ\$8 Bn	NZ\$16 Bn	NZ\$57 Bn	NZ\$77 Bn	NZ\$77 Bn	NZ\$100 Bn
Total investment*	NZ\$70 Bn	NZ\$96 Bn	NZ\$120 Bn	NZ\$154 Bn	NZ\$148 Bn	NZ\$185 Bn

*Numbers may not add due to rounding

- Current council spend is forecast \$1.5bn annually or \$45bn over the next 30 years.
- The more conservative estimate would still require significant investment and an increase in sector capacity and capability to meet quality and growth outcomes - spending will need to more than double over the next thirty years.

Observations about the size of the infrastructure deficit

- BECA are in the process of assessing the WICS estimate using domestic expertise.
- Feedback from RFI de-brief sessions has been broadly accepting of the data.
- Some territorial authorities have raised concerns about the scale of the investment deficit (predominately Canterbury) and how the RFI is being applied to economic and financial analysis.
- However, other feedback from other territorial authorities has been positive. Territorial authorities are, by-and-large, beginning to acknowledge this by significantly increasing the amount of planned investment they are intending to do in their LTPs (collectively, this is up 50% on previous LTP).
- Issues related to under valued assets have resonated. We are hearing of instances of assets being revalued up and we understand that auditors are also paying particular attention to understated asset values.

Our view is that scale efficiency benefits should be given priority in determining the number of boundaries given the size of the investment challenge

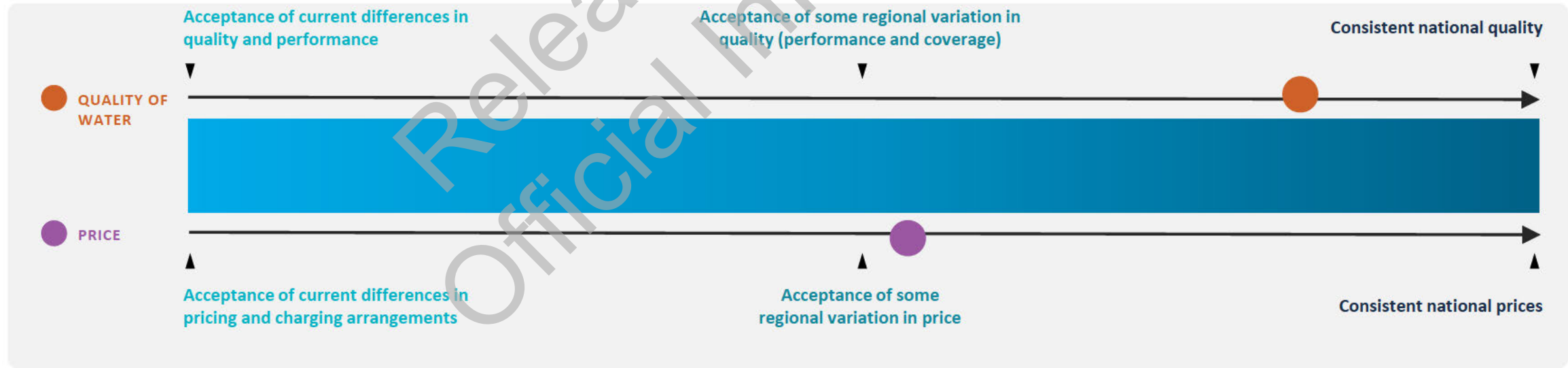
- The size of the investment deficit, confirmed through the RFI process, means that achieving scale efficiencies is critical to the reform's success.
- The most critical scale considerations are:
 1. Financial capacity and capability
 - Opening balance sheet capacity
 - Management and governance competency
 - Investor confidence/certainty
 2. Financial sustainability
 - Scale benefits in asset management, procurement and operational efficiency
 - Funding and pricing flexibility to address equity concerns (geographic and intergenerational)
 3. Sector capacity/strategic workforce
 - Sufficient scale to encourage strategic sector transformation, workforce planning, attraction of new providers, depth of management/governance talent most likely achieved through more than two entities across the country.
 4. Regulatory burden and benchmarking
 - Ability to adequately benchmark without introducing costly regulatory burden to entities of insufficient scale most likely achieved by more than three entities across the country.

What the evidence says around scale

- Drawing on UK evidence regarding the relationship between the size of water services entities and the efficiency gains achieved post-reforms, WICS assumes that scale increases on a logarithmic basis above a minimum threshold of 60,000 customers – above this threshold, economies gains are assumed to increase at a diminishing rate before levelling off at the point where population served reaches 800,000 customers.
- Outside of the WICS analysis, there is a range of international evidence around scale benefits. A number of studies raise find evidence of significant scale benefits, whereas others are more cautious. Evidence around the benefits of scale are stronger for wastewater treatment than for drinking water.
- In the New Zealand context, it is important to separate scale benefits that will likely accrue to larger, professionally managed organisations from scale benefits that arise from the provision of the water services (including network benefits). Both arguments hold, but the first is difficult to separate from the wider benefits of reform including professional governance, specialist management, and good regulatory discipline that are important elements of the broader system reform.
- On balance, evidence indicates each entity would need in the order of 500,000 to 1,000,000 population serviced to achieve efficient scale. Below this point, there are efficiency challenges.
- FarrierSwier is currently providing independent review of this analysis.

The number of entities and their scale impacts also impacts regional variation

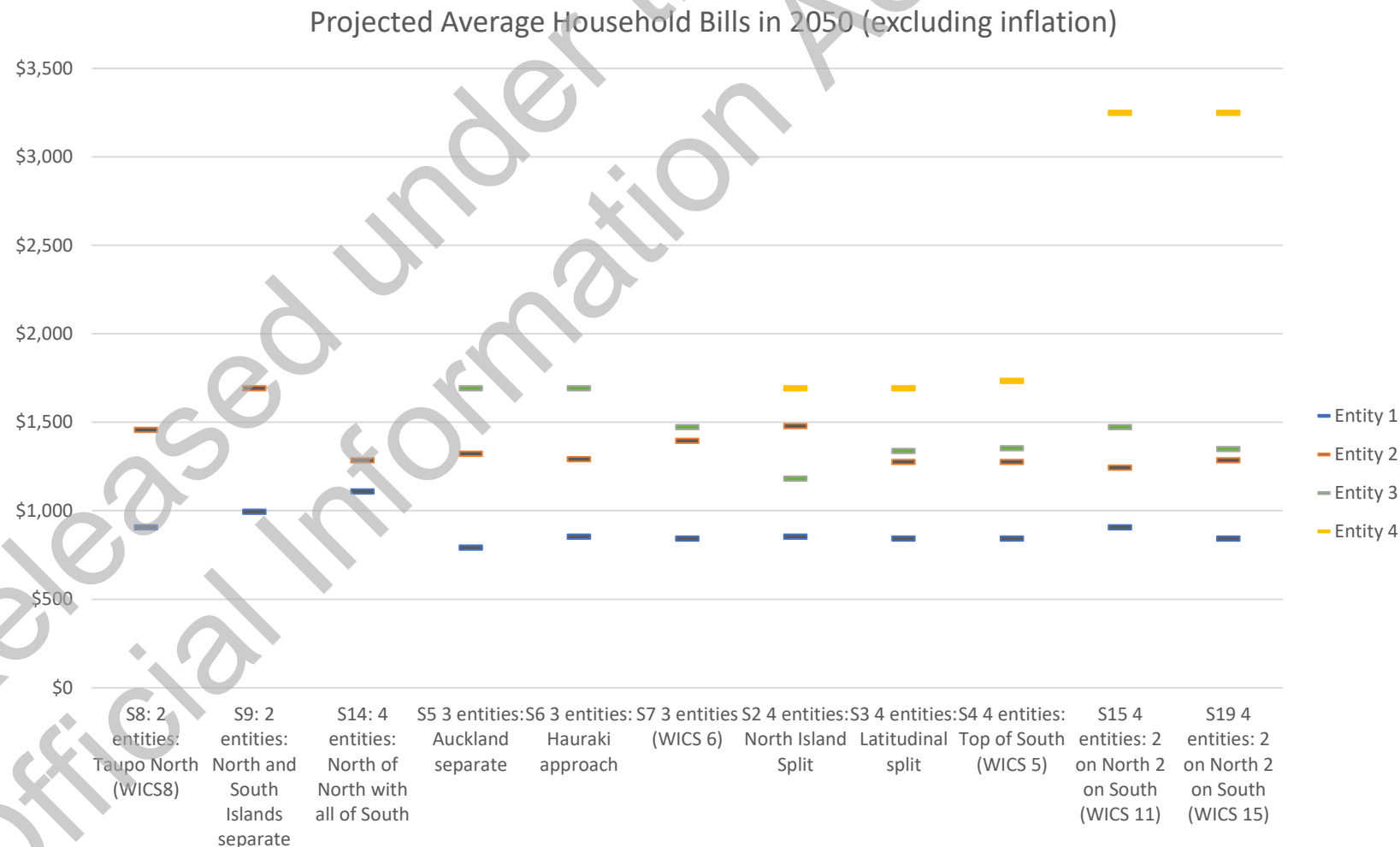
- The extent to which Government pursues a form of national **equity by consumer type or equity by geographical region** will affect decisions about the number of entities. For example, **wider tolerance for price variation may support a greater number of entities whereas low tolerance leads to fewer**. Government has indicated they are prioritising consistent national quality over consistent national prices. This differentiates our reform objectives from the original reform objectives in Scotland.
- Outcomes for South Island households will be best met by the most financially robust entity if it includes Wellington. If, for community of interest reasons, the South Island has its own entity – then a four entity model could also be sustained across the whole country with relatively limited loss in efficiency (and impact) in the North Island that would be comparable to outcomes in the South Island (i.e. less efficient, but greater price equity). That is, under a three entity scenario, Wellington becomes more important to the South Island than it is to the North Island under a four entity scenario.



A range of scenarios for 1-4 entities

A range of scenarios have been run, to consider amalgamation benefits and estimations of household cost impacts by 2050 as a proxy.

This focuses on the range in end household impacts in 1-4 entities.



Based on preliminary analysis, first best would be three or four entities (one of which is the South Island)

- We believe the balance of objectives is **best met through a three or four entity scenario.**
- A four entity scenario would:
 - require a higher degree of tolerance for price variance over the long term across the country
 - provide a greater connection to the communities serviced by that entity
 - enable the South Island to be serviced by a single entity
- A three entity scenario would:
 - provide a greater potential uniformity of price over the long term
 - likely require a South Island entity to include Wellington
- Ultimately the choice between these options can be determined by which configuration of number and boundaries is judged most likely to resonate with the iwi/Māori and local authorities impacted, to ensure a smooth and effective transition and best position the new entities to be able to engage with willing partners from establishment.
- It is worth noting that a one entity scenario will limit the ability to adequately benchmark and lack comparable performance data. It will also provide potentially perverse incentives in both labour market (shallow talent pools) and procurement (monopsony tensions).

The other factors Government has asked us to consider, only become relevant if you are considering more than three entities

- Cabinet asked us to also consider communities of interest (including rohe/takiwā and other regulatory considerations).
- Other factors are only materially relevant when you are considering three or more entities.
- We have undertaken extensive GIS mapping, integrating physical boundaries, with catchment, rohe/takiwā and regulatory boundaries.
- This analysis identifies that the most critical to overall success is catchment boundaries:
 - Rohe/takiwā strongly align with catchments
 - Regional Council boundaries strongly align with multiple catchments
- At the scale of the entities we are considering – common whakapapa becomes more relevant than rohe/takiwā.
- We have assumed that no local authority boundary is separated (to prevent adding complexity to the overall transition).
- Community of interest considerations are also only relevant in scenarios of entities greater than three entities.
 - We have assumed that the South Island (including potential for Ngāi Tahu/Tauihu takiwā considerations) will have a strong community of interest

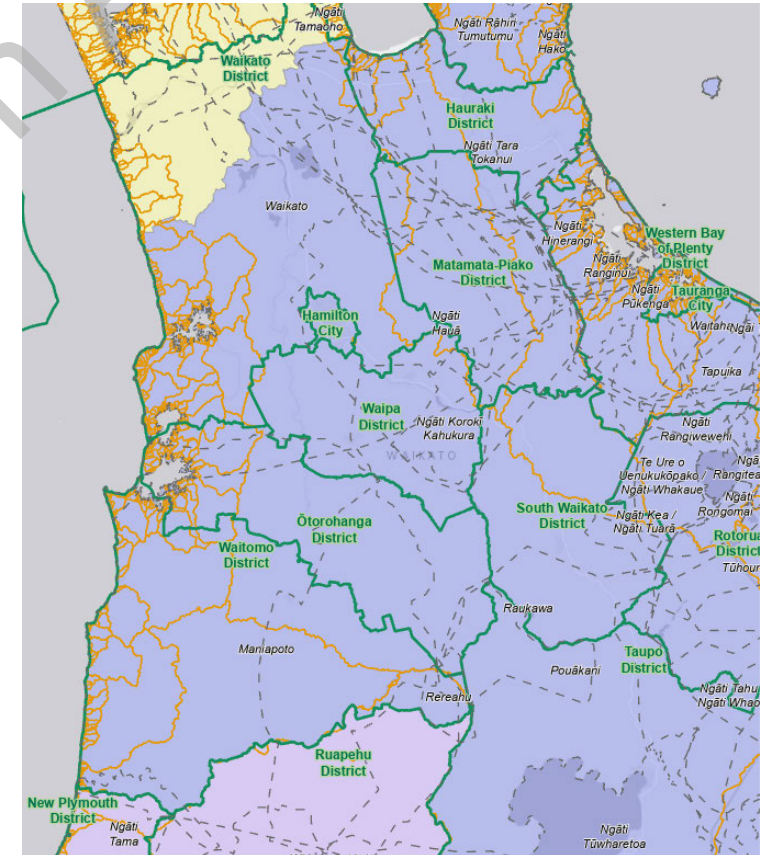
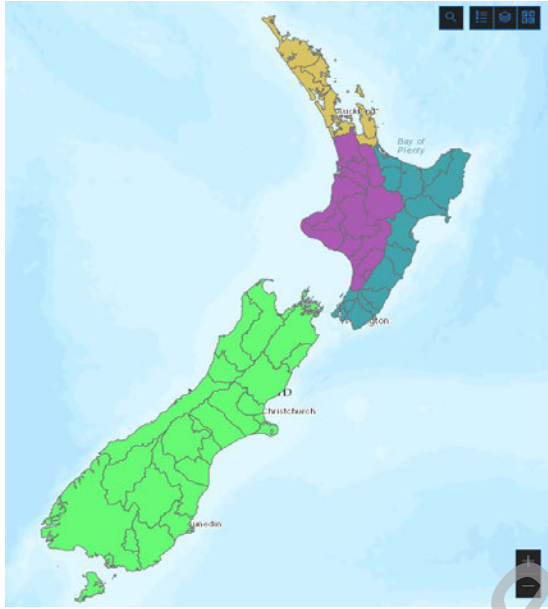


Figure: Example of GIS mapping undertaken

Key four entity options

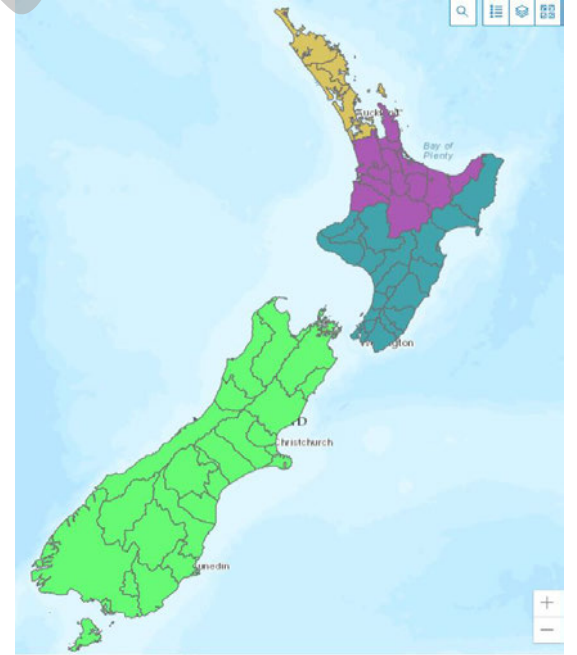
Option - North Island Split

This option aligns catchment and rohe/takiwā more closely than the other option.



Option – Latitude Split

This option aligns slightly more to traditional communities of interest.



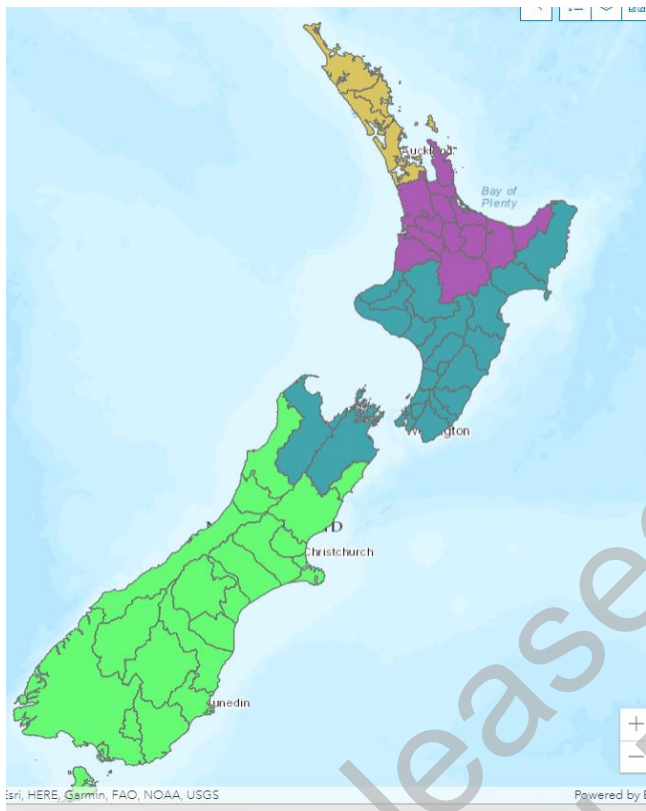
Entity	Population served	Current Average Household Bill	Projected Average Household Bill in 2050 (projected cash terms)
A	1,762,746	\$1,120	\$1,640
B	623,653	\$1,140	\$2,840
C	978,068	\$1,030	\$2,270
D	980,499	\$1,110	\$3,250

Entity	Population served	Current Average Household Bill	Projected Average Household Bill in 2050 (projected cash terms)
A	1,725,853	\$1,100	\$1,620
B	641,569	\$1,370	\$2,450
C	997,045	\$920	\$2,570
D	980,499	\$1,110	\$3,250

Key four entity options continued

Option – Four entities top of the South

This option may align more favourably with rohe/takiwā at the bottom of the North and top of the South particularly between Ngāi Tahu and Tauihu hapū/iwi.

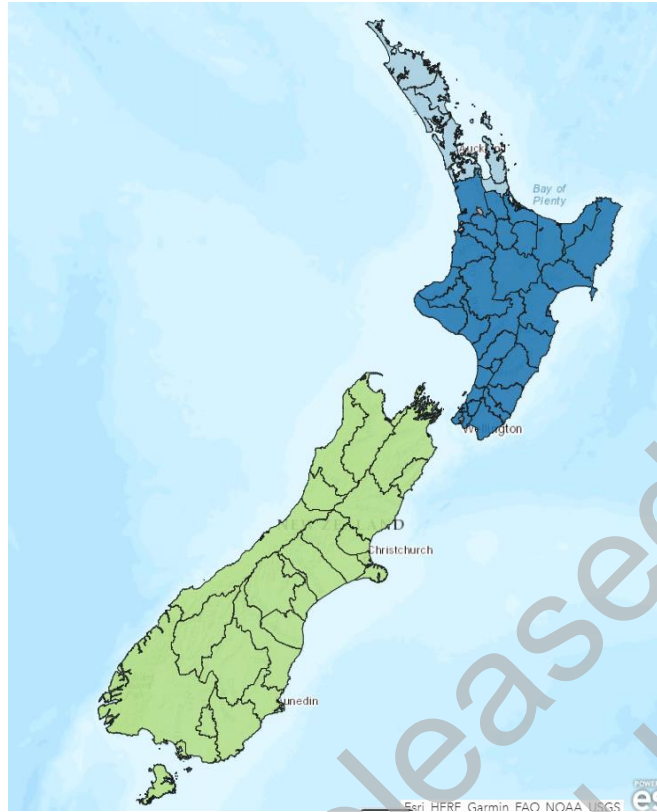


Entity	Population served	Current Average Household Bill	Projected Average Household Bill in 2050 (projected cash terms)
A	1,725,853	\$1,100	\$1,620
B	641,569	\$1,370	\$2,450
C	1,113,194	\$980	\$2,600
D	864,350	\$1,060	\$3,330

Key three entity options

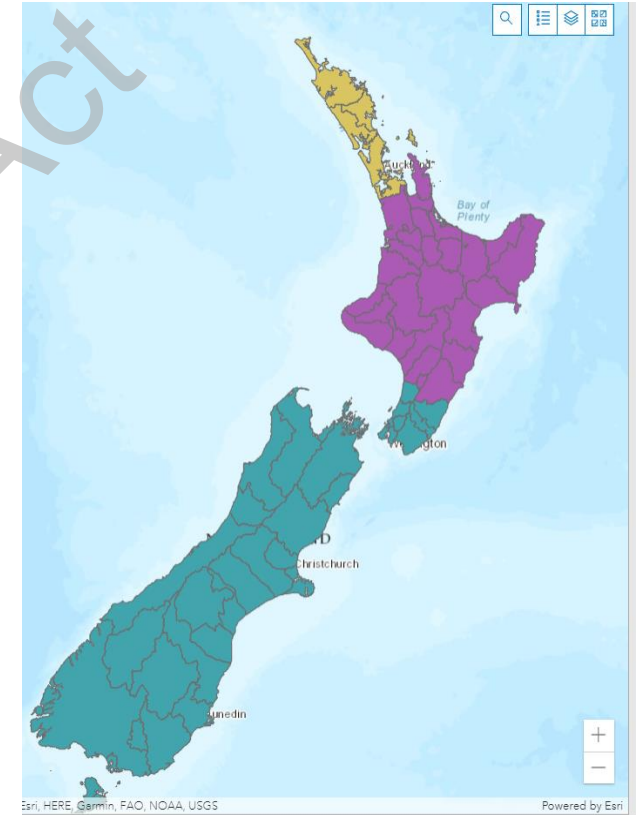
Option – Three entities

This option enables the South Island to retain its own entity



Option – Three entities South Island includes Wellington

This option provides the South Island with the scale benefit offered by the broader Wellington region.



Entity	Population served	Current Average Household Bill	Projected Average Household Bill in 2050 (projected cash terms)
A	1,762,746	\$1,120	\$1,640
B	1,601,721	\$1,070	\$2,480
C	980,499	\$1,110	\$3,250

Entity	Population served	Current Average Household Bill	Projected Average Household Bill in 2050 (projected cash terms)
A	1,725,853	\$1,100	\$1,620
B	1,093,984	\$1,170	\$2,680
C	1,525,128	\$1,050	\$2,830

First best approach to support reform success

- A first best approach assumes all communities are able to access the benefit of reform.
- The 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:
 - Good public health and wellbeing
 - Good environmental outcomes
 - Economic growth and job creation
 - Housing and support for population growth
 - Mitigating the effects of climate change and natural hazards
- Achieving these outcomes requires:
 - Entities to have a sufficient asset and customer base to be financially sustainable, operate at an economically efficient scale, and so prices are affordable and levels of service comparable.
 - Environmental outcomes are also dependent on containing entire catchments within the boundaries of entities (to enable effective catchment planning and management of associated infrastructure)
- We believe the balance of objectives is best met through a three or four entity scenario (if the South Island is retained as a separate entity).

Next steps

- We are working through the preliminary advice from WICS Phase 2, and the RFI impact on the individual financial position of each Council.
- We are also awaiting independent review from FarrierSwier and BECA, FarrierSwier are bringing particular focus to arguments related to economies of scale.
- We do expect this processes will:
 - Confirm the direction of travel of advice included about the number of entities
 - Provide much richer information about the impact on individual local authorities
- The Joint Steering Committee has broadly endorsed the approach, acknowledging that the decision on number and boundaries sits within a broader reform context (including whether the process remains voluntary and the size of any incentive package).
- We will recommend that Ministers await the final analysis before making final decisions regarding number and boundaries and the reform strategy until this further analysis has been completed.



Local Government information briefing

Hon Nanaia Mahuta
Minister of Local Government

Title: Meeting with Ngāi Tahu to discuss three waters reform

Date: 11 May 2021

Key issues

You are scheduled to meet with elected members of several South Island local authorities and representatives of Te Rūnanga o Ngāi Tahu (Ngāi Tahu) on 12 May 2021 from 10:00am to 11:00am to discuss the three waters reforms. The following day you are meeting with Lisa Tumahai and Dr Te Maire Tau, from Ngāi Tahu, from 11:30am to 12:00pm to discuss partnership and co-design in the three waters reform.

This briefing provides you with background information and suggested talking points to support you at these meetings.

Action sought

Read this briefing.

Timeframe

By 12 May 2021

Contact for telephone discussions (if required)

Name	Position	Contact Number	Suggested 1 st contact
Allan Prangnell	Executive Director Three Waters	021 865 809	✓
Ben Dickson	Principal Advisor Iwi/Maori	021 045 1068	

Return electronic document to:	Hannah Petrie Peter, hannah.petriepeter@dia.govt.nz
Cohesion references	{CA86A75F-F324-4C7B-9558-19FB13E774A8}
Ministerial database reference	LG202100469

Allan Prangnell
Executive Director Three Waters

8. Ngāi Tahu have expressed preference for the boundary of the South Island water services entity to align with their takiwā. This is set out in *Te Runanga o Ngai Tahu Act 1996* – figure 2 below illustrates this boundary as the top of the South Island.



Figure 2. Ngai Tahu Takiwā boundary top of South Island

Outcomes under two variations of a four-entity scenario

9. Ministers have indicated their preference for a four-entity scenario. Under this scenario, officials are proposing two options (as seen below):
- 9.1 a lateral split that aligns with Whakapapa/takiwā at bottom of the North and top of South island; and
 - 9.2 a traditional lateral split that follows current regional boundaries.

1. Lateral split, catchment extended



2. Traditional lateral split



Figure 1. Boundary options for four-entity scenario

9(2)(g)(i)

- [REDACTED]
- [REDACTED]
- [REDACTED]

Points to note for joint local authority and Ngāi Tahu meeting, 12 May 2021

- 13. We understand that South Island local authorities and Ngai Tahu are tentatively supportive of the water service delivery reform proposals. However, they have signalled in their engagement to date that there is a need to ensure a few matters are delivered as part of the process, these include:
 - 13.1 ensuring the design process for the water services entities is robust and that councils and Ngāi Tahu play a role in the design process;
 - 13.2 that clarity is achieved on residual chlorine disinfection and durability of exemptions to this;
 - 13.3 that rangatiratanga is enabled;
 - 13.4 the entity boundary will be defined by the Ngāi Tahu takiwa; and
 - 13.5 the financial case is compelling in a local sense.
- 14. **Appendix A** contains talking points for the joint meeting on 12 May.

Points to note for the Ngāi Tahu meeting, 13 May 2021

- 15. Ngāi Tahu provided a letter, dated 7 May 2021, in preparation of this hui. They outlined several matters that we expect to be raised, either in the joint local authority and Ngāi Tahu meeting or in the Ngāi Tahu only meeting. The following paragraphs outline these matters. **Appendix B** contains talking points for the meeting on 13 May.

Partnership and co-design

- 16. In our engagement to date, Ngāi Tahu have expressed a desire for a co-design partnership for the development of a water services entity based around the Ngāi Tahu Takiwā. 9(2)(g)(i) [REDACTED]
- 17. Ngāi Tahu are seeking agreement to paragraphs reflecting this approach be included in the suite of Cabinet papers currently being developed.

Out of scope

- [Redacted]
- [Redacted]
- [Redacted]

Content of the draft three waters Cabinet papers

- 21. Ngai Tahu have expressed the need to have access to draft versions of the relevant Cabinet paper provisions as they are developed. They noted that, as we work more closely, it would be useful for to have a shared understanding of the analysis and thinking underpinning the fundamental parameters of the reforms will be crucial to the quality and efficiency of co-design for Ngai Tahu Takiwā.

Summary of key points to note

- 22. We anticipate that Ngāi Tahu:
 - 22.1 will ask you for support at Cabinet for an entity that reflects the takiwā;
 - 22.2 may request funding support to partner with the Department when designing the entity; and
 - 22.3 will ask to have visibility of draft Cabinet papers relating to the three waters reform programme.

Hon Nanaia Mahuta
Minister of Local Government

____ / ____ / ____

Appendix A: Suggested talking points for joint 12 May meeting

Acknowledgements and three waters

- Thank you all for making the time to attend this meeting today.
- I would like to thank the local government sector and iwi/Māori for its input into the Three Waters Reform programme to date.
- Particularly the chief executives and councillors who are participating in the joint Three Waters Steering Committee. I appreciate the significant investment of time and effort you are putting into this Committee, and the importance of your input to the success of the programme.

The implications of water reform and resource management reform on the future of local government

- Local government plays a crucial role in the wellbeing of all New Zealanders – there is now an opportunity for us to work together to strengthen its role in our communities and country.
- As you are aware, the Government has announced a review into the Future for Local Government.
- I want to take this opportunity to reiterate that this Government does not have a broader local government amalgamation agenda.
- I can assure you that central government, in consultation with the sector, will be engaging across the various aspects of our reform agenda to understand the connections between the Three Waters Reform, Resource Management Act Review, and Review for the Future of Local Government. This is to ensure that these programmes of work all complement each other.

Concerns about maintaining community interests within bigger water providers

- I appreciate that councils will want to ensure that ratepayers are protected following the Three Waters reforms. I also recognise that iwi/hapū will want to ensure that their Treaty rights and interests are upheld.
- I would like to assure you that the reform process and design of the new water entities will provide mechanisms to ensure this happens.
- The Select Committee process, as part of any associated legislation processes, will provide councils, iwi/Māori and other interested parties with a further opportunity to have a say on the proposed water service entity arrangements.

Concerns about the potential scale and boundaries of the proposed water entities

- The Government is considering options and advice on key elements of the reform package, including:
 - the number and boundaries of proposed entities;
 - entity governance arrangements; and

- mechanisms that provide for community voice and influence.
- At this stage, Ministers are favouring the establishment of between three and five water entities – these entities would each include at least one large urban centre.

Ownership of water assets and subsidising water assets in other regions

- This Government has been clear that water infrastructure must remain in public ownership under any new service delivery arrangements. The proposed new entities must include mechanisms to protect the publicly-owned nature of these entities now and into the future.
- The reform would see a range of positive outcomes for councils and their communities. For example:
 - a move to more financially sustainable multi-regional entities with full financial separation from councils;
 - creating debt headroom for councils to invest in other community priorities;
 - improved efficiency of water service delivery, with benefits for regional investment, jobs and productivity; and
 - the advantages of scale, which means that smaller councils and communities who are part of a larger multi-regional entity will be able to benefit from the sharing of infrastructure or resourcing costs across a larger population base.
- The overall scale of these entities is crucial because without large entities sharing the costs across all the communities it covers, smaller council ratepayers will bear a disproportionate amount of cost for water services.
- In short, the greater sharing of costs across larger populations can be, the more minimised the impact of the reforms will be on smaller communities.

Ensuring fairness in the transition process

- I am equally mindful of anxiety about the scale and cohesiveness of the extensive reform programme impacting the local government sector – particularly resource management and three waters reform.
- I expect fairness to be a key objective of the transition process, while delivering the reform objectives.
- Any queries about the transition process can be directed to the Three Waters Team at the Department of Internal Affairs.

Appendix B: Suggested talking points for 13 May Ngai Tahu meeting

Acknowledgements and Three Waters

- Thank you all for making the time to attend this meeting today. I thought yesterday's meeting was very productive and provided greater clarity for myself and officials on the direction of the three waters reform for the South Island.
- Thank you for your letter in preparation of this meeting. I would like to thank Ngāi Tahu again for its input into the Three Waters Reform programme to date.

South Island entity boundary

- I understand that you have expressed preference for the boundary of a South Island water services entity to align with your takiwā.

Partnership and co-design

- I am pleased to hear that my officials have been working alongside you in the development of the three waters reform proposals.
- I understand you have expressed a desire for a co-design partnership for the development of a water services entity based around the Ngāi Tahu Takiwā.
- My officials have told me that paragraphs reflecting this have been included in the suite of Cabinet papers currently being developed.

Out of
scope

[Redacted content]

Draft Cabinet Papers

- I understand you have expressed the need to have access to draft versions of relevant Cabinet paper provisions as they are developed.
- I think this would be useful to support the outcomes I am seeking from this reform.

Eman Abdine

From: Sarah Baddeley 9(2)(a)
Sent: Friday, 30 July 2021 10:59 AM
To: Eman Abdine
Subject: OIA2122-0083 CALLAGHAN FW: Background information for Te Tai Ihu Councils - just FYI no action required
Attachments: wics-supporting-material-5-Council-outcomes-Te Tai Ihu.pdf; Three waters reform maps top of the south island.pdf

Sarah Baddeley | Executive Director
MartinJenkins
9(2)(a)

From: Sarah Baddeley
Sent: Monday, 12 July 2021 2:46 PM
To: 'mayor@ncc.govt.nz' <@>; Pat Dougherty 9(2)(a)
Cc: Nick Davis <@>; allan.prangnell@dia.govt.nz
Subject: Background information for Te Tai Ihu Councils - just FYI no action required

Tēnā kōrua

I thought it helpful to provide you both with a little more background information ahead of discussions related to the treatment of Te Tai Ihu councils likely to occur this week.

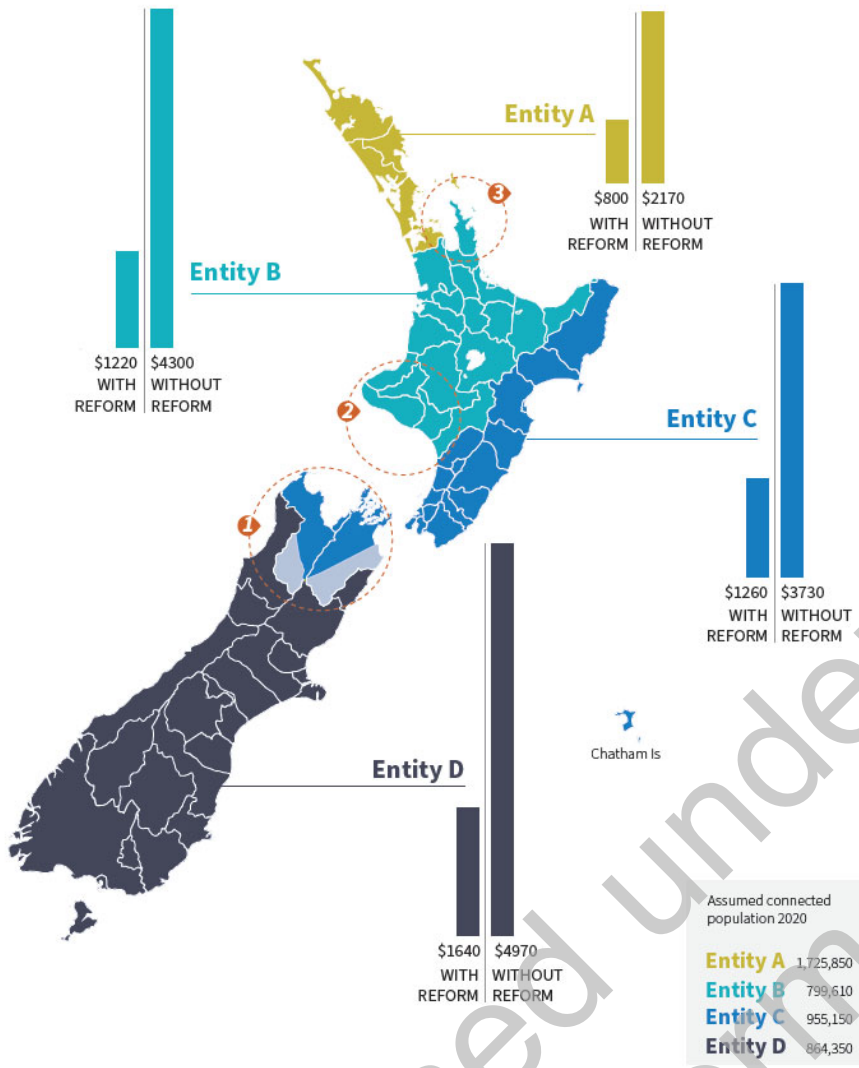
I have pulled out the council specific analysis for Te Tai Ihu Councils under the various amalgamation [scenarios](#) run by WICS. Here I draw your attention to the attached and scenario 29 which was a whole of South Island entity, vs scenario 30 which is the scenario preferred by Government which would see Councils in the top of the South Island included in Entity C.

With respect to those communities and council assets included in the grey zone of the map released (below), the scenarios have assumed that all of Tasman District Council and Marlborough District Council's assets (and debt) are included in Entity C. This is largely because those communities impacted by the split below the Ngāi Tahu takiwā are small and not material to the forecast of cost and investment by 2050. Not to say it is not very important for those communities impacted. I also attach a couple of maps that may be of interest that outline catchment and landuse details for the area impacted by the takiwā boundary approach.

If you have any specific issues or advice on the discussion happening locally feel free to sing out.

Warm regards

Sarah



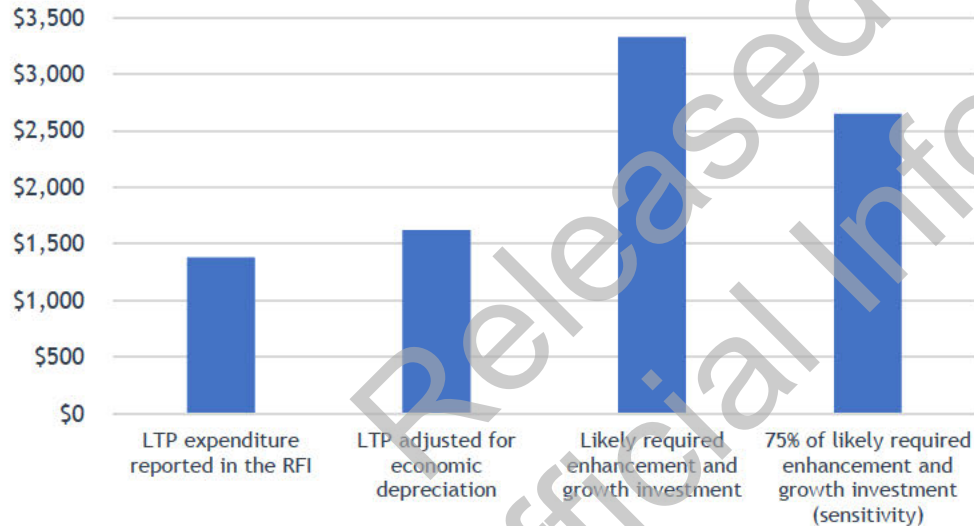
Released under the Official Information Act

Showing the amalgamation scenarios for Marlborough District Council...

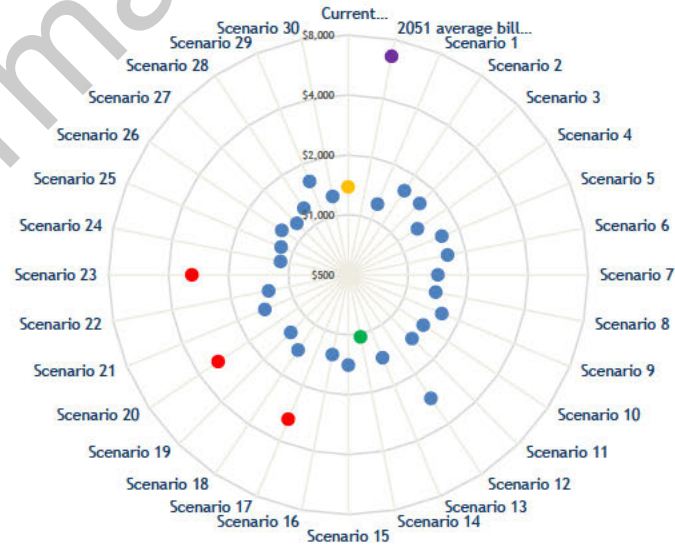
Council (Current dollars)	Current average bill	2051 average bill (stand-alone)	Average bill under scenario 1	Average bill under scenario 2	Average bill under scenario 3	Average bill under scenario 4	Average bill under scenario 5	Average bill under scenario 6	Average bill under scenario 7	Average bill under scenario 8	Average bill under scenario 9	Average bill under scenario 10	Average bill under scenario 11	Average bill under scenario 12	Average bill under scenario 13	Average bill under scenario 14	Average bill under scenario 15	Average bill under scenario 16	Average bill under scenario 17	Average bill under scenario 18	Average bill under scenario 19	Average bill under scenario 20	Average bill under scenario 21	Average bill under scenario 22	Average bill under scenario 23	Average bill under scenario 24	Average bill under scenario 25	Average bill under scenario 26	Average bill under scenario 27	Average bill under scenario 28	Average bill under scenario 29	Average bill under scenario 30
Marlborough Council	\$1,380	\$6,560	\$1,210	\$1,610	\$1,610	\$1,310	\$1,610	\$1,610	\$1,410	\$1,400	\$1,610	\$1,420	\$1,420	\$2,790	\$1,410	\$1,040	\$1,420	\$1,280	\$3,050	\$1,420	\$1,280	\$1,050	\$1,420	\$1,280	\$3,050	\$1,110	\$1,160	\$1,260	\$1,160	\$1,260	\$1,610	\$1,260

*Net Present Costs are for the stand-alone council. Rounded to the nearest NZ\$10. Real terms. Green marks the lowest bill under 30 scenarios. Red marks the highest.

Marlborough District: Net Present Cost per connected citizen per year (current dollars)



Marlborough District: Average Household Bills (current dollars)



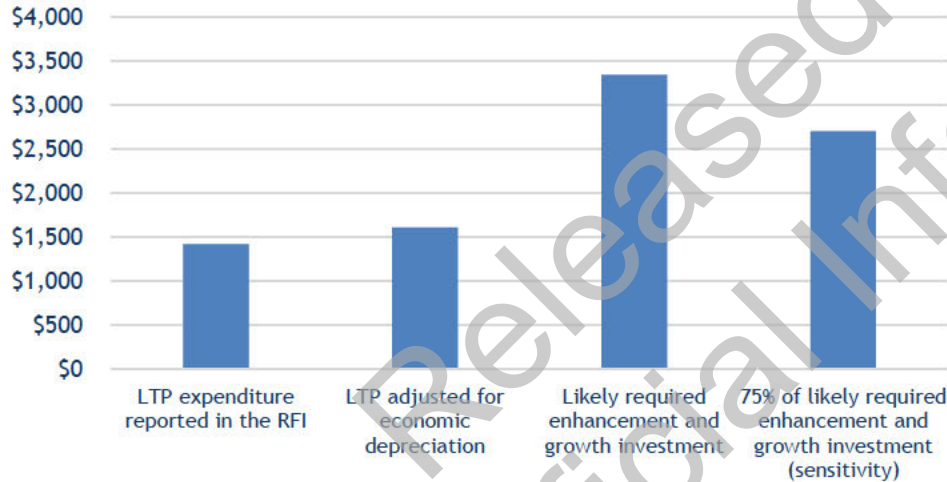
Showing the amalgamation scenarios for Tasman District Council...



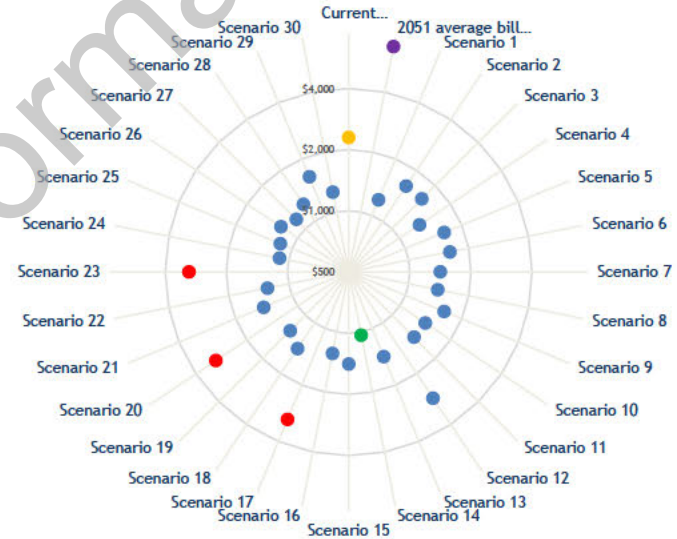
Council (Current dollars)	Current average bill	2051 average bill (stand-alone)	Average bill under scenario 1	Average bill under scenario 2	Average bill under scenario 3	Average bill under scenario 4	Average bill under scenario 5	Average bill under scenario 6	Average bill under scenario 7	Average bill under scenario 8	Average bill under scenario 9	Average bill under scenario 10	Average bill under scenario 11	Average bill under scenario 12	Average bill under scenario 13	Average bill under scenario 14	Average bill under scenario 15	Average bill under scenario 16	Average bill under scenario 17	Average bill under scenario 18	Average bill under scenario 19	Average bill under scenario 20	Average bill under scenario 21	Average bill under scenario 22	Average bill under scenario 23	Average bill under scenario 24	Average bill under scenario 25	Average bill under scenario 26	Average bill under scenario 27	Average bill under scenario 28	Average bill under scenario 29	Average bill under scenario 30
Tasman District	\$2,290	\$6,760	\$1,210	\$1,610	\$1,610	\$1,310	\$1,610	\$1,610	\$1,410	\$1,400	\$1,610	\$1,420	\$1,420	\$2,790	\$1,410	\$1,040	\$1,420	\$1,280	\$3,050	\$1,420	\$1,280	\$3,100	\$1,420	\$1,280	\$3,050	\$1,110	\$1,160	\$1,260	\$1,160	\$1,260	\$1,610	\$1,260

*Net Present Costs are for the stand-alone council. Rounded to the nearest NZ\$10. Real terms. Green marks the lowest bill under 30 scenarios. Red marks the highest.

Tasman District: Net Present Cost per connected citizen per year (current dollars)



Tasman District Council: Average Household Bills (current dollars)



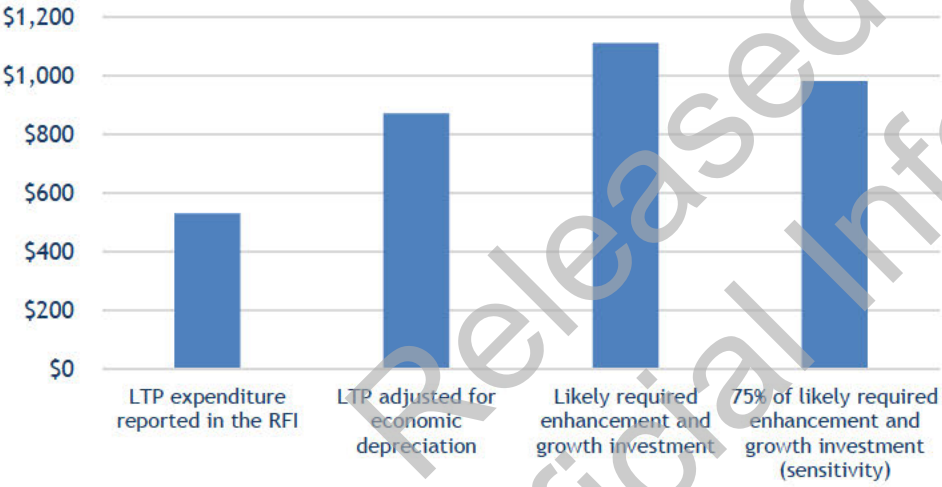
Showing the amalgamation scenarios for Nelson City Council...



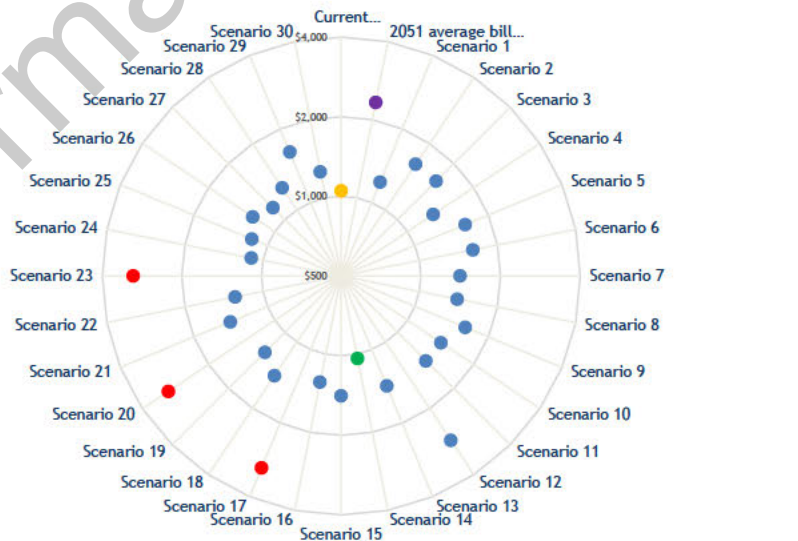
Council (Current dollars)	Current average bill	2051 average bill (stand-alone)	Average bill under scenario 1	Average bill under scenario 2	Average bill under scenario 3	Average bill under scenario 4	Average bill under scenario 5	Average bill under scenario 6	Average bill under scenario 7	Average bill under scenario 8	Average bill under scenario 9	Average bill under scenario 10	Average bill under scenario 11	Average bill under scenario 12	Average bill under scenario 13	Average bill under scenario 14	Average bill under scenario 15	Average bill under scenario 16	Average bill under scenario 17	Average bill under scenario 18	Average bill under scenario 19	Average bill under scenario 20	Average bill under scenario 21	Average bill under scenario 22	Average bill under scenario 23	Average bill under scenario 24	Average bill under scenario 25	Average bill under scenario 26	Average bill under scenario 27	Average bill under scenario 28	Average bill under scenario 29	Average bill under scenario 30
Nelson City	\$1,050	\$2,330	\$1,210	\$1,610	\$1,610	\$1,310	\$1,610	\$1,610	\$1,410	\$1,400	\$1,610	\$1,420	\$1,420	\$2,790	\$1,410	\$1,040	\$1,420	\$1,280	\$3,050	\$1,420	\$1,280	\$3,100	\$1,420	\$1,280	\$3,050	\$1,110	\$1,160	\$1,260	\$1,160	\$1,260	\$1,610	\$1,260

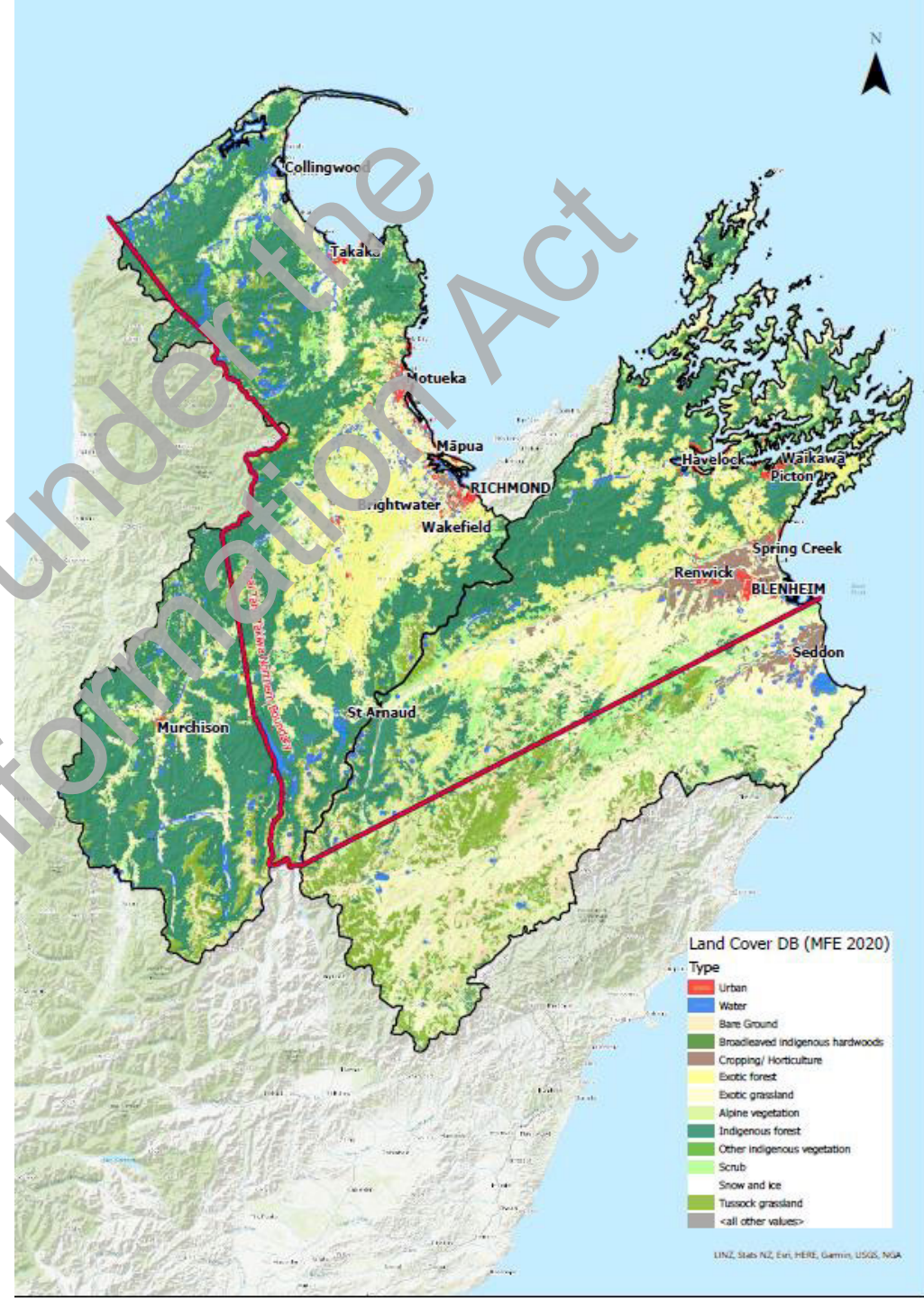
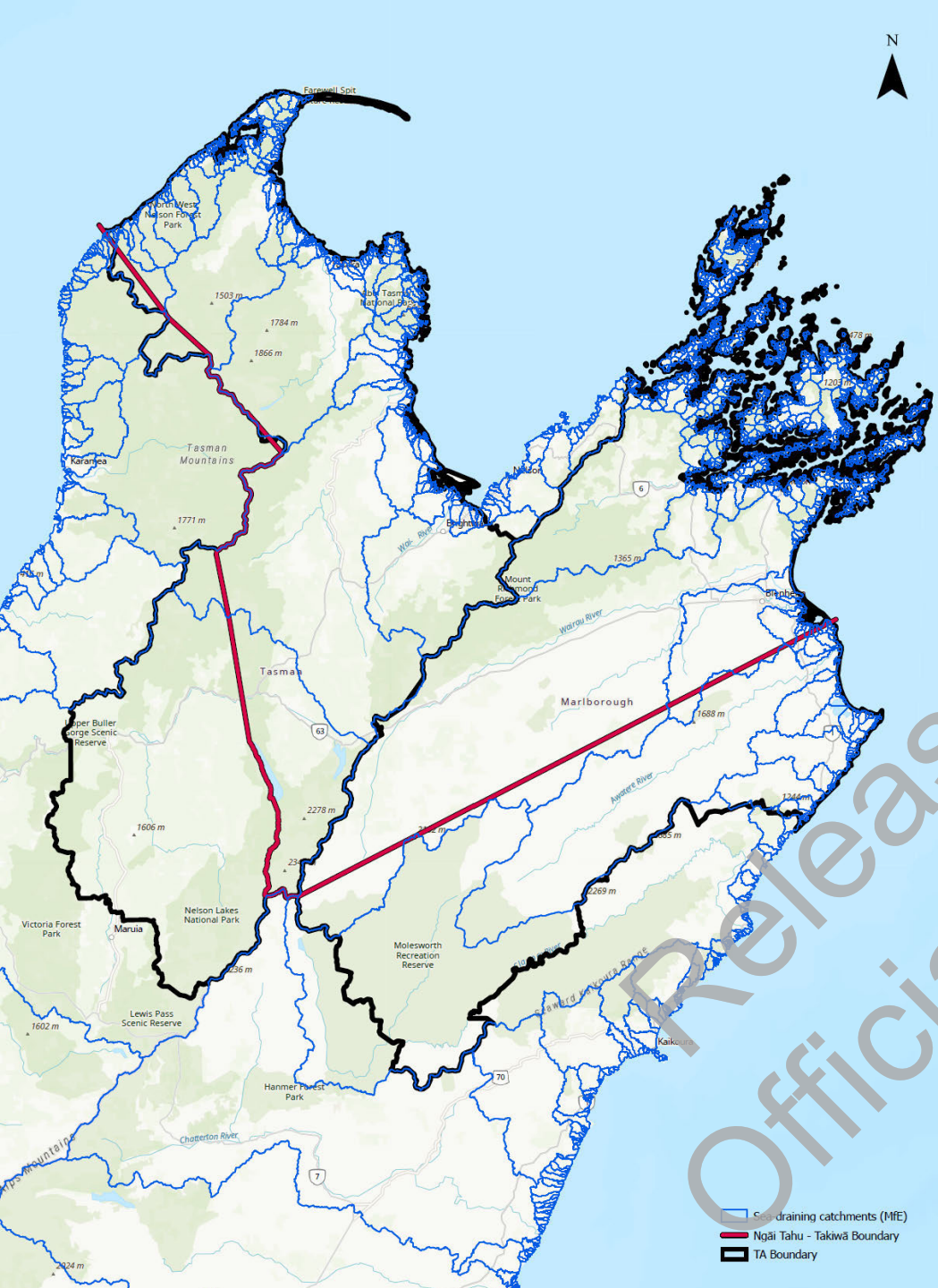
*Net Present Costs are for the stand-alone council. Rounded to the nearest NZ\$10. Real terms. Green marks the lowest bill under 30 scenarios. Red marks the highest.

Nelson City: Net Present Cost per connected citizen per year (current dollars)



Nelson City Council: Average Household Bills (current dollars)





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