Case Studies

Local case studies include Powerco

PowerCo

History

Over the past two decades, New Zealand's electricity industry has undergone considerable structural change as the Government has worked to promote competition, reliability and fair prices for consumers. In 1985, the distribution and supply of electricity were the responsibility of 61 electricity supply authorities comprising 21 local government-controlled Municipal Electricity Departments, 38 local Electric Power Boards and two government owned authorities. The Electricity Industry reform Act of 1998 consolidated these entities into 29 line distribution companies, with PowerCo as the market leader.

Efficiencies

The sector has realised significant efficiencies since reform. Amalgamation has allowed new entities with bigger balance sheets to access debt markets more easily. A number of synergies have reduced costs, including the ability to consolidate separate back office systems into one system, and the ability to standardise the supply chain to allow for better scheduling. The interplay between the regulator and the entity is a critical element in determining appropriate capital investment plans.

In addition to savings from better scheduling of the programme there were significant field work savings from being able to go to market with a large package / volume of work. For example, such an approach has resulted in significant reductions in the prices offered for opex maintenance activities.

Key takeaways

For 20 years, the electricity sector has been warned of a shortage of skilled workers, yet labour supply has never been a real issue. This is in part due to the proportion of the workforce who are in 'swing roles' and have skills non-specific to a single sector, and partly because it has proved possible to adjust the workforce for jobs that do not require the same level of expertise.

A key takeaway is the need to balance stringent regulation with a level of freedom to allow the sector to evolve. The includes the ability to develop procurement practices that work for the entity and the supply chain, with fair allocation of risk between the entity and supplier being key.

There are challenging trade-offs between the costs/benefits of extracting, transferring and loading of asset management data from legacy entities and systems into new Enterprise Resource Planning or Enterprise Asset Management systems. While the data from legacy systems was useful to provide a very basic connection/trace to asset data – overall the asset data was of limited value. It is arguable that there would have been better value (both in terms of the quality of the data and the compared to the cost of extracting/transferring and loading of legacy data) to recollect all the data from by new field inspections creating a clean, fit for purpose set of base data.

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Case Studies

Local case studies include Watercare

Watercare

History

During the Auckland water industry amalgamation in 2010, Watercare was confirmed as the organisation to manage the drinking water, wastewater and water infrastructure for Auckland. Auckland Council was given responsibility for the public stormwater network and water quality. The goal of amalgamation was to combine the water service functions from eight different Councils to provide a better service to customers, achieve efficiency gains through economies of scale and enable integrated regional planning.

Efficiencies

Watercare has achieved significant ongoing savings for customers through scale and increased capability. The combined entity has enabled Watercare to plan more effectively for the long term and simplify the procurement process through 10-year partnerships with key suppliers. Spending ‘development capital’ to train multiple groups at a time can also bring efficiencies e.g. having a central maintenance team set up mock street to train field crews.

Watercare has invested heavily in the back-office systems and processes necessary to operate at scale and develop the information and capability to develop asset management and related investment plans.

Key takeaways

There are instances where a collaborative, cross-regional boundary approach to investment could see different capital decisions made with net gains through a lower total capital cost and a better technical solution.

Watercare has also learned that an increase in the scale of projects attracts international interest such as the three international consortia that tendered for the Central Interceptor Project.

A Case Study undertaken by Watercare in relation to community outcomes achieved since amalgamation for the Rodney and Franklin districts identified significant gains from economic/investment, value for money and health perspectives. Economic gains included significant capital investment/upgrading programmes, increased training, and job opportunities/job creation. Value for money gains included reduced volumetric charges, a move to equitable/region wide water pricing and a lower cost to serve. Health gains include significant improvements in drinking water quality and improved monitoring/water testing.

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Case Studies

International case studies include Tasmania and Victoria, Australia.

Tasmania, Australia

History

Australia's water reform commenced in the 1980s, and has varied state-by-state. In Tasmania prior to 2008, water and sewage infrastructure was owned by 29 local Councils and three bulk water authorities. In 2008, a new Act transferred all council-owned water and sewage assets to three new entities, which consolidated to become one entity, TasWater, in 2013. TasWater is owned collectively by Tasmania's 29 local governments.

Efficiencies

Tasmania is the one state in Australia where a formal review of the water reform has been undertaken. In the Auditor-General's review of water industry reform in 2017, it was determined that the reform had improved public health benefits, but not environmental benefits. This was due to the regulated entities' focus on improving water quality over wastewater compliance and performance.

In terms of financial performance, the consolidation has achieved the expected benefits. Tasmania introduced a two-part pricing model, resulting in appropriate water charging for customers. The revenue TasWater receives has also increased, allowing better handling of the capital expenditure programme, and access to higher levels of debt funding.

Strategic asset planning has also been a large focus, and as a result, there has been an increased maturity in asset planning and improved knowledge over the condition of water assets, enabling prioritisation. In 2018, TasWater announced that 100% of its customers were able to access water they can drink from a tap with the removal of all boil water notices. This was of particular benefit to rural communities.

Key takeaways

Although drinking water is prioritised by customers, delaying wastewater improvements may increase controversy and result in fewer benefits overall.

Victoria, Australia

History

Historically, there were ~300 water authorities in Victoria. Consolidation took place in the mid-1990s, and eventually a single bulk provider, Melbourne Water, was established to provide services to the greater Melbourne region. Three metropolitan providers sit below Melbourne Water as water retailers for Melbourne. 13 regional water corporations provide urban water services outside Melbourne and four rural water service corporations provide rural water services.

Efficiencies

When the new Melbourne structure was first established, the city saw large initial gains. These were primarily through contracting out maintenance and operations to the private sector, as opposed to a local council-based workforce. As the cost of administering large contracts increased, the size of the gains dissipated, but efficiencies were still realised.

Regional Victorian water businesses first realised benefits through the consolidation of back-office functions. There was a focus on standardising systems in the first year of establishment, knowing this would be a critical step. From there, the focus turned to creating operational efficiencies through the optimisation of treatment plants, shared procurement processes and improved benchmarking, and "competition by comparison".

While there was a step-up in capital investment in regional areas, this took some time to eventuate. This was due to the need to review the existing state of assets, identify regional priorities, prepare capital investment plans and then move to the design and procurement phase.

Key takeaways

It is crucial to focus on establishment of the new entities and administration systems prior to looking at operational and capital efficiencies. These savings will only be realised in the long-term, once the initial consolidation is successful.

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Case Studies

International case studies also include Scotland, UK.

Water Industry Commission of Scotland (WICS)/ Scottish Water

History

In 1996 Scotland's water industry underwent a radical restructuring process, where the responsibility for delivering water and sewerage services was transferred from the v12 Regional Authorities to three new Public Works Authorities. A new economic regulator was established to protect the interests of consumers. A review two years after the restructure identified the following:

- Financial savings from exploiting economies of scale, reducing cost bases and making use of improved bulk purchasing power
- A lift in capital investment
- Increased transparency in decision making
- Employee impacts managed through early retirement, natural movements and voluntary redundancy packages.

In 2002 further reforms saw Scotland's water industry merged from the three regional water suppliers into one supplier, Scottish Water. WICS is the non-departmental regulatory body with responsibility for managing the regulatory framework designed to encourage the provision of high quality/value for money water services. The Scottish experience is comparable to New Zealand because of the similar population size of >five million customers, and given New Zealand is in a similar position today as Scotland was prior to amalgamation.

Efficiencies

Since the merger, Scottish Water has:

- Reduced operating costs by 40% (the second lowest in the UK)
- Delivered a massive investment programme
- Increased customer satisfaction from 63% to 90%
- Reduced water leakage by 50%
- Reduced health and safety incidents by 90%
- Significantly reduced environmental pollution incidents.

Separating water service delivery from governance functions has also provided a new focus on strategy and lifting levels of service. Finally, Scotland now has improved transparency and benchmarking, and asset management.

International regard for Scottish Waters' success has resulted in the establishment of an advisory arm to advise other countries.

Key takeaways

- Similarly to New Zealand, Scotland faced political concerns over the merger. Keeping ownership public while transitioning to a more corporate approach to water delivery alleviated these concerns.
- Employment in the sector as increased significantly with much of that workforce distributed through the regions. Scotland also struggles to attract and retain staff. A key focus at the moment is on recruitment processes and the value provided to new graduates.
- While the absolute scale of the workforce has increased, the mix has changed significantly. While Scottish Water's direct workforce has reduced, the overall workforce in the Three Waters supply chain has increased significantly.
- Despite sharing similarities with Scotland, the remoteness of New Zealand may provide challenges in the labour and supply chains, resulting in a slower realisation of efficiencies.

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18. Appendices

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Appendix A: CGE modelling

This appendix provides technical background to our in-house CGE model, DAE-RGEM.

We used our in-house model to estimate the economic impact of reform. The Deloitte Access Economics – Regional General Equilibrium Model (DAE-RGEM) is a large scale, dynamic, multi-region, multi-commodity computable general equilibrium model of the world economy with bottom up modelling of New Zealand regions. The model allows policy analysis in a single, robust, integrated economic framework. This model projects changes in macroeconomic aggregates such as GDP, employment, export volumes, investment and private consumption. At the sectoral level, detailed results such as output, exports, imports and employment can also be produced.

The model is based upon a set of key underlying relationships between the various components of the model, each which represent a different group of agents in the economy. These relationships are solved simultaneously, and so there is no logical start or end point for describing how the model actually works. However, they can be viewed as a system of interconnected markets with appropriate specifications of demand, supply and the market clearing conditions that determine the equilibrium prices and quantity produced, consumed and traded.

Key Modelling Assumptions

DAE-RGEM is based on a substantial body of accepted microeconomic theory. Key assumptions underpinning the model are:

- The model contains a 'regional consumer' that receives all income from factor payments (labour, capital, land and natural resources), taxes and net foreign income from borrowing (lending).
- Income is allocated across household consumption, government consumption and savings so as to maximise a Cobb-Douglas (C-D) utility function.
- Household consumption for composite goods is determined by minimising expenditure via a CDE (Constant Differences of Elasticities) expenditure function. For most regions, households can source consumption goods only from domestic and imported sources. In the New Zealand regions, households can also source goods from interregional. In all cases, the choice of commodities by source is determined by a CRESH (Constant Ratios of Elasticities Substitution, Homothetic) utility function.
- Government consumption for composite goods, and goods from different sources (domestic, imported and interregional), is determined by maximising utility via a C-D utility function.
- All savings generated in each region are used to purchase bonds whose price movements reflect movements in the price of creating capital.
- Producers supply goods by combining aggregate intermediate inputs and primary factors in fixed proportions (the Leontief assumption). Composite intermediate inputs are also combined in fixed proportions, whereas individual primary factors are combined using a CES production function.
- Producers are cost minimisers, and in doing so, choose between domestic, imported and interregional intermediate inputs via a CRESH production function.
- The supply of labour is positively influenced by movements in the real wage rate governed by an elasticity of supply.

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Appendix A: CGE modelling

This appendix provides technical background to our in-house CGE model, DAE-RGEM.

- Investment takes place in a global market and allows for different regions to have different rates of return that reflect different risk profiles and policy impediments to investment. A global investor ranks countries as investment destinations based on two factors: global investment and rates of return in a given region compared with global rates of return. Once the aggregate investment has been determined for New Zealand, aggregate investment in each New Zealand sub-region is determined by a New Zealand investor based on: New Zealand investment and rates of return in a given sub-region compared with the national rate of return.
- Once aggregate investment is determined in each region, the regional investor constructs capital goods by combining composite investment goods in fixed proportions, and minimises costs by choosing between domestic, imported and interregional sources for these goods via a CRESH production function.
- Prices are determined via market-clearing conditions that require sectoral output (supply) to equal the amount sold (demand) to final users (households and government), intermediate users (firms and investors), foreigners (international exports), and other New Zealand regions (interregional exports).
- For internationally-traded goods (imports and exports), the Armington assumption is applied whereby the same goods produced in different countries are treated as imperfect substitutes. But, in relative terms, imported goods from different regions are treated as closer substitutes than domestically-produced goods and imported composites. Goods traded interregional within the New Zealand regions are assumed to be closer substitutes again.
- The model accounts for greenhouse gas emissions from fossil fuel combustion. Taxes can be applied to emissions, which are converted to good-specific sales taxes that impact on demand. Emission quotas can be set by region and these can be traded, at a value equal to the carbon tax avoided, where a region's emissions fall below or exceed their quota.

Below is a description of each component of the model and key linkages between components.

Households

Each region in the model has a so-called representative household that receives and spends all income. The representative household allocates income across three different expenditure areas: private household consumption; government consumption; and savings.

The representative household interacts with producers in two ways. First, in allocating expenditure across household and government consumption, this sustains demand for production. Second, the representative household owns and receives all income from factor payments (labour, capital, land and natural resources) as well as net taxes. Factors of production are used by producers as inputs into production along with intermediate inputs. The level of production, as well as supply of factors, determines the amount of income generated in each region.

The representative household's relationship with investors is through the supply of investable funds – savings. The relationship between the representative household and the international sector is twofold. First, importers compete with domestic producers in consumption markets. Second, other regions in the model can lend (borrow) money from each other.

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Appendix A: CGE modelling

This appendix provides technical background to our in-house CGE model, DAE-RGEM.

- The representative household allocates income across three different expenditure areas – private household consumption; government consumption; and savings – to maximise a Cobb-Douglas utility function.
- Private household consumption on composite goods is determined by minimising a CDE (Constant Differences of Elasticities) expenditure function. Private household consumption on composite goods from different sources is determined is determined by a CRESH (Constant Ratios of Elasticities Substitution, Homothetic) utility function.
- Government consumption on composite goods, and composite goods from different sources, is determined by maximising a Cobb-Douglas utility function.
- All savings generated in each region is used to purchase bonds whose price movements reflect movements in the price of generating capital.

Producers

Apart from selling goods and services to households and government, producers sell products to each other (intermediate usage) and to investors. Intermediate usage is where one producer supplies inputs to another's production. For example, milk producers supply inputs to the dairy sector.

Capital is an input into production. Investors react to the conditions facing producers in a region to determine the amount of investment. Generally, increases in production are accompanied by increased investment. In addition, the production of machinery, construction of buildings and the like that forms the basis of a region's capital stock, is undertaken by producers. In other words, investment demand adds to household and government expenditure from the representative household, to determine the demand for goods and services in a region.

Producers interact with international markets in two main ways. First, they compete with producers in overseas regions for export markets, as well as in their own region. Second, they use inputs from overseas in their production.

Sectoral output equals the amount demanded by consumers (households and government) and intermediate users (firms and investors) as well as exports.

Intermediate inputs are assumed to be combined in fixed proportions at the composite level. As mentioned above, the exception to this is the electricity sector that is able to substitute different technologies (brown coal, black coal, oil, gas, hydropower and other renewables) using the 'technology bundle' approach developed by ABARE (1996).

To minimise costs, producers substitute between domestic and imported intermediate inputs is governed by the Armington assumption as well as between primary factors of production (through a CES aggregator). Substitution between skilled and unskilled labour is also allowed (again via a CES function).

The supply of labour is positively influenced by movements in the wage rate governed by an elasticity of supply is (assumed to be 0.2). This implies that changes influencing the demand for labour, positively or negatively, will impact both the level of employment and the wage rate. This is a typical labour market specification for a dynamic model such as DAE-RGEM. There are other labour market 'settings' that can be used. First, the labour market could take on long-run characteristics with aggregate employment being fixed and any changes to labour demand changes being absorbed through movements in the wage rate. Second, the labour market could take on short-run characteristics with fixed wages and flexible employment levels.

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Appendix A: CGE modelling

This appendix provides technical background to our in-house CGE model, DAE-RGEM.

Investors

Investment takes place in a global market and allows for different regions to have different rates of return that reflect different risk profiles and policy impediments to investment. The global investor ranks countries as investment destination based on two factors: current economic growth and rates of return in a given region compared with global rates of return.

Once aggregate investment is determined in each region, the regional investor constructs capital goods by combining composite investment goods in fixed proportions, and minimises costs by choosing between domestic, imported and interregional sources for these goods via a CRESH production function.

International

Each of the components outlined above operate, simultaneously, in each region of the model. That is, for any simulation the model forecasts changes to trade and investment flows within, and between, regions subject to optimising behaviour by producers, consumers and investors. Of course, this implies some global conditions that must be met, such as global exports and global imports, are the same and that global debt repayment equals global debt receipts each year.

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Appendix B: Sectors and regions included in CGE model

We modelled 14 aggregated sectors and New Zealand's 16 main regions.

Sectors
Crops, livestock, Forestry and Fishing
Coal, oil, gas, and other mining
Food processing
Light manufacturing
Heavy manufacturing
Trade
Transport
Electricity
Water
Construction
Financial services
Business services
Recreation services
Other services

Regions	Classification based on population density
Northland	Provincial
Auckland	Metropolitan
Waikato	Metropolitan
Bay of Plenty	Metropolitan
Gisborne	Rural
Hawke's Bay	Provincial
Taranaki	Provincial
Manawatu-Wanganui	Provincial
Wellington	Metropolitan
Tasman	Rural
Nelson	Provincial
Marlborough	Rural
West Coast	Rural
Canterbury	Metropolitan
Otago	Provincial
Southland	Rural

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Appendix C

Stakeholder interviews.

Organsiation	# Employees in Water
Asmsus	N/A
Beca	150
City Care Water	600
Deloitte Access Economics Australia	N/A
Downer	450
Filtration Technology	60
Humes	245
Infrastructure Commission	N/A
Ixom New Zealand	75
Lutra	30

Organsiation	# Employees in Water
PowerCo	N/A
Stantec	200
Steel and Tube	N/A
Taituarā	N/A
Taumata Arowai	N/A
Veolia	300
Water Industry Commission for Scotland (WICS)	N/A
Water New Zealand	N/A
Watercare	N/A
Xylem Water Solutions	22

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Appendix D

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To: Dent, Alan; 9(2)(a) [redacted]
Cc: Sam Ponniah
Subject: RE:Key Definitions
Date: Friday, 30 April 2021 3:39:16 pm
Attachments: image001.png
image002.png
image003.png
image004.png
image005.png
image006.png

Alan. Updated definition below

From: Dent, Alan 9(2)(a) [redacted] @deloitte.co.nz>
Sent: Friday, 30 April 2021 3:32 PM
To: Tan, John 9(2)(a) [redacted] @deloitte.co.nz>; 9(2)(a) [redacted] 9(2)(a) [redacted] @deloitte.co.nz>
Cc: Sam Ponniah <9(2)(a) [redacted] @martinjenkins.co.nz>
Subject: RE: Key Definitions

John

I don't have the report in front of me – but the Affected Industries (including Peak bodies etc) that we engaged with were selected because they formed part of the "wider water supply chain" that was expected to respond to the investment "shock" applied to the CGE model.

Cheers

Alan

From: Tan, John <9(2)(a) [redacted] @deloitte.co.nz>
Sent: Friday, 30 April 2021 3:23 PM
To: 9(2)(a) [redacted] <9(2)(a) [redacted] @deloitte.co.nz>; Dent, Alan 9(2)(a) [redacted] @deloitte.co.nz>
Cc: Sam Ponniah <9(2)(a) [redacted] @martinjenkins.co.nz>
Subject: Key Definitions

Let me know if you have issue with any of these, otherwise, this is what we are running with up front in our report

Key Definitions

In this report we refer to the following key terms:

- The **Water sector**, which comprises the 'water delivery sector' *and* the wider 'water supply chain'
- The **Water Delivery sector** is a subset of the water sector that comprises: water supply, sewerage and drainage services; as well as waste collection, treatment and disposal services. This subset of the broader water sector is limited by data and definitional constraints of existing ANZIC codes.
- The **wider water supply chain** comprises services provided in other sectors such as water engineers (included in Business Services) or construction of water assets (included as part of Construction)
- The **Affected Industries** comprise all ~~other~~ sectors ~~that are not the water sector/water delivery sector~~ including the wider water supply chain that was expected to respond to the investment "shock" applied in the economic analysis

The economic impact sections of this report and CGE modelling methodology generally refers to the impact on the 'Water Sector', except where we try to disaggregate sector GDP and employment impact, where due to the data constraints, we refer to the impact on the Water Delivery Sector in these sections.

The affected industries section of this report always refers to the Water Sector (in its broader sense) and Affected Industries as defined above

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Date: Friday, 30 April 2021 5:24:56 pm
Attachments: image001.png
image002.png
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image005.png
image006.png

Thanks Sam. I've wait to you've finished your further skim later on tonight and then reissue if you spot anything else like that.

From: Sam Ponniah <9(2)(a) [redacted]@martinjenkins.co.nz>
Sent: Friday, 30 April 2021 5:04 PM
To: Tan, John 9(2)(a) [redacted]@deloitte.co.nz>
Subject: [EXT] RE: DAE Industry Development Study & Economic Impact Assessment

Hi John

Thanks for this.

On a quick skim I noticed some hangover tracked changes on pages 8 and 30. Perhaps worth correcting for the final version for publication although happy for you to pick this up next week when you send through the supporting charts.

Cheers

Sam

Sam Ponniah | Senior Consultant
MartinJenkins
M 9(2)(a) [redacted] T 9(2)(a) [redacted]

From: Tan, John 9(2)(a) [redacted]@deloitte.co.nz>
Sent: Friday, 30 April 2021 4:58 PM
To: Sam Ponniah <9(2)(a) [redacted]@martinjenkins.co.nz>
Cc: Nick Davis <9(2)(a) [redacted]@dia.govt.nz>; Dent, Alan 9(2)(a) [redacted]@deloitte.co.nz>; 9(2)(a) [redacted] 9(2)(a) [redacted] <9(2)(a) [redacted]@deloitte.co.nz>; 9(2)(a) [redacted] 9(2)(a) [redacted]@deloitte.com.au>; 9(2)(a) [redacted] 9(2)(a) [redacted]@deloitte.co.nz>
Subject: DAE Industry Development Study & Economic Impact Assessment

Sam

Please find attached our final report. We'll send the supporting charts next week. Have a good break

John

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To: Sam Ponniah
Subject: RE:DAE Industry Development Study & Economic Impact Assessment
Date: Friday, 30 April 2021 5:24:56 pm
Attachments: image001.png
image002.png
image003.png
image004.png
image005.png
image006.png

Thanks Sam. I've wait to you've finished your further skim later on tonight and then reissue if you spot anything else like that.

From: Sam Ponniah <[redacted]@martinjenkins.co.nz>
Sent: Friday, 30 April 2021 5:04 PM
To: Tan, John [redacted]@deloitte.co.nz>
Subject: [EXT] RE: DAE Industry Development Study & Economic Impact Assessment

Hi John
Thanks for this.
On a quick skim I noticed some hangover tracked changes on pages 8 and 30. Perhaps worth correcting for the final version for publication although happy for you to pick this up next week when you send through the supporting charts.
Cheers
Sam

Sam Ponniah | Senior Consultant
MartinJenkins
M [redacted] **T** [redacted]

From: Tan, John <[redacted]@deloitte.co.nz>
Sent: Friday, 30 April 2021 4:58 PM
To: Sam Ponniah <[redacted]@martinjenkins.co.nz>
Cc: Nick Davis <[redacted]@dia.govt.nz>; Dent, Alan [redacted]@deloitte.co.nz>; [redacted] <[redacted]@deloitte.co.nz>; [redacted] <[redacted]@deloitte.com.au>; [redacted]@deloitte.co.nz>
Subject: DAE Industry Development Study & Economic Impact Assessment

Sam
Please find attached our final report. We'll send the supporting charts next week. Have a good break
John

John Tan
Partner | Corporate Finance
Deloitte
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From: Tan, John
To: Sam Ponniah
Cc: Nick Davis; Dent, Alan
Subject: RE:DAE Industry Development Study & Economic Impact Assessment
Date: Monday, 3 May 2021 9:19:14 pm
Attachments: image001.png
image002.png
image003.png
image004.png
image005.png
image006.png

Hi Nick

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Cc: Nick Davis <9(2)(a) [redacted]@dia.govt.nz>; Dent, Alan 9(2)(a) [redacted] @deloitte.co.nz>
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9(2)(g)(i), 9(2)(b)(ii) [redacted]

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Sent: Friday, 30 April 2021 8:24 PM
To: Tan, John 9(2)(a) [redacted]@deloitte.co.nz>
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From: Tan, John
To: Richard Ward
Cc: Dent, Alan; Sam Ponniah; Nick Davis
Subject: RE:DIA response - FW: Following our discussion this morning
Date: Wednesday, 5 May 2021 12:16:38 pm

Kia ora Richard

9(2)(g)(i), 9(2)(b)(ii) [redacted]

Nick – I'll come back to you separately to sort out the A3

Thanks for looking at this

Regards

John

From: Richard Ward 9(2)(a) [redacted]@dia.govt.nz>
Sent: Wednesday, 5 May 2021 8:36 AM
To: Tan, John 9(2)(a) [redacted]@deloitte.co.nz>
Cc: Dent, Alan 9(2)(a) [redacted]@deloitte.co.nz>; Sam Ponniah <9(2)(a) [redacted]@martinjenkins.co.nz>; Nick Davis <9(2)(a) [redacted]@dia.govt.nz>
Subject: [EXT] DIA response - FW: Following our discussion this morning

Kia ora John

Thanks for the discussion last week and the follow up with Sam via email below.

9(2)(g)(i), 9(2)(b)(ii) [redacted]

Ngā mihi nui

Richard Ward |Programme Lead
Three Waters Reform Programme
Department of Internal Affairs
Mob 9(2)(a) [redacted]
Email: 9(2)(a) [redacted]@dia.govt.nz

From: Tan, John <9(2)(a) [redacted]@deloitte.co.nz>
Sent: Friday, 30 April 2021 3:08 PM
To: Sam Ponniah <9(2)(a) [redacted]@martinjenkins.co.nz>
Cc: Nick Davis <9(2)(a) [redacted]@dia.govt.nz>; Dent, Alan 9(2)(a) [redacted]@deloitte.co.nz>

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Subject: Following our discussion this morning

Hi Sam / Nick

9(2)(g)(i), 9(2)(b)(ii) [redacted]

John

John Tan
Partner | Corporate Finance
Deloitte
Level 12, 20 Customhouse Quay, PO Box 1990, Wellington 6140, New Zealand
D: 9(2)(a) [redacted] | M: 9(2)(a) [redacted] | O: 9(2)(a) [redacted] | F: 9(2)(a) [redacted]
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From: Tan, John
To: Sam Ponniah
Cc: Nick Davis; Dent, Alan
Subject: RE:DAE Industry Development Study & Economic Impact Assessment
Date: Wednesday, 5 May 2021 2:54:32 pm
Attachments: image001.png
image002.png
image003.png
image004.png
image005.png
image006.png

Hi Nick

Do you have time tomorrow (before 1pm would be ideal) to chat about what needs to go into the A3 and any of the finalisation points below.

In terms of the A3, can you please let us know if this is a DIA branded document, Deloitte branded doc or unbranded.

If you are available in person – it might be easiest to whiteboard it, together with a version of the report to pick out the key charts and narrative that we need to include

I'm not available on Friday, but Alan might be available in the morning if needed

John

From: Tan, John
Sent: Monday, 3 May 2021 9:18 PM
To: 'Sam Ponniah' <9(2)(a) [redacted]@martinjenkins.co.nz>
Cc: 'Nick Davis' <9(2)(a) [redacted]@dia.govt.nz>; Dent, Alan 9(2)(a) [redacted]@deloitte.co.nz>
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9(2)(g)(i), 9(2)(b)(ii) [redacted]

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To: Tan, John <9(2)(a) [redacted]@deloitte.co.nz>
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From: Tan, John
To: Sam Ponniah
Cc: Nick Davis; Dent, Alan
Subject: RE:DAE Industry Development Study & Economic Impact Assessment
Date: Tuesday, 11 May 2021 4:52:02 pm
Attachments: image001.png
image002.png
image003.png
image004.png
image005.png
image006.png

Nick
Did you still want to discuss the A3 and the last of Sam's points below? If so, when would suit you in the next few days to chat?
John

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- Slide 43 – appreciate the attempt here to show the initial increase in the workforce but I wonder if this is going to create more confusion and ultimately given we're saying reform kicks in from 2022, that will be the anchor point that people use. Can we revert to the original graph (don't think the text needs to change so hopefully not a big change)? This graph also truncates the transition and makes the dip look more start than it actually is

The only 'factual' anchor point referencing the 9,250 figure, which is an 'actual'. 2022 isnt really an anchor point as such, because it's a forecast point in the model. We do make the point that the transitional pathway is indicative – and the actual shape will depend on policy

- Similarly on slide 43, can we make sure references to the water <u>delivery</u> sector throughout? OK – there are a few references that are unclear on this page that we can fix. It might also be helpful here to refer to the analysis on page 66 of the report that notes the employment in the water sector and wider water supply chain could be 2,900 to 5,700 FTEs higher, on average (at the moment this is a little buried and I think bringing it forward could provide a useful cross-check to the modelling and reinforce the points made) I'd rather not conflate these points, as slide 43 is discussing the water delivery sector and slide 66 covers the broader water sector
- On slide 11, I don't know that it's fair to assume a reduction in the council workforce given there will be other activities within Council that will likely be expected to ramp up following reform. Appreciate you might not be comfortable to go so far as to say what the net impact is but if that's the case I wonder if it's better to refer to a change to the composition of the water workforce following reform, including staff employed by Councils rather than trying to predict the direction of impacts?

I'll have a chat to Alan on this on Monday, as he was involved in these interviews

Cheers

Sam

Sam Ponniah | Senior Consultant
MartinJenkins
M 9(2)(a) [redacted] **T** 9(2)(a) [redacted]

From: Tan, John <9(2)(a) [redacted]@deloitte.co.nz>
Sent: Friday, 30 April 2021 4:58 PM
To: Sam Ponniah <9(2)(a) [redacted]@martinjenkins.co.nz>

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Cc: Nick Davis <9(2)(a) [redacted]@dia.govt.nz>; Dent, Alan <9(2)(a) [redacted]@deloitte.co.nz>; 9(2)(a) [redacted] 9(2)(a) [redacted] 9(2)(a) [redacted]@deloitte.co.nz>; 9(2)(a) [redacted] <9(2)(a) [redacted]@deloitte.com.au>; 9(2)(a) [redacted] <9(2)(a) [redacted]@deloitte.co.nz>
Subject: DAE Industry Development Study & Economic Impact Assessment

Sam

Please find attached our final report. We'll send the supporting charts next week. Have a good break

John

John Tan
Partner | Corporate Finance
Deloitte
Level 12, 20 Customhouse Quay, PO Box 1990, Wellington 6140, New Zealand
D: 9(2)(a) [redacted] | M: 9(2)(a) [redacted] | O: 9(2)(a) [redacted] | F: 9(2)(a) [redacted]
9(2)(a) [redacted]@deloitte.co.nz | www.deloitte.co.nz

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Deloitte 175

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From: Tan, John
To: Sam Ponniah
Cc: Dent, Alan; Nick Davis; Richard Ward
Subject: CSO Variation and updates
Date: Sunday, 16 May 2021 11:01:04 pm
Attachments: DIA CSO - Deloitte v4 with Variation.docx

Hi Sam

I hope that you had a good break on your recent travels. When you get a chance this week, could we catch up to close out a couple of things:

- Attached is the agreed variation for the additional scope items, with Richard's in principle agreement set out in the email below. Could you please arrange for this to be signed and returned
- How you are getting on with developing a stakeholder engagement plan and whether you still require help with developing an A3?
- There were a couple of typos in our final draft report, which we could potentially correct for

My diary is pretty hectic on Monday, as I'm sure yours will be on your first day back. But Tuesday is pretty good if that suits

Kind Regards

John

From: Richard Ward <9(2)(a) [redacted]@dia.govt.nz>
Sent: Wednesday, 5 May 2021 12:56 PM
To: Tan, John 9(2)(a) [redacted]@deloitte.co.nz>
Cc: Dent, Alan 9(2)(a) [redacted]@deloitte.co.nz>; Sam Ponniah 9(2)(a) [redacted]@martinjenkins.co.nz>; Nick Davis 9(2)(a) [redacted]@dia.govt.nz>
Subject: [EXT] RE: DIA response - FW: Following our discussion this morning

Thanks John

Ngā mihi nui

Richard Ward |Programme Lead
Three Waters Reform Programme
Department of Internal Affairs
Mob 9(2)(a) [redacted]
Email: 9(2)(a) [redacted]@dia.govt.nz

From: Tan, John 9(2)(a) [redacted]@deloitte.co.nz>
Sent: Wednesday, 5 May 2021 12:16 PM
To: Richard Ward 9(2)(a) [redacted]@dia.govt.nz>
Cc: Dent, Alan 9(2)(a) [redacted]@deloitte.co.nz>; Sam Ponniah 9(2)(a) [redacted]@martinjenkins.co.nz>; Nick Davis 9(2)(a) [redacted]@dia.govt.nz>
Subject: RE:DIA response - FW: Following our discussion this morning

Kia ora Richard

9(2)(g)(i), 9(2)(b)(ii) [redacted]

Nick – I'll come back to you separately to sort out the A3

Thanks for looking at this

Regards

John

From: Richard Ward 9(2)(a) [redacted]@dia.govt.nz>
Sent: Wednesday, 5 May 2021 8:36 AM
To: Tan, John 9(2)(a) [redacted]@deloitte.co.nz>

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Cc: Dent, Alan 9(2)(a) [redacted]@deloitte.co.nz>; Sam Ponniah 9(2)(a) [redacted]@martinjenkins.co.nz>; Nick Davis 9(2)(a) [redacted]@dia.govt.nz>
Subject: [EXT] DIA response - FW: Following our discussion this morning

Kia ora John

Thanks for the discussion last week and the follow up with Sam via email below.

9(2)(g)(i), 9(2)(b)(ii) [redacted]

Ngā mihi nui

Richard Ward | Programme Lead
Three Waters Reform Programme
Department of Internal Affairs
Mob 9(2)(a) [redacted]
Email: 9(2)(a) [redacted]@dia.govt.nz

From: Tan, John 9(2)(a) [redacted]@deloitte.co.nz>
Sent: Friday, 30 April 2021 3:08 PM
To: Sam Ponniah 9(2)(a) [redacted]@martinjenkins.co.nz>
Cc: Nick Davis 9(2)(a) [redacted]dia.govt.nz>; Dent, Alan 9(2)(a) [redacted]@deloitte.co.nz>
Subject: Following our discussion this morning

Hi Sam / Nick

9(2)(g)(i), 9(2)(b)(ii) [redacted]

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9(2)(g)(i), 9(2)(b)(ii) [redacted]

John

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9(2)(a) [redacted]@deloitte.co.nz | www.deloitte.co.nz

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AoG Consultancy Services Order (CSO)

Part A – for Participating Agency (client) to complete

The Participating Agency (referred to as the client in Parts A – E of this Consultancy Services Order) will complete this and email the entire form (including all Parts) to the Provider.

Today's Date	16 February	**CSO or Project name**	**Three Waters Reform – Economic Impact Assessment**
Agency	Department of Internal Affairs	**Provider**	**Deloitte Limited (as trustee for the Deloitte Trading Trust)**
Agency contact name & title	Sam Ponniah Senior Consultant	**Provider contact name & title**	John Tan Partner
Nominated Personnel		**Nominated Personnel**	*See Part B3*
Agency email address	9(2)(a) [redacted]@martinjenkins.co.nz	**Provider email address**	9(2)(a) [redacted]
Agency phone #	9(2)(a) [redacted]	**Provider phone #**	9(2)(a) [redacted]@deloitte.co.nz
Sub Category	*Policy Research & Development*		
GCDO Assurance Sub Panel	*No*		
Protective Security Services Sub Panel	*No*		

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A1. Purpose and any background information

Context

The Three Waters programme was established with the Department of Internal Affairs in 2017. In June 2020 Cabinet agreed to the next stage of the programme, the reform of service delivery. This commitment was reconfirmed in December 2020. This is a 3-year transformational programme that seeks to shift the delivery of three waters services (drinking water, waste water and storm water) from 67 Councils to a smaller number of multi-regional entities.

The reform programme involves a voluntary, partnership-based approach with the local government sector. Cabinet will take substantive policy decisions relating to the reforms in April/May 2021 to enable drafting instructions to be issued. These decisions will include the core design features of the new water services entities and system, and the number and boundaries of the new entities. Councils will be asked to participate in the new service delivery system in late 2021 and will be presented with detailed proposals and a package of supporting information.

The Department is preparing a Regulatory Impact Assessment to support Cabinet decisions in April/May 2021. This will need to assess the impacts of the reform package as well as the options available to the Government around detailed design decisions within that package (for instance around the number and boundaries of entities or the incentive package for local government).

More information on the programme can be found on the DIA webpage:

https://www.dia.govt.nz/Three-Waters-Reform-Programme

A2. Specific questions / instructions for Provider

The Department is seeking support from a supplier with economic expertise, including modelling capability, and experience in the three waters services sector to undertake an analysis of the potential economic impacts of the proposed reform package. In addition to this, we are also seeking a study of the way in which the industries that support the delivery of water services will need to develop and respond to the impacts of reform, including the opportunities and challenges that it creates. This analysis will be a key input into the Department's regulatory impact analysis.

A3. Additional Information e.g. risks to client, additional contact information

NA

A4. Client specific requirements

Not applicable

A5. Timeframes

The services will be provided from February to early April 2021

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A6. Indicative budget

*The indicative budget is **$262,500+GST** based on:*

- *the timeframes and milestones set out in this CSO*
- *the effort committed to the project as stated in the proposal*
- *ability for the supplier to change the team/effort mix as the engagement progresses so long as this does not affect the quality of the work*
- *no material changes in scope*
- *any disbursements (including MBIE imposed AOG administration fees or for any travel related disbursements) are excluded from the above. Disbursements to be pre-approved with DIA.*

30% of the fee is due at the end of February, subject to satisfactory progress on any milestones scheduled for February, with a further 50% due and payable following the delivery of the draft report, with the balance due following the delivery of the final report, taking into account feedback received from DIA.

Any agreed extensions to the scope of work will be at the AOG Tranche 2 panel rates for Policy, Research & Development set out in the Supplier's proposal.

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9(2)(b)(ii)

[redacted]

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9(2)(b)(ii)

[redacted]

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A9. Provider liability cap
As per Part F

Part B – for Provider to complete *The Provider will complete Part B and email the form back to the client*

B1. Specific Services to be provided
The scope of work is set out in part A7. The methodology will be confirmed via the milestone set out in part A8.

B2. Sub Category and Tier to be Provided		
Selection	**Sub-category of Services**	**Tier (1/2/3)**
	Accounting	
	Assurance	
	Audit	
	Finance and economics	
	Procurement and logistics	
	Taxation	
	Business change	
	Human resource	
	Marketing and public relations	
	Operations management and risk	
	Policy, research and development	1

B3. Can you confirm that the Nominated Personnel (if any) is available to provide the Services?
Yes. John Tan and Alan Dent are the core engagement partners. Other senior members of the core team include: 9(2)(a) [redacted]

B4. Can you confirm that the timeframe is acceptable?
Confirmed, subject to DIA and its advisors providing the agreed data sets and analysis in accordance with the agreed format and timeframes.

B5. Estimated Start and End Date			
Start	8 February 2021	**End**	2 April 2021

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B6. Quote (excluding GST, if any)

Fees (fixed fee)	$262,500
Administration Fee (Tier 1 and 2 only)	$2,625
(Optional) The above Fees are apportioned as follows:	
Job Level 1	$
Job Level 2	$
Job Level 3	$
Job Level 4	$
Job Level 5	$
Fixed Fee (Job Level 1)	$
Fixed Fee (Job Level 2)	$
Fixed Fee (Job Level 3)	$
Fixed Fee (Job Level 4)	$
Fixed Fee (Job Level 5)	$
Monthly Retainer	$
Subcontracting	$
Expenses	$at cost, subject to preapproval from DIA, if any
Total Charges	$265,125
Identify whether the Total Charges is an Estimate / Quote and the method that the Charges have been calculated	Fixed fee quote, subject to the assumptions set out in part A6.

Additional information / assumptions:

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Job Level	Indicative Characteristics
Level 5	• 15+ years of extensive professional experience in their specialised field in a consultancy role. • An industry leader and key influencer who is respected for their professional proficiency and knowledge. • Recognised as a trusted adviser to ministers and/or senior executive teams. • Acts as the senior responsible person on major client engagements. Able to be accountable for leading complex projects/programs. • Responsible for leading a high performing team of professionals, including the coaching and mentoring of colleagues at Levels 1–4.
Level 4	• 10+ years of substantial professional experience in their specialised field in a consultancy role. • Strong theoretical base in subject area, with ability to apply best practice principles to the subject matter context. • Senior team leader with the ability to deputise for the senior responsible person and coach and mentor more junior staff. • Ability to coordinate contributions of other specialists to complete a joint project. • Can engage with clients at strategic/management level if required.
Level 3	• 3-10 years of notable professional experience in their specialised field in a consultancy role. • A trusted performer on a wide range of client-facing consultancy projects in both the private and public sectors. • Thorough knowledge of functional area, combining a broad grasp of relevant best practice principles. • Ability to participate in multi-disciplinary teams and to work independently (with limited supervision). • Performs professional level analysis requiring technical skills and independent initiative within a well-defined program of work. • Contacts with clients predominantly at a working level.
Level 2	• 1-3 years of demonstrable professional experience in their specialised field in a consultancy role. • Previous experience on a range of client-facing consultancy projects, preferably in both the private and public sectors. • Has a theoretical base in subject area, possibly supplemented through recent study, with the ability to translate theory into practice • Performs a variety of analytical tasks requiring independent initiative and knowledge. • Interacts with clients predominantly at the working level.
Level 1	• 0+ years of relevant professional experience in a professional environment. • Evidence of prior contributions to consultancy engagements. • Performs a range of administrative tasks to support the wider team. • Work is performed under the guidance of colleagues at Levels 3-5.

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B7. Conflict of Interest declaration and Additional Information
I, John Tan have made diligent inquiry whether Deloitte has any actual, potential or perceived Conflict of Interest were it to provide the Services described in this Consultancy Services Order and I have disclosed any actual, potential or perceived Conflict of Interest and how it will be managed below:
None noted. As a courtesy, we have informed the Office of the Auditor General that we are undertaking this scope of work in light of our external audit relationships with a number of local authorities.

B8. Additional information

B9. Signatures	
Name of Provider's authorised signatory	**John Tan**
Signature of authorised signatory	

The client accepts and authorises this Consultancy Services Order	**[Yes/No]**
Name of client's authorised signatory	
Signature of authorised signatory	
Date of acceptance	
Client's job reference or purchase order number	**[if required]**

Please send this link below to your agency contacts to complete after each engagement. For long engagements, we recommend sending this at key milestones to seek feedback throughout the engagement.

Consultancy (https://www.research.net/r/ClientSatisfactionSurvey-AoGcontracts-CSO)

GCDO Assurance (https://www.research.net/r/GCDOAssuranceServices-CSO)

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Part C – Variations to Part A

LEAVE BLANK WHEN ISSUING CONSULTANCY SERVICES ORDER

The client will complete Part C if they wish to change any details in Part A

9(2)(b)(ii)

[redacted]

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Part D – Variations to Part B

LEAVE BLANK WHEN ISSUING CONSULTANCY SERVICES ORDER

The Provider will complete this only if and when it receives a Variation per Part C above from the client

D1. Revised Estimate (excluding GST, if any)

Revised Fees	$15,000+GST additional fees for scope items 1-3 set out in part C1
Administration Fee (Tier 1 and 2 only)	$150
(Optional) The above Fees are apportioned as follows:	
Job Level 1	$
Job Level 2	$
Job Level 3	$
Job Level 4	$
Job Level 5	$
Fixed Fee (Job Level 1)	$
Fixed Fee (Job Level 2)	$
Fixed Fee (Job Level 3)	$
Fixed Fee (Job Level 4)	$
Fixed Fee (Job Level 5)	$
Monthly Retainer	$
Subcontracting	$
Revised Expenses	$nil, unless pre-agreed by DIA
Total Charges	$15,150
Identify whether the Total Charges is an Estimate / Quote and the method that the Charges have been calculated	This estimate is for scope items 1-3 set out in part C1. Scope item 3 should be requested by and completed by Deloitte before 31 May 2021.

Additional information / assumptions:

Any services provided by Deloitte for scope item 4, will be additional to the estimate above and will be charged on a time and materials basis. It is likely that the majority of stakeholder engagement would be carried out by Partners or Directors (Level 5 AOG rates, which are $3920/day+GST).

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Part E – Acceptance
LEAVE BLANK WHEN ISSUING CONSULTANCY SERVICES ORDER
The Provider and client to complete on acceptance of this Consultancy Services Order

E1. Signatures	
Name of Provider's authorised signatory	John Tan
Signature of authorised signatory	

The client accepts and authorises this Consultancy Services Order	[Yes/No]
Name of client's authorised signatory	
Signature of authorised signatory	
Date of acceptance	
Client's job reference or purchase order number	[if required]

Please send this link below to your agency contacts to complete after each engagement. For long engagements, we recommend sending this at key milestones to seek feedback throughout the engagement.

Consultancy (https://www.research.net/r/ClientSatisfactionSurvey-AoGcontracts-CSO)

GCDO Assurance (https://www.research.net/r/GCDOAssuranceServices-CSO)

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Part F – Terms

THE PROVIDER AND PARTICIPATING AGENCIES ARE NOT PERMITTED TO AMEND THIS PART F.

This Part F contains an extract of selected terms and conditions from the Services Agreement (the ***Agreement****). Clause, schedule and paragraph references have been updated to refer to clauses, schedules and paragraphs in this Part F where applicable. For the full terms and conditions that govern the Services, please refer to the Agreement.*

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1. Appointment

1.1 Appointment

(a) The Participating Agency appoints the Provider to provide Services to the Participating Agency as detailed in this Consultancy Services Order and the Provider accepts that appointment, in accordance with the terms of this Consultancy Services Order.

(b) Certain obligations of the Provider in this Consultancy Services Order do not apply to sub-categories of Services for which the Provider has been appointed as a Tier 3 Provider as follows:

(i) the Participating Agency may nominate specific Personnel to be the primary providers or to supervise the delivery of the Services but clauses 6.2(b) to 6.2(e) do not apply to any nominated Personnel;

(ii) the relevant Services are not required to meet or exceed the Service Levels specified in Schedule 3 (Performance Measurement) and clause 2.5(a), Schedule 3 (Performance Measurement) do not apply;

(iii) the Provider is not required to pay an Administration Fee and clause 8.3(a)(v) does not apply;

(iv) the Provider is not required to conduct the Agency Satisfaction Survey for the relevant Services and clause 5.1(h) does not apply;

(v) the Provider and Participating Agency are not obligated to escalate a dispute to the CoE's All-of-Government Procurement Manager, Centre of Expertise for Consultancy, in accordance with clause 13.2(c)(ii); and

(vi) as otherwise stated in this Consultancy Services Order.

2. Services

2.1 Services

(a) The Provider will provide Services to the Participating Agency in accordance with the terms of this Consultancy Services Order.

(b) The Provider will use all reasonable endeavours to ensure that, on the date the Documentation is provided under this Consultancy Services Order, such Documentation is in a readable and readily useable format.

2.2 Agents may procure Services

The Participating Agency may, by notice to the Provider and the CoE, appoint one or more third parties to procure Services under this Consultancy Services Order on the Participating Agency's behalf and/or receive invoices, as if that agent was a Participating Agency, provided that any such procurement is for the sole benefit of the Participating Agency.

2.3 Timely performance

The Provider will ensure that the Services to be performed under this Consultancy Services Order are provided on or before the date specified for performance (if any) in this Consultancy Services Order and, if no time is specified, within a reasonable time after the issue of the Consultancy Services Order.

2.4 Delay

(a) If the Provider considers that it is (or is likely to be) prevented or delayed from achieving a date or time for performance (**Milestone**) specified in this Consultancy Services Order (**Delay**), it will:

(i) immediately provide notice verbally or in writing to the Participating Agency, setting out:

(A) the cause of the Delay and its expected duration;

(B) the effect of the Delay on its ability to perform its obligations under this Consultancy Services Order (including any future Milestones);

(C) what extension, if any, to the relevant Milestone is being sought; and

(D) what steps, if any, the Participating Agency may take to mitigate the effect of the Delay; and

(ii) take all reasonable steps necessary (including by the allocation of additional resources) to eliminate or avoid the Delay and, in all cases, mitigate its effects.

(b) If the Provider and Participating Agency agree that the Delay is acceptable or wish to amend the Milestone:

(i) the Provider will complete and submit Part C of this Consultancy Services Order to the Participating Agency; and

(ii) upon receipt of the completed Part C of this Consultancy Services Order, the Participating Agency must promptly advise the Provider in writing if the completed Part C is acceptable.

(c) If the Provider does not achieve the Milestone (as amended from time to time) and the Participating Agency's acts or omissions, or those of its Personnel or third parties acting on its behalf, have not caused the Provider to fail to achieve the Milestone, the Participating Agency may, without prejudice to any other right or remedy, suspend payment of any Charges relating to this Consultancy Services Order until the Provider remedies the relevant failure.

2.5 **Service standards**

(a) The Provider must provide the Services in relation to the sub-categories for which the Provider has been appointed as a Tier 1 and Tier 2 Provider to a standard that reaches or exceeds the Service Levels specified in Schedule 3 (Performance Measurement).

(b) In addition, the Provider must:

(i) provide the Services diligently, efficiently, effectively and in accordance with Industry Best Practice;

(ii) ensure that the Services to be performed under this Consultancy Services Order are provided on or before the date specified for performance (if any) in this Consultancy Services Order and, if no time is specified, within a reasonable time after the issue of this Consultancy Services Order;

(iii) ensure that all Documentation, information and advice (including Documentation, information and advice provided prior to the issue of this Consultancy Services Order) provided to the Participating Agency or published on the Provider Database is Fit for Purpose so that, without limitation, it contains sufficient content and detail to enable the Participating Agency to make use of it for the purpose for which it was requested;

(iv) act in the best interests of the Participating Agency in the provision of Services to the Participating Agency; and

(v) provide Services to the reasonable satisfaction of the Participating Agency (as reported to the CoE).

3. Estimates and Quotes

3.1 **Estimates and Quotes**

(a) The Provider must provide an Estimate or Quote for all Services to be provided under this Consultancy Services Order, unless the total Fees in respect of the Services under this Consultancy Services Order are likely to be less than $10,000 (exclusive of GST) or such other amount as determined by the CoE and notified to the Provider.

(b) Despite clause 3.1(a), if, during the course of providing the Services, the Provider becomes aware that the total Fees (excluding GST) are likely to exceed the amount referred to in clause 3.1(a), the Provider must provide an Estimate in accordance with clauses 3.1(c) to (e).

(c) All Estimates and Quotes will be provided at no cost to the Participating Agency.

(d) All Estimates and Quotes must specify the estimated timeframe to perform the Services requested in this Consultancy Services Order and the Rates of Personnel providing the Services and include any Expenses likely to be incurred in providing the Services.

(e) All Quotes and Estimates must be provided to the Participating Agency in writing and must be included in this Consultancy Services Order.

(f) To avoid doubt and without limiting clause 4.5(c) of the Services Agreement, if any Quote or Estimate is not acceptable to the Participating Agency, the Participating Agency and Provider may seek to negotiate a more favourable Quote or Estimate, including a decrease in the Rates on which the Quote or Estimate was based.

3.2 **If Charges exceed the Estimate**

(a) If during the course of providing the Services under this Consultancy Services Order, the Provider becomes aware that the total Charges (excluding GST) are likely to exceed the Estimate, the Provider must give written notice to the Participating Agency using Part D of this Consultancy Services Order as soon as the Provider becomes so aware, but no later than the time the costs accrued or incurred reach 80% of the Estimate.

(b) The notice under clause 3.2(a) must specify a revised Estimate for the Services and include the reason the total

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Charges will exceed the original Estimate.

(c) The Participating Agency has sole discretion whether to approve a revised Estimate and must act reasonably when deciding whether to approve a revised Estimate.

(d) When a revised Estimate is approved, the Participating Agency must provide written notice of the same to the Provider.

(e) If a Provider has provided an Estimate to the Participating Agency for Services, the Participating Agency is not liable to pay the Provider any amount exceeding the Estimate unless the Participating Agency has approved a revised Estimate.

3.3 **If Charges exceed the Quote**

(a) The Provider acknowledges that neither the CoE nor the Participating Agency are obliged to pay any Charges to the Provider in relation to Services performed under this Consultancy Services Order if those Charges exceed any Quote provided in relation to this Consultancy Services Order, unless the Participating Agency has given its prior written consent in accordance with clause 3.3(b).

(b) If the Participating Agency agrees to allow the Provider to increase the Charges:

(i) the Provider will complete and submit Part D of this Consultancy Services Order to the Participating Agency; and

(ii) upon receipt of the completed Part D of this Consultancy Services Order, the Participating Agency must promptly advise the Provider (in writing) if the completed Part D is acceptable.

4. Conflicts of interest

4.1 Conflicts of interest

(a) The Provider must, upon receipt of this Consultancy Services Order, make diligent inquiry whether it has any actual, potential or perceived Conflicts of Interest if it were to provide the Services specified in this Consultancy Services Order and, if no such Conflict of Interest exists, the Provider must provide confirmation to that effect to the Participating Agency.

(b) If the Provider has an actual, potential or perceived Conflict of Interest, the Provider must immediately notify the Participating Agency and must not begin performing the Services without the prior written approval of the Participating Agency.

(c) The Provider must take all reasonable steps to ensure that:

(i) a situation does not arise that might result in an actual, potential or perceived Conflict of Interest; and

(ii) any Personnel or Subcontractors of the Provider do not engage in any activity or obtain interests that might result in the Provider or such Personnel or Subcontractors having an actual, potential or perceived Conflict of Interest,

that cannot be managed to the satisfaction of the Participating Agency.

(d) If, after commencing Services under this Consultancy Services Order, the Provider becomes aware of any matter, circumstance, interest or activity that may give rise to any actual, potential or perceived Conflict of Interest, the Provider must immediately notify the Participating Agency of all relevant details and must immediately cease work on the Services until such time as the Participating Agency provides written notice confirming the Provider may continue to perform the Services or terminates the engagement of the Provider in respect to the Services to be performed under this Consultancy Services Order in accordance with clause 4.1(e).

(e) If the Participating Agency considers that the Provider has an actual Conflict of Interest of sufficient gravity that the Provider can no longer perform Services for it, the Participating Agency may, by written notice to the Provider, terminate this Consultancy Services Order with immediate effect on the date of termination specified in that notice.

(f) Any approval or notice given by the Participating Agency pursuant to clause 4.1(b) or 4.1(d) may require the Provider to take steps reasonably required by the Participating Agency to manage the Conflict of Interest, and the Provider must provide written notice confirming its acceptance of those steps before it may commence or continue to provide the Services under this Consultancy Services Order.

5. Responsibilities

5.1 Provider responsibilities

In addition to its other obligations under this Consultancy Services Order, the Provider will:

(a) respond promptly, accurately and adequately to any requests for information made by the Participating Agency in relation to the Services, including requests for advice;

(b) in performing Services for the Participating Agency under this Consultancy Services Order comply with all privacy and other policies and guidelines issued by the Participating Agency and notified or made available to the Provider;

(c) obtain, maintain and comply with any governmental, regulatory or other approvals, permissions, consents, licences, and requirements necessary to provide the Services and perform its

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obligations under this Consultancy Services Order;

(d) comply with all Laws at all times during the Term in so far as they relate to the provision of the Services, including the Privacy Act 1993 and all applicable consumer laws;

(e) ensure that it and its Personnel providing the Services do not access the Participating Agency's information or systems except to the extent necessary to provide the Services and for no other purpose;

(f) as soon as is practicable, notify the Participating Agency of any problems or issues that arise in relation to the performance of its obligations under this Consultancy Services Order, including any problems or issues that will, or are likely to, affect the provision or quality of the Services or the ability of the Provider to perform its obligations under this Consultancy Services Order;

(g) without limiting any other provision of this Consultancy Services Order, use all reasonable endeavours to avoid damaging or adversely affecting any Participating Agency's reputation;

(h) in relation to the sub-categories for which the Provider has been appointed as a Tier 1 and Tier 2 Provider, conduct the Agency Satisfaction Survey by asking the Participating Agency the questions recorded in Annexure A of Schedule 5 (Governance) to the Services Agreement within 5 Business Days of the Services in this Consultancy Services Order being completed.

5.2 **Participating Agencies' responsibilities**

The Participating Agency has the following respons bilities in relation to the Services:

(a) to manage its operational relationship with the Provider, including in relation to the fulfilment of this Consultancy Services Order;

(b) to notify the Provider of all relevant policies, guidelines and procedures of the Participating Agency that the Provider must comply with when performing the Services under this Consultancy Services Order;

(c) to provide adequate instructions and information to the Provider to allow it to perform the Services under this Consultancy Services Order;

(d) to make timely decisions where approvals or consents are reasonably sought by the Provider in performing the Services under this Consultancy Services Order;

(e) to pay the Charges; and

(f) to use its best efforts to resolve any dispute directly with the Provider before involving the CoE in accordance with clause 13.

6. Resourcing

6.1 **General requirements**

The Provider will provide and maintain sufficient resources (including human resources, equipment, telecommunications connectivity, premises and other facilities) to enable it to perform its obligations on time and otherwise in accordance with this Consultancy Services Order.

6.2 **Provider's Nominated Personnel**

(a) The Participating Agency may, in this Consultancy Services Order, nominate specific Personnel (**Nominated Personnel**) to be the primary providers or to supervise the delivery of the Services.

(b) If any Nominated Personnel nominated in this Consultancy Services Order are not available to provide or supervise the Services requested, the Provider must immediately notify the Participating Agency and provide details of other Personnel (if any) with the necessary skills and experience to provide or supervise the Services requested pursuant to this Consultancy Services Order.

(c) Notice given under clause 6.2(b) must specify the period for which the Nominated Personnel will continue to be unavailable.

(d) Upon receipt of notice under clause 6.2(b), the Participating Agency must notify the Provider whether the replacement Personnel are acceptable.

(e) The Participating Agency is under no obligation to accept any replacement Personnel and, if it does not approve the replacement Personnel, the Provider may not commence or continue providing the Services.

6.3 **Personnel**

(a) The Provider will ensure that all of its Personnel who are engaged in the performance of the Provider's obligations under this Consultancy Services Order:

(i) have the requisite skills, expertise, qualifications and experience;

(ii) have, before performing any such obligations, obtained all security clearances and passed all probity checks required by, or necessary to provide the Services to, the Participating Agency;

(iii) comply with all health, safety, security and other policies, codes of conduct, procedures and reasonable directions as may be reasonably required by the Participating Agency from time to time; and

(iv) will carry out their respective duties with due care, skill and diligence.

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(b) The Participating Agency will notify the Provider of any security clearances and probity checks required by, or necessary to provide the Services to, the Participating Agency.

6.4 **Subcontracting**

(a) The Provider will not subcontract the performance of all or part of the Services or any of its other obligations under this Consultancy Services Order, except with the prior written consent of the Participating Agency.

(b) The Provider is solely respons ble for the selection of each Subcontractor and must ensure that each Subcontractor is creditworthy, qualified and has the relevant experience to perform the work it is required to carry out for the Provider.

(c) To the extent permitted by Law, the Provider is and remains fully respons ble for any act or omission of any Subcontractor.

(d) The Provider must ensure that each Subcontract contains obligations on the Subcontractor that are consistent with the relevant terms of this Consultancy Services Order, including in relation to clauses 5.1 (Provider responsibilities), 6.3(a) (Personnel), 10 (Confidentiality), 11 (Intellectual Property) and 14 (Termination) and Schedule 3 (Performance Measurement), together with clause 15 (Audit) of the Services Agreement.

(e) If, in the Participating Agency's reasonable opinion, a Subcontractor is:

(i) materially not performing in accordance with the terms of this Consultancy Services Order, the Participating Agency may, by notice to the Provider, require the Provider to procure that the Subcontractor performs the relevant obligations within 10 Business Days, failing which the Participating Agency may, by notice to the Provider, require the Provider to remove that Subcontractor; or

(ii) a material threat to the health, safety or security of the Personnel or property of the Participating Agency, or has breached security or confidentiality requirements of this Consultancy Services Order, the Participating Agency may, by notice to the Provider, require the Provider to remove that Subcontractor,

and the Provider will ensure the immediate removal of that Subcontractor.

7. Changes

7.1 **Change procedure**

The Participating Agency may agree any variations to this Consultancy Services Order with the Provider using Part C of the Consultancy Services Order.

8. Price and payment

8.1 **Calculation of Charges**

The Charges will be calculated in accordance with the terms of Schedule 2 (Pricing).

8.2 **Participating Agency to pay for Services**

(a) The Participating Agency will pay the Provider the Charges applicable to any Services procured by the Participating Agency on the terms of this clause 8.

(b) The Charges and Administration Fee comprise the total amount payable by the Participating Agency for the Services.

8.3 **Invoicing and payment**

Except as otherwise provided in Schedule 2 (Pricing) or as agreed with the Participating Agency in this Consultancy Services Order, the Provider will invoice the Participating Agency (or, if the Participating Agency has instructed the Provider in writing, the third party agent) for the Charges and the Participating Agency will pay those Charges, in accordance with the following terms:

(a) the Provider will render one itemised invoice to the Participating Agency at the end of each month during the Term for all Services performed during that month specifying (as applicable):

(i) the nature and amount of the Fees or other applicable fees and fee structures;

(ii) the Personnel and their applicable Rate;

(iii) the hours billed (by Personnel and in the aggregate);

(iv) the nature and amount of any Expenses (including any third party charges to be passed on to the Participating Agency);

(v) if applicable, the amount representing the Administration Fee;

(vi) how much of the Estimate or Quote has been used;

(vii) a brief description of the Services provided during that month; and

(viii) any other matters the Participating Agency may reasonably request;

(b) each correctly rendered invoice will be payable on or before the 20th day of the month following the month in which the invoice was received;

(c) the Participating Agency will have no obligation to pay any Charges which are invoiced more than 90 days after the date that such amount was required to be invoiced pursuant to this clause 8.3; and

(d) the Provider may only invoice the Participating Agency for any Expenses at the cost actually incurred by the Provider.

8.4 **Invoice disputes**

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If the Participating Agency or the Provider disputes an invoice:

(a) it may withhold the disputed sum and, if applicable, associated Administration Fee until the dispute is resolved;

(b) the dispute will be resolved in accordance with clause 13; and

(c) it will pay the undisputed portion in accordance with clause 8.3.

The Provider will not be excused from performing its obligations under this Consultancy Services Order while an invoice is disputed by the Participating Agency.

8.5 **Taxes**

(a) Except for any GST payable by the Participating Agency, any present or future tax, levy, impost, duty, charge, assessment or fee of any nature (including applicable interest and penalties) payable in connection with this Consultancy Services Order under any Law is to be paid by the Provider and not passed on to the Participating Agency unless otherwise expressly agreed in writing by the Participating Agency.

(b) The Participating Agency may deduct from any payment to be made to the Provider any withholding taxes or other deductions that it is required by Law to make.

8.6 **Administration Fee**

In relation to the sub-categories for which the Provider has been appointed as a Tier 1 or Tier 2 Provider, the Provider will ensure that each invoice issued to the Participating Agency for the Charges includes, in addition to the Charges, a separate amount equal to 1% of the Fees (excluding GST) (the **Administration Fee**).

8.7 **Suspension of payment**

(a) Without prejudice to any other right or remedy that may be available to the Participating Agency, the Participating Agency may suspend payment of all or any part of the Charges if the CoE has notified the Provider that the Provider is in Material Breach, until that Material Breach is remedied.

(b) If the Material Breach is not capable of remedy the Participating Agency and the Provider agree to treat the Charges as being in dispute and clause 14 will apply.

9. Warranties

9.1 **General warranties**

Each party represents, warrants and undertakes that:

(a) it has full power, capacity and authority to execute, deliver and perform its obligations under this Consultancy Services Order;

(b) it has, and will continue to have, all the necessary consents, permissions, licences and rights to enter into and perform its obligations under this Consultancy Services Order; and

(c) this Consultancy Services Order constitutes its legal, valid and binding obligations and is enforceable in accordance with its terms.

9.2 **Provider's warranties**

The Provider represents, warrants and undertakes that:

(a) it will perform its obligations under this Consultancy Services Order with due care, skill, promptness and diligence at all times;

(b) it has, and will have throughout the Term, sufficient Personnel to supply the Services and to perform its other obligations under this Consultancy Services Order;

(c) it, and each of its Personnel engaged in the performance of the Services, has, and will have throughout the Term, the necessary expertise and all necessary governmental, regulatory or other approvals, permissions, consents, licences, qualifications, accreditations and requirements to provide the Services and perform its other obligations under this Consultancy Services Order;

(d) it will comply with the requirements of all Laws as they relate to the provision of Services by the Provider;

(e) the possession or use of any item of Intellectual Property supplied or licensed by it, or the use of any item of Intellectual Property by it to perform its obligations under this Consultancy Services Order, will not infringe the rights of any third party;

(f) all Documentation (and any other information or advice supplied by it to the Participating Agency) and any information and data reported to the CoE will be accurate, complete and (as applicable) Fit for Purpose;

(g) there are no existing agreements, undertakings or arrangements which prevent it from entering into this Consultancy Services Order, or which would impede the performance of its obligations under this Consultancy Services Order, or that it would breach by entering into this Consultancy Services Order;

(h) it is not (and nor is any of its Personnel) a party to any litigation, proceedings or disputes which could adversely affect its ability to perform its obligations under this Consultancy Services Order; and

(i) it has not offered any inducement in connection with the entering into or negotiation of this Consultancy Services Order, and will not offer any inducement in connection with the supply of Services to the Participating Agency.

9.3 **Continuous application**

The warranties, representations and undertakings set out in clause 9.2 will be deemed to be given by the Provider continuously throughout the Term.

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9.4 **Notification**

Each party will promptly notify the other if at any time during the Term it breaches any of the warranties, representations and undertakings in this clause 9.

9.5 **Other warranties excluded**

All warranties (statutory, express or implied) which are not expressly referred to in this Consultancy Services Order are excluded to the fullest extent permitted by Law.

10. Confidentiality

10.1 **Protection of Confidential Information**

(a) Subject to clauses 10.1(c) and 10.2, the Provider and the Participating Agency will treat as confidential and not disclose to any third party nor use for its own benefit any Confidential Information that is the Confidential Information of the other.

(b) The Provider will:

(i) ensure that all Confidential Information of the Participating Agency (and any backup archives containing such Confidential Information) in the possession or control of the Provider from time to time is kept secure and managed and protected and only disclosed or otherwise dealt with in accordance with this Consultancy Services Order;

(ii) not use any Agency Information for its own purposes or for any purposes different from those contemplated by this Consultancy Services Order; and

(iii) advise the CoE in writing if any Confidential Information of the Participating Agency will be transferred or stored outside New Zealand before such information is transferred and will confirm that the requirements of this clause 10.1 will be met while such Confidential Information is stored outside New Zealand.

(c) Clause 10.1(a) does not prevent the disclosure of Confidential Information:

(i) if that information was known, or becomes known, to the public through no act or default of the recipient;

(ii) that the recipient is required by Law or parliamentary practice (including parliamentary questions) to disclose, or to a Select Committee or to a Minister of the Crown, so long as the recipient provides notice of the required disclosure promptly upon receipt of notice of the required disclosure (if it is permitted to do so by Law);

(iii) that was lawfully known to the recipient prior to the date it was received;

(iv) that becomes available to the recipient from a source other than a party to this Consultancy Services Order, provided that the recipient has no reason to believe such source is itself bound by an obligation of confidence to the person that disclosed that information or is otherwise prohibited under Law from disclosing such information;

(v) to any Professional Adviser for the purposes of rendering professional services to a party in relation to this Consultancy Services Order;

(vi) to the extent that such disclosure is authorised by this Consultancy Services Order; or

(vii) if such disclosure is approved for release with the consent of the party from whom the Confidential Information is first received.

10.2 **Limited disclosure**

(a) The Provider may, subject to clause 10.2(d), disclose the Confidential Information of the Participating Agency to its Subcontractors, Personnel, Related Entities and Professional Advisers who need to know the same for the sole purpose of enabling the Provider to perform its obligations and exercise its rights under this Consultancy Services Order.

(b) The Participating Agency may, subject to clause 10.2(d), disclose the Confidential Information of the Provider to its third party suppliers, Personnel and Professional Advisers and any other Participating Agencies (including the CoE) who need to know the same in connection with the Services.

(c) The Provider will not disclose the Participating Agency's Confidential Information to any of its Subcontractors, Related Entities or Professional Advisers, and the Participating Agency will not disclose the Provider's Confidential Information to any of its third party suppliers or Professional Advisers, unless the recipient has given a written confidentiality undertaking to the disclosing party in terms substantially similar to those set out in this clause 10.

(d) Any undertaking given pursuant to clause 10.2(c) will be provided to the other party to this Consultancy Services Order on request.

11. Intellectual Property

11.1 **Intellectual Property owned by Provider**

(a) The Participating Agency acknowledges that all:

(i) Intellectual Property held by the Provider before the Commencement Date;

(ii) Intellectual Property developed independently from this

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Consultancy Services Order by the Provider, and that is not developed, commissioned or created under or in connection with this Consultancy Services Order; and

(iii) adaptations and modifications to the Intellectual Property described in clauses 11.1(a)(i) and (ii),

remains the Provider's sole and exclusive property (**Provider IP**).

(b) To the extent that the Participating Agency needs to use any of the Provider IP to receive the full benefit of the Services, the Provider grants to the Participating Agency a royalty-free, non-exclusive licence (including, if agreed in this Consultancy Services Order, the right to sublicense) to use, copy, modify and distribute during the Term any Provider IP provided to the Participating Agency by or on behalf of the Provider.

11.2 **Intellectual Property owned by Participating Agency**

(a) The Provider acknowledges that the Participating Agency or its licensor has, and continues to have, sole and exclusive ownership of all Intellectual Property rights in all of the Agency Information together with all adaptations and modifications of such Agency Information (**Pre-contract Participating Agency IP**).

(b) All Intellectual Property created or developed by the Provider or its employees or Subcontractors in performing the Services and developing the Documentation will be owned by the Participating Agency from the date the Intellectual Property is created or developed (**Post-contract Participating Agency IP** and, together with the Pre-contract Participating Agency IP, the **Participating Agency IP**).

(c) If the Provider (or any of its Subcontractors) has under any Law any right in or claim to any of the Participating Agency IP or holds any of the Participating Agency IP, the Provider (by itself and for its Subcontractors):

(i) assigns to the Participating Agency all of its rights, title and interest in and to the Participating Agency IP from the date it was created or developed; and

(ii) waives all right of lien or similar rights as may now or later be claimed in the Participating Agency IP; and

(iii) waives all of its moral rights under Part 4 of the Copyright Act 1994 in the Participating Agency IP,

and the Provider will sign all documents and do all acts and things that are necessary to give effect to this clause 11.2(c).

(d) To the extent that the Provider needs to use any of the Participating Agency's IP for the purpose of performing its obligations under this Agreement, the Participating Agency grants to the Provider, subject to any written direction given by the Participating Agency, of a royalty-free, non-exclusive, non-transferable licence to use and store the Participating Agency's IP for the sole purpose of performing its obligations under this Consultancy Services Order during the Term.

11.3 **Intellectual Property owned by third parties**

(a) To the extent that the Provider needs to use any Intellectual Property held or owned by a third party (**Third Party IP**) in performing the Services under this Consultancy Services Order, the Provider will use its best endeavours to obtain the fullest rights of use and licence of that Third Party IP (on terms and at a cost to be agreed with the Participating Agency) as are necessary for the performance of those Services for the benefit of the Participating Agency.

(b) The Participating Agency acknowledges that the Provider may have limited ability to obtain rights and/or a licence to use any Third Party IP and, where the Provider, using its best endeavours, cannot obtain appropriate rights and/or a licence for the Participating Agency to use that Third Party IP, the warranty in clause 9.2(e) applies.

12. Liability

12.1 **Indemnity**

(a) The Provider will, to the extent permitted by Law, indemnify the Participating Agency against all Losses suffered or incurred by the Participating Agency as a result of any:

(i) unlawful, malicious or negligent act or omission by the Provider;

(ii) personal injury, sickness, death or loss of, or damage to, tangible property due to an act or omission of the Provider; or

(iii) any other breach by the Provider of its obligations under this Consultancy Services Order.

(b) The Provider will, subject to clause 12.1(c), indemnify the Participating Agency against all Losses suffered or incurred by the Participating Agency as a result of any claim that the possession or use of any Intellectual Property supplied or licensed by the Provider, or the use of any Intellectual Property used to provide the Services, infringes any third party's rights.

(c) The Provider will have no liability under clause 12.1(b) to the extent that any IP Claim arises from any:

(i) modification by the Participating Agency of any item of Intellectual Property supplied or licensed by

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the Provider without the approval of the Provider;

(ii) use by the Participating Agency of Intellectual Property supplied or licensed by the Provider for any purpose disallowed by this Consultancy Services Order or the applicable Intellectual Property licence (but only if the licence has been provided to the Participating Agency prior to such use); or

(iii) use of Intellectual Property used to provide the Services if and to the extent that Intellectual Property was supplied by the Participating Agency.

12.2 **IP Claims**

(a) In the event of a claim under clause 12.1(b) (an **IP Claim**):

(i) the Participating Agency will give the Provider notice of the IP Claim as soon as practicable and, to the extent permissible by Law, permit the Provider (at the Provider's cost) to handle all negotiations for settlement and to control and direct any litigation that may follow (**Control of the IP Claim**);

(ii) if the Provider has Control of the IP Claim:

(A) the Participating Agency will provide all reasonable assistance to the Provider (at the Provider's cost) in the handling of any negotiations and litigation; and

(B) the Provider will keep the Participating Agency informed of the defence or negotiations of the IP Claim and diligently conduct any litigation or negotiations, using competent counsel and in a manner that does not adversely affect the name or reputation of the Participating Agency;

(iii) the Provider will not enter into any settlement or compromise in relation to the IP Claim without the prior written consent of the Participating Agency (which will not be unreasonably withheld); and

(iv) the Provider will notify the CoE of the IP Claim, and the outcome within 5 Business Days of the claim being concluded.

(b) If any IP Claim disrupts the Participating Agency's use or enjoyment of a Service, the Provider will (unless otherwise requested by the CoE), at its own expense and at its option, immediately:

(i) obtain for the Participating Agency the legal right to continued use of the infringing materials; or

(ii) replace, modify or resupply the infringing materials so that there is no further infringement, without adversely affecting the performance or functionality of those materials.

12.3 **Maximum liability of Participating Agency**

In addition to its obligation to pay the Charges, the maximum aggregate liability of the Participating Agency to the Provider under or in connection with this Consultancy Services Order will be, in respect of all Losses, limited to the total Charges paid and payable under this Consultancy Services Order.

12.4 **Maximum liability of the Provider**

The maximum liability of the Provider to the Participating Agency for all Losses under or in connection with this Consultancy Services Order in respect of all claims will not exceed:

(a) in relation to the sub-categories for which the Provider has been appointed as a Tier 1 Provider, the greater of:

(i) 10 times the total Charges paid and payable under this Consultancy Services Order;

(ii) $5,000,000; and

(iii) any greater amount or multiple set out in this Consultancy Services Order;

(b) in relation to the sub-categories for which the Provider has been appointed as a Tier 2 Provider, the greater of:

(i) 10 times the total Charges paid and payable under this Consultancy Services Order;

(ii) $2,000,000; and

(iii) any greater amount or multiple set out in this Consultancy Services Order; and

(c) in relation to the sub-categories for which the Provider has been appointed as a Tier 3 Provider, the greater of:

(i) 10 times the total Charges paid and payable under this Consultancy Services Order;

(ii) $1,000,000; and

(iii) any greater amount or multiple set out in this Consultancy Services Order.

12.5 **No double dipping**

A party to this Consultancy Services Order (or the CoE acting on behalf of the Participating Agency in accordance with the Services Agreement) cannot recover for the same Loss under both this Consultancy Services Order and the Services Agreement.

12.6 **Exclusions on liability**

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The limitations on liability set out in clauses 12.3 and 12.4 will not limit the liability of:

(a) the Provider under clauses 12.1(a) and 12.1(b) (other than in respect of negligent acts or omissions under clause 12.1(a)(i) and breach by the Provider of its obligations under this Consultancy Services Order under clause 12.1(a)(iii), which are subject to the limitations of liability in clauses 12.3 and 12.4);

(b) the Provider for any fraudulent act or omission; or

(c) either party for any breach of confidentiality.

12.7 **Categories of loss**

(a) Irrespective of how liability arises, neither the Provider nor the Participating Agency will, under any circumstances, be liable for any indirect loss or damage (including consequential loss) arising under or in connection with this Consultancy Services Order.

(b) The Participating Agency will not, under any circumstances, be liable for any loss of profits or loss of revenue suffered by the Provider in connection with this Consultancy Services Order.

12.8 **Force majeure**

(a) The Provider and the Participating Agency will not be liable to the other for any failure to perform its obligations under this Consultancy Services Order during the time and to the extent that such performance is prevented, wholly or substantially, by reason of any Force Majeure Event.

(b) The party subject to the Force Majeure Event (the **non-performing party**) must:

(i) notify the other party as soon as practicable after the Force Majeure Event occurs and provide full information concerning the Force Majeure Event, including the extent of its inability to perform, an estimate of the time likely to be required to overcome the Force Majeure Event and the steps the non-performing party will take to comply with clauses 12.8(b)(ii) and 12.8(b)(iii);

(ii) use all reasonable endeavours to mitigate and remedy the effect of the Force Majeure Event and minimise the impact of the event on the other party; and

(iii) use all reasonable endeavours to perform its obligations under this Consultancy Services Order as far as is practicable,

and the Participating Agency will not be required to pay Charges to the extent that the Provider fails to perform its obligations to the Participating Agency due to a Force Majeure Event.

(c) If the non-performing party affected by the Force Majeure Event is the Provider, the Participating Agency may, to the extent that any Service requested by the Participating Agency under this Consultancy Services Order has not been delivered and delivery has, or will be, delayed by the Force Majeure Event, terminate this Consultancy Services Order, by notice to the Provider within five Business Days following receipt by the Participating Agency of notice of the Force Majeure Event, at no cost to the Participating Agency, subject to the Participating Agency paying for Services delivered up to the date of the Force Majeure Event.

12.9 **Insurance**

(a) During the Term and for a period of two years following the termination of this Consultancy Services Order, the Provider will, at its own expense, ensure that it maintains adequate insurance in respect of its potential liability for loss or damage under this Consultancy Services Order in accordance with Industry Best Practice, but as a minimum the Provider must hold:

(i) professional indemnity insurance;

(ii) public liability insurance in respect of the Services provided under this Consultancy Services Order; and

(iii) other insurance to cover standard commercial risks (including in respect of Documentation which is the property of the Participating Agency and in the Provider's possession or control).

(b) The Provider will, at the Participating Agency's request, promptly provide satisfactory evidence that it has complied with its obligations in this clause 12.9.

13. Dispute resolution

13.1 **Dispute**

In the event of any dispute, difference or question arising out of, or in connection with, this Consultancy Services Order or its formation (a **dispute**):

(a) the Participating Agency and the Provider will each use its best efforts to resolve the dispute through good faith negotiations and informal dispute resolution techniques, and will continue to perform its obligations under this Consultancy Services Order as far as possible as if the dispute had not arisen, pending final settlement of the dispute; and

(b) neither the Participating Agency nor the Provider will commence any formal proceedings relating to the dispute unless it has complied with clause 13.2.

13.2 **Escalation**

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(a) The Participating Agency and the Provider will each advise its respective Representative (or equivalent person) of a dispute on the day that the dispute arises.

(b) The Representatives will use their best efforts to resolve the dispute in accordance with clause 13.1(a).

(c) If the dispute is not resolved:

(i) within 10 Business Days, the dispute will be escalated to senior representatives of the Provider and the Participating Agency with delegated authority to resolve the dispute; and

(ii) in relation to the sub-categories for which the Provider has been appointed as a Tier 1 and Tier 2 Provider, within a further 10 Business Days, the dispute will be escalated to the CoE's Manager, All-of-Government Contracts and the Provider's Chief Executive.

13.3 **Mediation**

(a) If a dispute is not resolved under clause 13.2, either party may, by written notice to the other, refer the dispute to mediation, or they may agree in writing to refer the dispute to mediation.

(b) The mediation will be conducted by a single mediator in accordance with the terms of the Resolution Institute Standard Mediation Agreement and at a fee to be agreed by the parties.

(c) If the parties fail to agree on the identity of the mediator and/or the mediator's fee within five Business Days of referral of the dispute to mediation, the mediator will be chosen, and the mediator's fee determined, by the chairperson for the time being of Resolution Institute (or his or her nominee).

13.4 **Urgent relief**

Nothing in this clause 13 will preclude either party from taking immediate steps to seek urgent relief before a New Zealand court.

14. Termination

14.1 **Termination of Consultancy Services Order**

15. The Participating Agency may terminate this Consultancy Services Order:

(a) for convenience by giving the Provider at least one month's prior written notice;

(b) by notice to the Provider with immediate effect on the date of termination specified in that notice, if the Provider commits a Material Breach which is:

(i) not capable of being remedied (and, for the avoidance of doubt, paragraphs (a) and (b) of the definition of "Material Breach" are deemed incapable of being remedied); or

(ii) capable of being remedied but which is not remedied to the satisfaction of the Participating Agency within 10 Business Days following the date of receipt by the Provider of the Participating Agency's notice of the Material Breach;

(c) in accordance with clause 4.1(e) (Conflict of Interest); or

(d) in accordance with clause 12.8(c) (Force Majeure Event).

15.2 **Consequences of termination or expiry**

(a) In the event of termination or expiry of this Consultancy Services Order, the Participating Agency will not be obliged to make any payment to the Provider except for any Charges payable for Services supplied pursuant to this Consultancy Services Order before the effective date of expiry or termination.

(b) Termination or expiry will not, unless otherwise provided in this Consultancy Services Order, affect:

(i) any rights and remedies available to either party which have accrued up to and including the date of termination or expiry; and

(ii) the provisions of this Consultancy Services Order which expressly, or by their nature, survive termination or expiry, including clauses 16 (Entire agreement), 10 (Confidentiality), 11 (Intellectual Property), 12 (Liability), 13 (Dispute Resolution), 15.2 (Consequences of termination or expiry) and 17 (General) and Schedule 1 (Definitions);

(iii) the continued application of clauses of the Services Agreement which expressly, or by their nature, are intended to continue to apply to this Consultancy Services Order after termination or expiry of this Consultancy Services Order, including clauses 1.4 (Precedence) and 15 (Audit).

(c) After expiry or termination of this Consultancy Services Order for any reason, each party will, within five Business Days of receiving notice from the other party, return all Documentation, Confidential Information or other property belonging to the other party (or destroy such Confidential Information, if requested), except if such Documentation, Confidential Information or other property is required to be retained by any Law.

16. Entire agreement

16.1 **Entire agreement**

(a) This Consultancy Services Order is intended to be read in conjunction with the Services Agreement. The provisions of the Services Agreement (not already included in this Consultancy Services

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Order) which confer rights, obligations or benefits on the parties or the CoE in respect of this Consultancy Services Order are intended to apply to this Consultancy Services Order.

(b) Subject to clause 16.1(a), no other terms or conditions, including any conditions of sale, invoices or any other communication not included in this Consultancy Services Order (**Communication**), will be incorporated into this Consultancy Services Order, even if at some later date the other party (including, in the case of the Participating Agency) signs or otherwise purports to accept those terms and conditions or the terms of that Communication.

(c) For the avoidance of doubt, and without limiting clauses 16.1(a) and 16.1(b):

(i) any Communication which is expressed or intended to operate as an indemnity, warranty, representation, undertaking, condition or other term of such a nature is hereby disapplied and excluded from this Consultancy Services Order; and

(ii) any part of this Consultancy Services Order which descr bes the nature, scope, price or manner of delivery of Services will, subject to clause 16.1(c)(i), form part of this Consultancy Services Order, but only to the extent that it does not conflict with any other part of this Consultancy Services Order.

17. General

17.1 Interpretation

The rules of interpretation set out in clause 19.1 of the Services Agreement apply to this Consultancy Services Order.

17.2 Relationship of the parties

Nothing expressed or implied in this Consultancy Services Order will be deemed to constitute either party as the partner, agent, or joint venturer of the other party.

17.3 Costs

A party who has an obligation to do anything under this Consultancy Services Order will perform that obligation at its own cost, unless a term of this Consultancy Services Order expressly provides otherwise.

17.4 Assignment

Neither party may assign, novate, transfer or otherwise dispose of the whole or any part of its rights and obligations under this Consultancy Services Order without first obtaining the other party's consent (which will not be unreasonably withheld or delayed).

17.5 Public disclosures

Subject to clause 10, all public disclosures by the Provider relating to this Consultancy Services Order, including the fact of its existence (but not including any announcement intended solely for internal distr bution or any disclosure required by legal, accounting or regulatory requirements), will be co-ordinated with, and must first be approved in writing by, the Participating Agency prior to release.

17.6 Notices

(a) Unless otherwise specified in this Consultancy Services Order, each notice or other communication under this Consultancy Services Order will be made in writing and delivered by post, personal delivery or email to the addressee at the addressee's postal address, physical address or email address (as applicable) and marked for the attention of the person or office holder (if any) from time to time designated for that purpose by the addressee.

(b) The Provider's postal address, physical address and email address is set out in the Provider Database and may be amended by the Provider at any time.

(c) The Participating Agency's postal address, physical address and email address is as notified by the Participating Agency to the Provider and may be amended by the Participating Agency at any time.

(d) A notice or other communication will be deemed to be received:

(i) in the case of a letter sent to the addressee's postal address, on the third Business Day after posting;

(ii) in the case of personal delivery, on receipt; and

(iii) in the case of an email, at the time the email leaves the communications system of the sender, provided that the sender:

(A) does not receive any error message relating to the sending of the email at the time of sending; and

(B) has obtained confirmation that the email has been delivered to the recipient (which confirmation may be in the form of an automated delivery receipt from the communications system of the recipient),

on the Business Day on which it is dispatched or, if dispatched after 5 p.m. (in the place of receipt), on the next Business Day after the date of dispatch.

17.7 Severability

If any term or provision of this Consultancy Services Order is held to be illegal, invalid or unenforceable it will be severed from this Consultancy Services Order without affecting the legality, validity or enforceability of the remaining provisions.

17.8 Waiver

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(a) Neither party will be deemed to have waived any right under this Consultancy Services Order unless the waiver is in writing and signed by the parties.

(b) Any failure or delay by a party to exercise any right or power under this Consultancy Services Order will not operate as a waiver of that right or power.

(c) Any waiver by a party of any breach, or failure to exercise any right, under this Consultancy Services Order will not constitute a waiver of any subsequent breach or continuing right.

17.9 **Remedies cumulative**

Except as is expressly stated otherwise in this Consultancy Services Order:

(a) the rights, powers and remedies provided in this Consultancy Services Order are cumulative and are not exclusive of any rights, powers or remedies provided by Law or under this Consultancy Services Order; and

(b) the exercise of any rights, powers and remedies provided in this Consultancy Services Order will not prejudice the exercise of any other right, power or remedy under this Consultancy Services Order or existing at Law.

17.10 **Counterparts**

This Consultancy Services Order may be signed in two counterparts, each of which will be deemed an original, but both of which together are to constitute a single instrument.

17.11 **Governing law and jurisdiction**

(a) This Consultancy Services Order is governed by, and will be construed in accordance with, the laws of New Zealand.

(b) Subject to clause 13, each party irrevocably submits to the exclusive jurisdiction of the New Zealand courts for the purpose of hearing and determining any dispute under, or in connection with, this Agreement.

SCHEDULE 1: DEFINITIONS

In this Consultancy Services Order, unless the context otherwise requires:

Administration Fee means the amount referred to in clause 8.6;

Agency Information means all:

(a) information and records belonging to the Participating Agency that are supplied to or collected by the Provider for the purpose of enabling the Provider to perform its obligations under this Consultancy Services Order;

(b) compilations of data created by a Participating Agency or the Provider for the purposes of this Consultancy Services Order; and

(c) legal names, logos, trademarks, brands or images of the Participating Agency, including all related Intellectual Property of the Participating Agency and the New Zealand Coat of Arms or any other coat of arms or emblem used by the Participating Agency,

but excluding the Provider's working papers;

Annexure means any document physically attached to a Schedule and identified as such and any other document incorporated by reference in any part of this Consultancy Services Order (other than an Annexure);

Appointment Letter means the letter issued to the Provider by the CoE, as amended or reissued from time to time, confirming (among other things) the Provider's appointment as an All-of-Government provider of consultancy services and detailing the terms and conditions of the appointment (including the Services and the applicable Tier(s));

Business Day means any day of the year other than a Saturday, a Sunday or a public holiday (as defined in section 44 of the Holidays Act 2003) observed at the location of the Participating Agency;

Charges means the amount payable by Participating Agencies for Services and includes Fees and Expenses, as described in Schedule 2 (Pricing) and agreed in this Consultancy Services Order;

CoE means the Ministry of Business, Innovation and Employment, the Centre of Expertise for Consultancy Services;

Commencement Date is the date on which this Consultancy Services Order is signed by both parties or, if two dates, the later date;

Confidential Information means:

(a) all information and trade secrets already communicated or subsequently communicated under or in connection with this Consultancy Services Order, including information obtained during the negotiation of this Consultancy Services Order or in the performance of this Consultancy Services Order and information on the Provider Database;

(b) any information about the business or property of either party including any information:

(i) relating to the financial position of that party;

(ii) concerning that party's suppliers and customers; or

(iii) relating to that party's internal management, structure, Personnel or strategies;

(c) the terms of this Consultancy Services Order; and

(d) Agency Information;

Conflict of Interest means any matter, circumstance, interest or activity of the Provider, its Personnel or Subcontractors, arising by whatever means that directly or indirectly conflicts with:

(a) the duties of the Provider and any of its Personnel or Subcontractors to the Participating Agency; or

(b) the interests of the Participating Agency in relation to this Consultancy Services Order or otherwise in respect to the provision of consultancy services to the Participating Agency either before or after the Commencement Date;

or otherwise impairs or might appear to impair the ability of the Provider (or any of its Personnel or Subcontractors) to provide the Services to the Participating Agency under this Consultancy Services Order diligently, independently,

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impartially and in the best interests of the Participating Agency;

Consultancy Services Order means this service order relating to the supply of Services issued by the Participating Agency;

Contract Quarter means a period of three consecutive months commencing on 1 January, 1 April, 1 July or 1 October;

Control means, in relation to the Provider or any ultimate or intermediate holding company or Holding Entity of the Provider, the power to:

(a) manage, directly or indirectly, the operation of the business; or

(b) control, directly or indirectly, the composition of the board of directors or board of management or equivalent governing body,

of the Provider or such ultimate or intermediate holding company or Holding Entity, whether through the ownership of voting securities, by contract or otherwise, and for these purposes "holding company" will have the same meaning as in section 5 of the Companies Act 1993;

Documentation means all advice, communications, documentation (including information on the Provider Database) and reports (whether in paper, electronic, audio or audio-visual format) relating to, or provided as part of, the Services together with additions, modifications to, and replacements of, that documentation, but excludes the Provider's working papers;

Estimate means an estimate of the total Charges for the Services required by the Participating Agency;

Expense means any actual and reasonable out-of-pocket costs incurred by the Provider in the delivery of the Services and agreed to in this Consultancy Services Order, and includes any freight and related costs, travelling and incidental expenses and other costs, disbursements, fees, charges and expenses directly or indirectly incurred by the Provider;

Fees means the amount payable by the Participating Agency to the Provider for its time spent delivering the Services calculated on the basis of the Rates, excluding Expenses;

Fit for Purpose means, in relation to any Service or Documentation to be provided by the Provider to the Participating Agency, that such Services or Documentation are, in descending order of priority, fit for the purpose(s):

(a) expressly made known in writing by the Participating Agency to the Provider (including in this Consultancy Services Order); or

(b) for which the Provider, given its knowledge of the Participating Agency and understanding why the Services or Documentation are required, has reason to expect such Services or Documentation to be used;

Force Majeure Event means an event or circumstance beyond the reasonable control of either party which makes it impossible or illegal to perform, or prevents compliance with, or the performance of, a party's obligations under this Consultancy Services Order, including:

(a) fire, floods, tsunami, storms, tempest, earthquake or other act of God;

(b) any act of a public enemy, war, riot, or act of civil or military authority;

(c) nuclear, chemical or biological contamination; and

(d) subject to paragraph (g) of this definition, any act of a third party engaged in subversive or terrorist activity or sabotage,

but does not include an event to the extent that:

(e) the effect of that event could have been substantially prevented, avoided or overcome or mitigated by:

 (i) implementation of any contracted business continuity or disaster recovery service, or any contingency plans agreed between the parties or which a party has represented it has in place; or

 (ii) exercising a reasonable standard of care; or

 (iii) using information provided by the other party or which is available in the public domain; or

(f) it is an event for which the party affected is or was directly responsible; or

(g) that event is constituted or caused by any act or omission of Personnel or a Subcontractor unless and to the extent that the Personnel or Subcontractor was itself affected by an event, which if it occurred in relation to either party would have been a Force Majeure Event; or

(h) that event is constituted or caused by an Insolvency Event or the insolvency of a Subcontractor or lack of funds for any reason;

GST means goods and services tax under the Goods and Services Tax Act 1985;

Holding Entity means a trust, unit trust, partnership, limited partnership, unincorporated joint venture or other body corporate or unincorporated body of persons that Controls the Provider, and includes any natural person that Controls the Provider;

Industry Best Practice means the high professional standard that would reasonably be expected from a prudent and experienced provider of consultancy services in New Zealand having regard to market practice at the relevant time;

Insolvency Event means, in relation to the Provider:

(a) the presentation of an application for its liquidation that is not discharged within 30 days of its filing or which is not demonstrated to the Participating Agency prior to the expiry of that 30 day period as being an application that is frivolous or vexatious;

(b) any step taken in or toward the making of any compromise, proposal or deed of arrangement with all or some of its creditors;

(c) the appointment of a liquidator, receiver, statutory manager, administrator or similar official, to it;

(d) the suspension or threatened suspension by it of the payment of its debts;

(e) cessation by it of a whole or any relevant part of its business in New Zealand;

(f) the enforcement of any security against the whole or a substantial part of its assets; or

(g) any other insolvency event or proceedings analogous to any of the foregoing occurring in any relevant jurisdiction;

Intellectual Property means copyright, all rights in relation to inventions (including patents), registered and unregistered trademarks, registered and unregistered designs, trade or other proprietary rights or rights derivative of those rights (including licence rights) anywhere in the world as well as any other rights in intellectual property which are recognised or protected under Law;

Law means:

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(a) any statute, regulation, bylaw, ordinance or subordinate legislation in force from time to time to which a party is subject;

(b) the common law and the law of equity as applicable to the parties from time to time;

(c) any binding court order, judgment or decree;

(d) any applicable industry code of practice or conduct, convention, policy, rule or standard to which a party is bound; or

(e) any applicable direction, policy, permission, consent, licence, rule or order that is binding on a party and that is made or given by any governmental or regulatory body having jurisdiction over a party or any of that party's assets, resources or business,

in any jurisdiction that is applicable to this Consultancy Services Order;

Losses means liabilities, expenses, losses, damages and costs (including legal costs on a full indemnity basis);

Material Breach means any material breach by the Provider of the terms of this Consultancy Services Order or the occurrence of any event having a material effect on the ability of the Provider to perform its obligations under this Consultancy Services Order (other than a Force Majeure Event), including:

(a) the occurrence of an Insolvency Event in relation to the Provider or the likely occurrence of an Insolvency Event;

(b) the occurrence of a change in Control of the Provider or any ultimate or intermediate holding company or Holding Entity of the Provider that the CoE has not previously approved (acting reasonably);

(c) any representation or warranty made by the Provider in terms of this Consultancy Services Order being found to be untrue or incorrect; and

(d) any failure on the part of the Provider to comply with, observe or perform any of the terms of this Consultancy Services Order in circumstances where that contract breach or that contract breach together with other contract breaches is considered by the Participating Agency on reasonable grounds to cause the Provider to be unable or unwilling, or be likely to be unable or unwilling, to perform its obligations under this Consultancy Services Order;

Maximum Rates means the maximum Rates payable to the Provider for providing the Services, as recorded in the Provider Database, excluding Expenses;

Panel means the All-of-Government panel of providers who provide consultancy services to Participating Agencies, including any sub-panel, as detailed on www.procurement.govt.nz;

Participating Agency means the Participating Agency that is a party to this Consultancy Services Order;

Participating Agencies means each of the CoE and every other Eligible Agency that is a party to the memorandum of understanding between the CoE and all other Participating Agencies relating to the management of their relationship with each other and with the Provider in relation to the Services, as amended from time to time;

Personnel includes partners, principals, directors, employees, agents, officers and individual independent contractors;

Professional Adviser means any accounting, legal, procurement or technical professional;

Provider Database means the IT platform descr bed in Schedule 7 (Provider Database) to the Services Agreement;

Quote means a fixed price, capped price or other pre-agreed basis for establishing the Charges for Services required by the Participating Agency where the Provider is prevented from increasing the Charges without the prior written consent of the Participating Agency;

Rates means the rates (whether hourly, daily or weekly or other time-related basis) payable to the Provider for providing the Services, determined in accordance with Schedule 2 (Pricing), excluding Expenses;

Related Entity means a related company under the Companies Act 1993 (New Zealand) or a related body corporate under the Corporations Act 200, provided that any reference in the Companies Act 1993 to a "company" is deemed to include any partnership, body corporate, association or other entity, whether corporate or unincorporated, irrespective of the place of incorporation or registration of that partnership, body corporate, association or other entity;

Representative has the meaning given in paragraph 3.1 of Schedule 5 (Governance) to the Services Agreement);

Service Level means a required standard for the Provider's performance of its obligations under this Consultancy Services Order, as described in Schedule 3 (Performance Measurement);

Service Level Default means a failure by the Provider to meet one or more Service Levels;

Services means the consultancy services provided from time to time under the terms of this Consultancy Services Order;

Services Agreement means the All-of-Government services agreement relating to the supply of Tier 1 and 2 consultancy services between the CoE and the Provider;

Subcontractor means any person to whom the Provider has subcontracted any part of its obligations under this Consultancy Services Order or who is a supplier to the Provider in respect of this Consultancy Services Order and includes the employees and subcontractors of that person and **Subcontract** will be construed accordingly;

Term means the period commencing on the date that this Consultancy Services Order is signed by both parties and ending on the earlier of:

(a) the date on which the Services are completed in accordance with this Consultancy Services Order; and

(b) the date on which this Consultancy Services Order is terminated in accordance with its terms; and

Tiers means any of **Tiers 1** and **Tiers 2** for which members of the Panel are appointed and, in respect of the Provider, means the Tier(s) the Provider is appointed to as detailed in the Appointment Letter.

SCHEDULE 2: PRICING

1. Introduction

This Schedule sets out general principles underlying the Charges.

2. Principles

2.1 **Participating Agency will only pay for Services ordered**

(a) The Provider will invoice the Participating Agency for the Charges in accordance

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with clause 8.3 of this Consultancy Services Order.

(b) The Participating Agency will only pay for Services that it orders in accordance with this Consultancy Services Order.

2.2 **No minimum volume**

The Participating Agency is not required to meet a minimum aggregate expenditure or volume level for any Services.

2.3 **No interest**

No interest will be payable on any amount due to the Provider under this Consultancy Services Order.

2.4 **Rates**

(a) The Fees are calculated on the Rates, being either the Rates that are recorded on the Provider Database or, subject to paragraph 3, a different Rate as negotiated between the Provider and Participating Agency and recorded in this Consultancy Services Order.

(a) The Maximum Rates are the maximum amounts payable by the Participating Agency for the Services.

3. Charges

The Charges payable by the Participating Agency for Services must not include any Fees invoiced at Rates higher than the Maximum Rates recorded in the Provider Database.

SCHEDULE 3: PERFORMANCE MEASUREMENT

1. Introduction

This Schedule descr bes, in relation to the sub-categories for which the Provider has been appointed as a Tier 1 and Tier 2 Provider:

(a) the Service Levels; and

(b) how performance against Service Levels will be measured and reported.

2. Service Levels

2.1 Format

Each Service Level is described in Annexure A using the following format:

Parameter	Description
Description	Description of what the Service Level will measure
Purpose	Why it is important to Participating Agencies that the Service Level is met
Calculation	Method for calculating the Service Level
Service Level	The performance standard that the Provider is required to meet or exceed

2.2 **Service Levels must be met**

(a) At all times during the Term, the Provider will, in relation to the sub-categories for which the Provider has been appointed as a Tier 1 and Tier 2 Provider, perform its obligations to meet or exceed the Service Levels.

(b) The Provider acknowledges that any failure to meet the Service Levels may have a significant impact on the Participating Agency.

2.3 **Changes to Service Levels**

(a) From time to time during the Term, the CoE and the Provider may negotiate in good faith to add, delete or modify then-existing Service Levels to reflect changes in the Participating Agencies' requirements or objectives.

(c) Any changes to Service Levels will be effected in accordance with clause 10 of the Services Agreement.

3. Performance measurement

3.2 **Failure to meet Service Levels**

If the Provider fails to achieve one or more of the Service Levels in any Contract Quarter in respect of this Consultancy Services Order, it will:

(a) take such steps and do all things necessary, as soon as possible, to correct the failure; and

(a) notify the Participating Agency of the reasons for the failure and the steps that the Provider is taking to ensure that the failure is not repeated; and

(b) consider whether the Charges for the Services that are subject to the Service Level Default should be reduced to reflect the lower value of the Services provided.

Annexure A: Service Levels

Parameter	1. Services Fit for Purpose
Description	Were the Services subject to this Consultancy Services Order Fit for Purpose?
Purpose	To ensure Services provided are Fit for Purpose.
Calculation	The Participating Agency will advise whether the Services are Fit for Purpose as part of the Agency Satisfaction Survey.
Service Level	100% of Services delivered to the Participating Agency must be Fit for Purpose.

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Parameter	2. Timely Performance of Services
Description	Did the Provider perform the Services subject to this Consultancy Services Order within the timeframe recorded in this Consultancy Service Order (or as amended by agreement from time to time)?
Purpose	To ensure on-time provision of Services requested under a Consultancy Services Order.
Calculation	The Provider is required to report on this metric as part of the reporting requirements in Schedule 6 (Reporting) to the Services Agreement.
Service Level	The Provider must deliver all Services subject to this Consultancy Services Order within the agreed timeframe for delivery recorded in this Consultancy Services Order including any variation to the timeframe recorded in Part D of this Consultancy Services Order.

Parameter	3. Services Performed to budget
Description	Were the Charges for the Services subject to this Consultancy Services Order within the Estimate or Quote recorded in this Consultancy Services Order?
Purpose	To ensure Services requested under a Consultancy Services Order are performed on or under the Provider's Estimate or Quote.
Calculation	The Provider is required to report on this metric as part of the reporting requirements in Schedule 6 (Reporting) to the Services Agreement.
Service Level	The Provider must deliver all Services subject to this Consultancy Services Order within the agreed Estimate or Quote recorded in this Consultancy Services Order including any variation to the Estimate recorded in Part D of this Consultancy Services Order.

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From: Tan, John
To: Sam Ponniah
Cc: Nick Davis
Subject: RE:Commissioning for A3 on economic impacts
Date: Tuesday, 18 May 2021 9:01:32 pm
Attachments: image001.png
image002.png
image003.png
image004.png
image005.png

Hi Sam

Let me check in with 9(2)(a) [redacted] and 9(2)(a) [redacted] tomorrow and see what we can do.

John

From: Sam Ponniah 9(2)(a) [redacted] @martinjenkins.co.nz>
Sent: Tuesday, 18 May 2021 6:14 PM
To: Tan, John 9(2)(a) [redacted] @deloitte.co.nz>
Cc: Nick Davis 9(2)(a) [redacted] @dia.govt.nz>
Subject: [EXT] Commissioning for A3 on economic impacts

Hi John

Following on from our chat today, below is a proposed commissioning for the A3. Happy to discuss this further if helpful and Nick may have some further thoughts to add. As discussed, if we can aim to have an early draft by the end of the week that we can discuss next Monday/Tuesday that would fit well with our timeframes for release.

I've tried to highlight the key messages we want to bring out through the A3 as it might be helpful to work back from that to determine the narrative, graphs and visual aids that could work best. These are shorthand but hopefully give a flavour of the type of messaging/tone we want to strike with this.

Let me know if there's anything else I've missed that might be worth including.

Cheers

Sam

Purpose

To draw out the key findings from the economic impact analysis, making use of graphs, infographics and visual aids to highlight key messages

Focus is on total impacts over 30 years (as opposed to inter-temporal impacts) and implications at a national, local and sub-industry level.

Audience

Elected members, Councill staff, media, interested members of the public

Content / Key messages

Topic	Key messages	Suggested content
Modelling approach / scenarios	• Modelling looks at the impact reform could have by enabling an accelerated rate and higher scale of investment in the three waters sector relative to counterfactual • Have taken a conservative approach to estimating impacts by including a relatively significant increase in council spending in the counterfactual • As a result the economic impacts could be greater	• Slide 5 of the final report has the key information/numbers • This shouldn't take up too much real estate on the A3, but important to be transparent about what it is we have modelled • Question whether we need to describe very briefly what a CGE model does (if it's possible to do this in a sentence or two?)
Overview of results	• Set out headline results	•
National impact • Overall GDP impacts • Overall employment impacts	• Reform will deliver large economic benefits, impacting on every corner of the economy)	• Include infographic from slide 4 • Present overall GDP and employment impacts (tables on pages 36 and 41)

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• Changes to average wages • Increase in tax revenue	• Reform will support a significant increase in national GDP • Reform will support a significant increase in jobs across several key industries • Improved labour productivity and an increase in high skilled jobs will result in higher wages	
Impacts by region	• Reform will have a positive impact on all regions • In many cases, rural and provincial areas stand to benefit to a greater degree than large metros, when compared relative to their current levels of economic activity • Consistent with evidence from stakeholder interviews and overseas experience that a large component of the investment requirement of will be BAU maintenance and minor capital works which will be delivered locally • Metropolitan areas will also benefit from reform in absolute terms as a significant proportion of the national benefits are expected to accrue to them	• Include GDP and employment heat maps (slide 47 to 50) • Include average wage growth over 30 years (slide 44)
Impacts by industry	• Reform will impact positively on all industries, with Trade, Financial Services, Business Services, Construction and Other Services are expected to see the largest increases in GDP • The composition of the water services workforce is expected to change, particularly over the transition period, but the size of the workforce will grow by 80% over the 30 year period	• Present GDP and employment impacts by industry over 30 year period (highlight those industries with larger increases) – e.g. slide 37
Opportunities, risks and challenges for affected industries	• Reform offers opportunities to address long-standing challenges within the supply chain and workforce to ensure the sector can deliver on the large infrastructure requirement • Industry representatives see significant potential for the sector through reform and many firms are expecting to scale up • Note work already underway to	• Summarise findings from affected industries workstream (6 to 8 key bullets)

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	ensure the transition and establishment phase enables and supports the sector to scale up	

Sam Ponniah | Senior Consultant
MartinJenkins
M 9(2)(a) [redacted] **T** 9(2)(a) [redacted]

Level 16, AIG Building, 41 Shortland St, **Auckland**
Level 1, City Chambers, Cnr Johnston & Featherston Sts, **Wellington**

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From: 9(2)(a) [redacted]
To: Tan, John; Sam Ponniah
Subject: RE:Final report
Date: Wednesday, 19 May 2021 2:03:40 pm
Attachments: image012.png
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DAE Industry Development Study & Economic Impact Assessment.pdf

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Hi Sam,

Hope you had a nice holiday.

Please see attached our final report with the changes incorporated mentioned in John's email below.

Best,

Liza

9(2)(a) [redacted]

Director | Corporate Finance

Deloitte

Level 12, 20 Customhouse Quay, PO Box 1990, Wellington 6140, New Zealand

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From: Tan, John 9(2)(a) [redacted]@deloitte.co.nz>
Sent: Wednesday, 19 May 2021 12:28 PM
To: Sam Ponniah 9(2)(a) [redacted]@martinjenkins.co.nz>
Cc: 9(2)(a) [redacted]@deloitte.co.nz>
Subject: RE: Final report

Hi Sam

9(2)(a) [redacted] can have a look at this at 1pm and send you the final thereafter. The only changes proposed

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will be the two typos + a search for each instance of 'water sector' to see if it should refer to variously: 'water delivery sector', 'broader water supply chain', or in some cases 'water sector' may be fine.
There wont be any substantive changes other than that – so you can run with the previous version for meetings if necessary, with the version dated today as the final version for release
John

From: Sam Ponniah 9(2)(a) [redacted]@martinjenkins.co.nz>
Sent: Wednesday, 19 May 2021 10:05 AM
To: Tan, John 9(2)(a) [redacted]@deloitte.co.nz>
Subject: [EXT] Final report

Hi John, just checking when we might get a copy of the updated final report – we are aiming to get our briefing to the Minister today so ideally would have it this morning. Let me know if that's achievable on your end.

Sam Ponniah | Senior Consultant
MartinJenkins
M 9(2)(a) [redacted] **T** 9(2)(a) [redacted]

Level 16, AIG Building, 41 Shortland St, **Auckland**
Level 1, City Chambers, Cnr Johnston & Featherston Sts, **Wellington**

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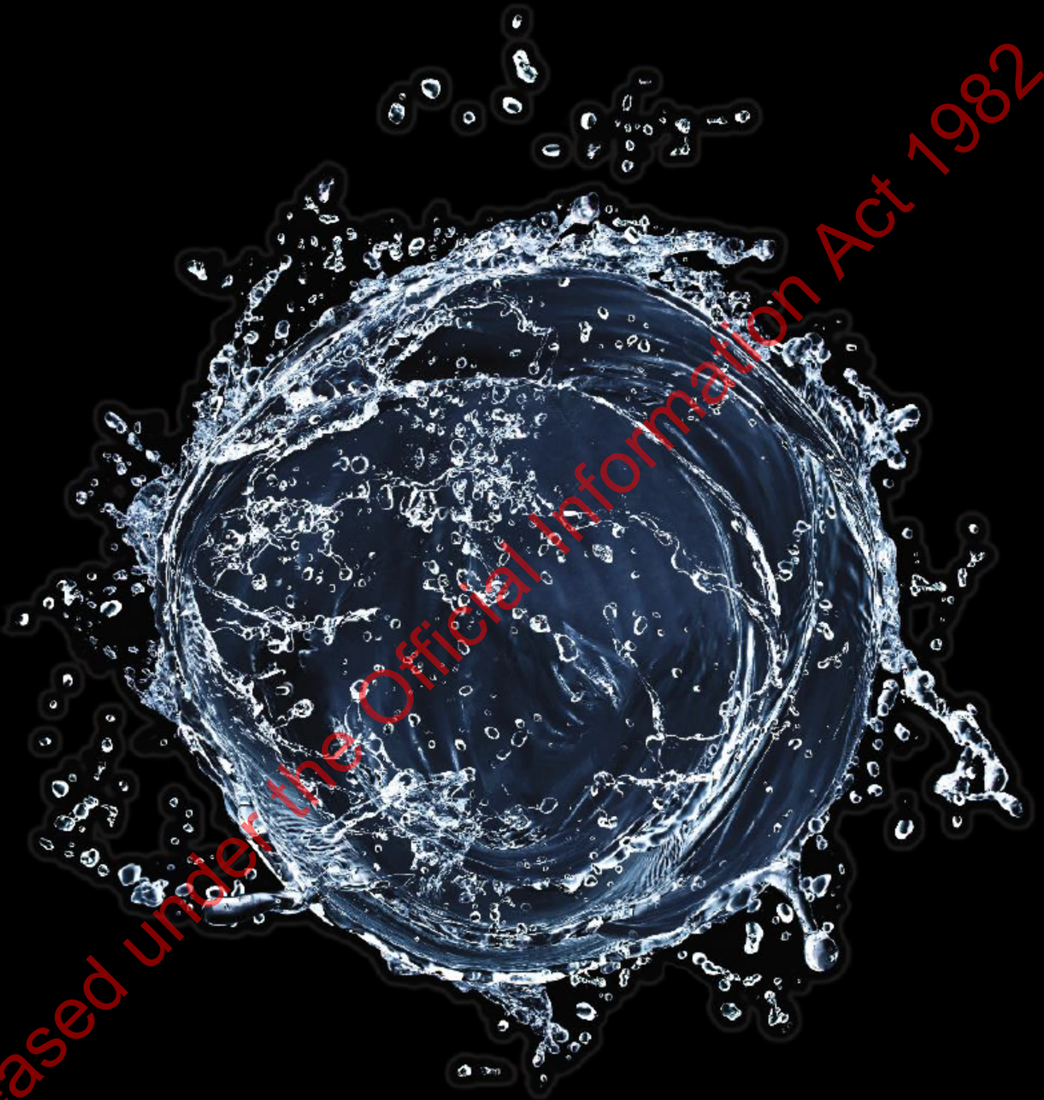

Industry Development Study & Economic Impact Assessment

Department of Internal Affairs

19 May 2021

Deloitte Access Economics

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Table of contents

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1. Executive Summary

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Executive Summary – Overview

This report assesses the economic impact of Three Waters Reform and the opportunities and risks for the industries affected by reform

Effective Three Waters services are essential to the wellbeing of all New Zealanders. However, New Zealand's Three Waters system is facing major challenges, and will continue to do so without transformational reform. Cabinet will take substantive decisions relating to the Three Waters reform (reform) in May 2021.

Deloitte Access Economics has been engaged by the Department of Internal Affairs (DIA) to assess the potential economic impact of the reform, and to develop an understanding of the opportunities and risks for the industries affected by reform. The economic impact assessment and affected industries study will provide evidence to support the Regulatory Impact Assessment (RIA).

The economic impact assessment estimates the economic impact of a material step up in investment in connection with reform, relative to the level of investment that might be expected in the absence of reform. The economic impact is quantified in terms of GDP, employment, wages and taxes, at a national and regional level.

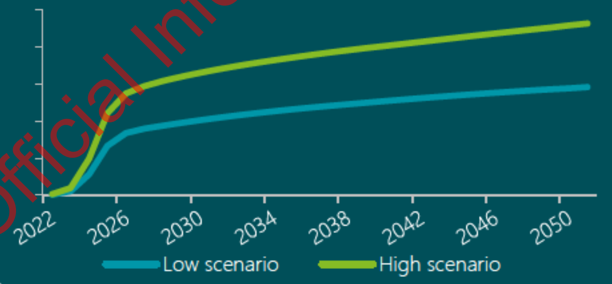
Overall, the results show, the material investment in the water sector will lead to an increase in GDP of between $14b to $23b in NPV terms over 30 years, an additional 5,849 to 9,260 FTE jobs, productivity will improve, and both provincial and rural areas are estimated to benefit more than metropolitan areas in relative terms. An overview of the key economic impact assessment results, for the two core scenarios considered in this report, are provided opposite.

The industry development study validates the economic impact assessment through targeted stakeholder interviews, which tests the potential implications of reform on a range of industries. Case studies and perspectives from Taumata Arowai – the new regulator – are also included in this report.

Change relative to counterfactual, 2022-2051

0.3% – 0.5%

Net change in GDP over 30 years



+ 5,849 to 9,260

Average increase in FTEs*

$14b - $23b

Present value increase in GDP

+ 0.2% to 0.3%

Increase in average wages

+ $4b to $6b

Present value increase in taxes

We refer to the "average increase" as the average change in FTEs (full-time equivalents), GDP, wages, taxes or production over the 30 year modelled period from 2022-2051, relative to the counterfactual.

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Executive Summary – Scenarios Modelled

We modelled four scenarios. The High and Low Scenarios comprise our core scenario range. Our key model input is the 'incremental capex shock' for each modelled scenario.

We have used our in-house Computable General Equilibrium (CGE) model, the Deloitte Access Economics Access Economics Regional General Equilibrium Model (DAE-RGEM), to estimate the potential impact of reform based on two scenarios:

- The **counterfactual scenario**, which sets out a possible investment pathway for Councils if the reform did not proceed.
- The **system transformation scenario**, which sets out a reform scenario where water services are provided by a small number of asset owning multi-regional water service entities (WSEs), operating under efficient regulatory standards, economic regulation and significantly improved access to capital – resulting in a substantial uplift in capital expenditure.

Water investment projected under each modelled scenario and the incremental water investment applied to assess the economic impact of reform (Total capex, 2022 to 2051, billions)

Scenario	System transformation capex	Counterfactual capex	Incremental capex
1. **Low Scenario:** Low system transformation vs low constrained counterfactual	$120b (WICS Approach 1: **UK** benchmarks)	$55b (Council debt and price constraints)	$65b
2. **High Scenario:** High system transformation vs high counterfactual constrained	$185b (WICS Approach 2: **Scotland** benchmarks)	$69b (**Councils achieve 20% savings**, which allows for greater capex spend)	$116b
3. **Optimistic Scenario:** High system transformation vs low constrained counterfactual	$185b (WICS Approach 2: **Scotland** benchmarks)	$55b (Council debt and price constraints)	$130b
4. **Historic Scenario:** Low system transformation vs historic counterfactual	$120b (WICS Approach 1: **UK** benchmarks)	$44b (Council spending based on historic levels)	$76b

Source: Deloitte Access Economics (2021)

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Executive Summary – Economic Impact

The reform is estimated to deliver large economic benefits, across all modelled scenarios.

Economic impact assessment

The economic impact assessment focuses on the *incremental* capex, i.e. the difference between the system transformation and counterfactual scenarios . However, the counterfactual already includes a material step up in investment from the status quo (between 20% to 50% higher than historic expenditure might suggest). This reflects an expectation that Councils would seek to lift investment in response to increased regulatory pressures and community expectations around access to safe three waters services. For instance, under the Low Scenario, the GDP impact is estimated based on incremental capital expenditure of $65 billion, on top of $55 billion of capital expenditure already included in the counterfactual. The results presented in this report are therefore conservative.

The reform is expected to deliver large economic benefits, across all modelled scenarios:

	Scenario	Change relative to the counterfactual, 2022 to 2051				
		Incremental capex (Model Input)	GDP	Average FTEs	Average wages	Taxes
Core scenarios	Low: Low system transformation vs low constrained counterfactual	+$65b	+$14.4b	+5,849	+0.16%	+$4b
Core scenarios	High: High system transformation vs high counterfactual constrained	+$116b	+$23b	+9,260	+0.26%	+$6b
Other scenarios	Optimistic: High system transformation vs low constrained counterfactual	+$130b	+$25b	+10,217	+0.28%	+$6b
Other scenarios	Historic: Low system transformation vs historic counterfactual	+$76b	+$16b	+6,667	+0.18%	+$4b

Source: Deloitte Access Economics (2021)

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Executive Summary – Economic Impact

The estimated GDP impact is large because water is an input to every business and household - hence the reform impacts every corner of the economy.

Summary of the impact on gross domestic product and taxes

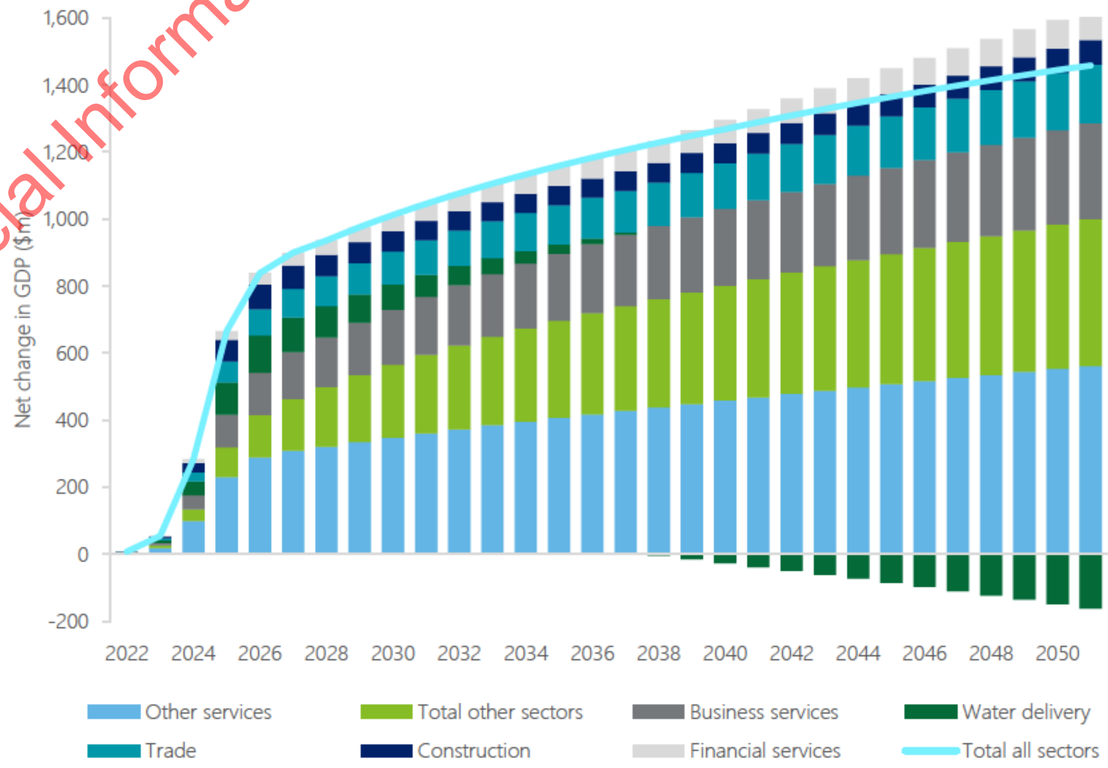
The economic impact modelling shows that under the Low and High Scenarios described on the previous page:

- Reform is likely to deliver a significant economic benefit of **$14 - $23 billion** over the next 30 years, in real present value* terms, relative to the counterfactual.
- This is equivalent to the New Zealand economy being on average **0.3% to 0.5%** larger over the 30 year period, than it otherwise would have been in the counterfactual.
- Tax revenue is estimated to increase by **$4 - $6 billion** from 2022 to 2051 in real present value terms.

The positive impact is also distributed across sectors. Trade, Financial Services, Business Services, Construction and Other Services are expected to see the largest increases in GDP as a result of reform. Other Services includes Public Administration and Defence, Education, Human Health and Social Work activities, and Dwellings (i.e. housing).

These are large sectors, which all benefit from the GDP and output growth that reform facilitates. GDP in all sectors shows growth in absolute terms. While the water delivery sector also increases initially, modelling shows a decline from mid-2038 *relative to the counterfactual*, due to efficiency driven cost savings in this sector as a result of reform.

Low Scenario
Net change in GDP each year as a result of reform, by selected sectors



Source: Deloitte Access Economics (2021)

Unless otherwise stated, all references to present value terms are calculated over a 30 year period (2022 to 2051) using a real discount rate of 5%, per New Zealand Treasury guidelines.

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Executive Summary – Employment Impact

Reform is expected to result in a material positive change in full-time equivalent jobs

Summary of the impact on employment and wages

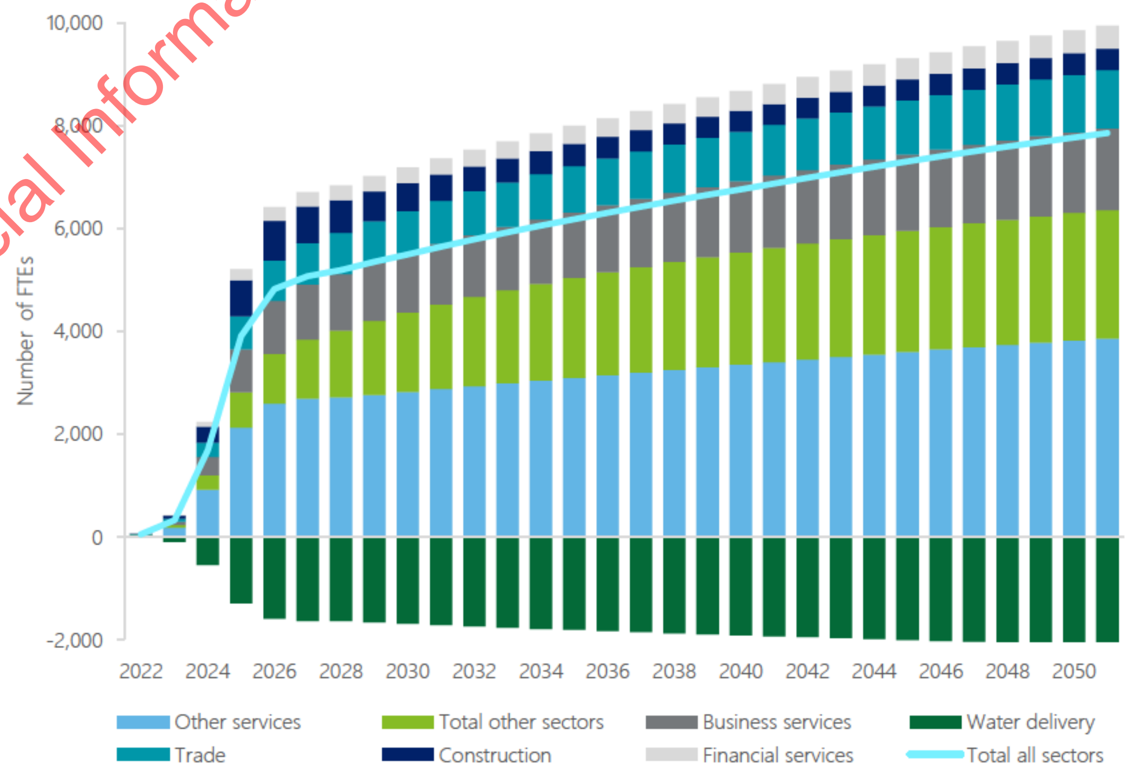
Under the Low and High Scenarios, reform is projected to increase employment in the New Zealand economy:

- By adding between 5,849 to 9,260 full time equivalent (FTE) jobs on average over the next 30 years, compared to the counterfactual.
- This represents 0.26% to 0.41% of the current total workforce in the economy or between 0.36% and 0.57% of the total FTE jobs in the economy.
- Reform is also expected to generate an increase in average wages of between 0.16% and 0.26% over the 30 year period modelled, relative to the counterfactual.

Reform is expected to result in a material positive net change in FTEs, although the rate of growth in FTEs in the water delivery sector is expected to be slower under the reform scenario than under the counterfactual. This is explained further on the following page.

Reform is expected to support growth in jobs across all other sectors in the economy, with the greatest positive impact expected in the Financial Services, Trade, Business Services, Construction and Other Services sectors.

Low Scenario
Net change in FTEs each year as a result of reform, by selected sectors



Source: Deloitte Access Economics (2021)

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Executive Summary – Employment Impact in the water sector

While the rate of growth in water delivery sector employment may be slower than under the counterfactual, the workforce is still expected to be 80% larger over the 30 year period

Key Definitions

In this report we refer to the following key terms:

- The **Water sector**, which comprises the 'water delivery sector' and the wider 'water supply chain'
- The **Water Delivery sector** is a subset of the water sector that comprises: water supply, sewerage and drainage services; as well as waste collection, treatment and disposal services. This subset of the broader water sector is limited by data and definitional constraints of existing ANZIC codes.
- The **wider water supply chain** comprises services provided in other sectors such as water engineers (included in Business Services) or construction of water assets (included as part of Construction)
- The **Affected Industries** comprise all sectors including the wider water supply chain that was expected to respond to the investment "shock" applied in the economic analysis

The economic impact sections of this report and CGE modelling methodology generally refers to the impact on the 'Water Sector' (in its broader sense), except where we try to disaggregate sector GDP and employment impact, where due to the data constraints, we refer to the impact on the Water Delivery Sector in these sections.

The affected industries section of this report always refers to the 'Water Sector' (in its broader sense) and Affected Industries as defined above.

Commentary on the employment impact in the water sector

The workforce for the water sector is complex. The modelling of sector FTEs defines the **water delivery sector** as water supply, sewerage, and drainage services as well as waste collection, treatment and disposal services based on ANZIC codes. However, this definition does not pick up employment outside of those services that are part of the **wider water sector supply chain** (e.g. water engineers and construction of water assets).

In both the Low and High scenarios, the employment impact in terms of additional FTEs is significantly positive for all sectors. However, the pace of growth in water delivery sector FTEs under the system transformation is expected to be slower than under the counterfactual. At a national level, it is expected that there may be between 1,687 (under the Low Scenario) to 2,787 (under the High Scenario) fewer additional FTE jobs on average in the water delivery sector under the system transformation scenario, *relative to the counterfactual*.

The reasons for this are likely to include a shift in composition of the workforce during the transition (given the ageing workforce and removal of duplicative jobs through reform), and in the longer term as more efficient systems and processes for delivering three waters take effect, and improve labour productivity.

Scotland had a similar outcome in its water reform. Scottish Water's headcount reduced by 2,500 FTEs over time; but total employment (water sector and its supply chain) has increased – a net estimated increase of 4,000 FTEs. WICS noted that New Zealand could experience something similar.

The reform offers opportunities for enhanced career pathways and greater specialisation within the workforce of the water sector, a greater focus on building the workforce required for the future through more proactive labour market interventions, and greater local employment linked to an increase in local renewals and minor capital works. This is highlighted by the significant 80% increase in the total water delivery sector workforce that will be required under the system transformation scenario.

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Executive Summary – Economic Impact on regional GDP and employment

Reform is expected to increase GDP and employment across New Zealand, but this impact will not be evenly distributed across all regions.

Distributional impact of the reform

Every region is expected to be positively impacted by reform in terms of GDP and employment growth. However, this impact is distributed across regions differently, in a way that reflects heterogeneity in the relative size, capital intensity, water intensity and import penetration of the regions:

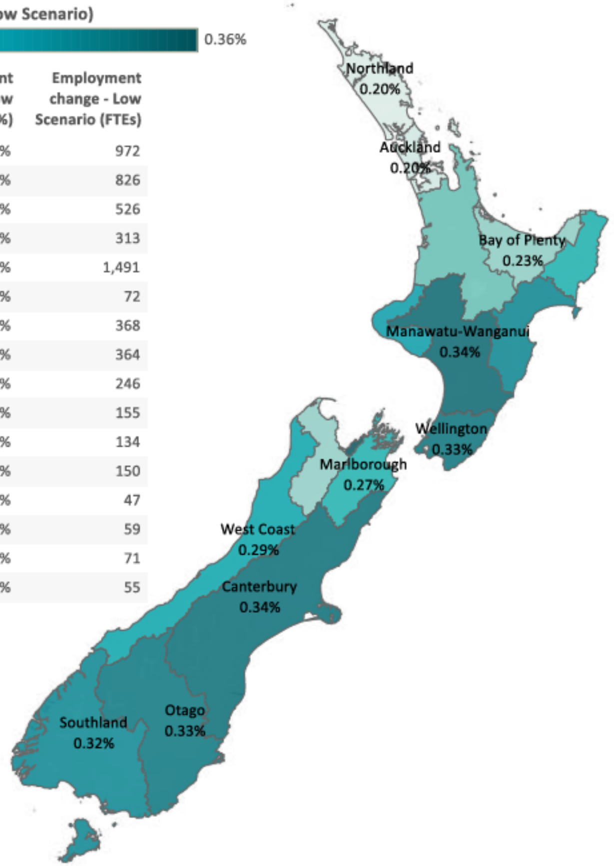
- Relative to current regional GDP, metropolitan areas see the smallest relative gains when compared to the average impact nationally. Provincial and rural regions enjoy the highest economic impact relative to their current regional GDP.
- The heat map shows the relative employment impact of reform across regions by dividing estimated additional FTEs due to reform by the current regional workforce. Provincial regions are estimated to gain the most relative to the estimated national average as a result of reform, along with two metropolitan regions – Wellington and Canterbury. Wellington, in particular, benefits from its high share of employment in Public Administration. Wellington and Canterbury also have a high share of employment in Business Services – another sector which strongly benefits from reform.

Evidence from stakeholder interviews and overseas experience suggests renewals and minor capital works – which represent a large component of the immediate investment requirements of the sector are considerably more labour intensive than major capital projects, and a relatively greater proportion of that labour component is delivered on location.

Net change in FTEs as a % of current employment (Low Scenario)

0.20% – 0.36%

Classification	Region	Employment change - Low Scenario (%)	Employment change - Low Scenario (FTEs)
Metropolitan	Canterbury	0.34%	972
	Wellington	0.33%	826
	Waikato	0.25%	526
	Bay of Plenty	0.23%	313
	Auckland	0.20%	1,491
Provincial	Nelson	0.36%	72
	Manawatu-Wanganui	0.34%	368
	Otago	0.33%	364
	Hawke's Bay	0.32%	246
	Taranaki	0.30%	155
	Northland	0.20%	134
Rural	Southland	0.32%	150
	West Coast	0.29%	47
	Gisborne	0.27%	59
	Marlborough	0.27%	71
	Tasman	0.23%	55



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Executive Summary – Affected Industries

Reform will have a significant impact on industry participants.

Industry development study

We have validated the economic impact analysis through targeted stakeholder interviews to test the potential implications of reform on a number of industries. We tested information provided by stakeholders through the use of international and local case studies, and perspectives from Taumata Arowai – the new regulator. We also considered the implications and considerations.

The following significant changes on industry participants are expected post reform:

- Councils who participate in the reforms will no longer control water assets. While this may result in a reduction in the Council workforce, this decrease is expected to be more than offset by investment the new water entities undertake.
- Engineering, consulting and advisory firms will scale up their investment in operations and employees, despite likely issues with finding skilled labour.
- Contracting firms expect to see bigger workforces and a higher focus on compliance areas given the new regulatory environment. International firms may draw on offshore expertise and technology but will still need to deploy significant numbers of people on the ground.
- Materials and equipment providers are already scaling up in some cases in preparation for reform. Over time, increased investment in the sector is likely to result in an acceleration in the deployment of new technologies, which will flow through to operational efficiencies.

Supply Chain

Greater visibility of the investment pipeline is seen as a key driver of improvements in the efficiency and scale of the supply chain:

- The scale of the investment pipeline is likely to be attractive for new entrants, particularly major organisations with a significant presence in Australia but which are not currently present in New Zealand.
- Participants with an existing presence in New Zealand are likely to scale up their local operations as they gain greater confidence in reform. While new or scaled up entities may bring new capability, this may involve the acquisition and consolidation of local entities or existing capability.
- There are likely to be significant benefits of supply chain scale – including higher spend across standardised requirements, standardisation of parts and materials, and greater purchasing power, as well as the availability of greater specialisation.
- There is potential for existing smaller and mid-scale domestic operators to be squeezed out, thereby reducing the potential diversity of the supply chain – especially as a result of lumpiness or uncertainty associated with the project pipeline through the transition period.
- New Zealand is considered a small market by international standards for materials and equipment. While the current global supply chain is still being disrupted by the effects of Covid-19, a significant step up in investment is not expected to have a large impact on the ability to access materials and equipment over and above the generic challenges New Zealand faces given its scale and location.

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Executive Summary – Affected Industries

Reform is an opportunity to address current workforce issues and reposition the water and affected sectors as a strong career opportunity – but this will take time and there will be near term challenges.

Workforce

The water sector is experiencing a workforce shortage, which is likely to be exacerbated given increasing regulatory pressures and community expectations that will drive an uplift in Council expenditure. Reform provides an opportunity to take a more proactive and longer-term approach to addressing challenges which include:

- The delivery of water services and the related capital expenditure required to sustain and expand water infrastructure is labour intensive – particularly in relation to renewals/minor capital works, which represent a significant element of the overall capital spend.
- The number of qualified staff needed to deliver capital works is already under stress due to a lack of overseas resources, increasing remuneration expectations and other opportunities in the wider construction sector. The contractor market is currently sized to reflect historic delivery requirements. The workforce is expected to be squeezed further as spending on Three Waters projects, shovel ready infrastructure projects, climate change and RMA reforms increase nationally.
- Concerns as to the capacity of the workforce to meet demand signalled through the current Council long-term plan (LTP) process. A significant step up in investment in water infrastructure is anticipated above that committed through Government's initial $761m stimulus package, as part of the first round of the reform process.
- Providers have indicated a wariness about resourcing up to meet that demand due to a concern as to the potential for a "boom/bust" cycle of investment, whereby following a burst of spending by Councils, a hiatus occurs as the new water entities work through their planning and prioritisation processes.
- The immediate pressure points are likely to be on specialist water consultancy expertise, which is seen as scarce and "boots on the ground" labour. Several interviewees noted that migration policies (once borders re-open) could help mitigate skill shortages in the near-term, but 'growing our own' was viewed as preferential. Again, reference was made to the Christchurch experience and the significant reliance placed on imported labour.
- Notwithstanding the scale of the sector, current providers and industry participants consider that there is a relatively low awareness of career opportunities and little in the way of sector driven training and development. This situation is compounded by the current industry structure and its fragmented approach to procurement.
- While articulating career opportunities supported by a focus on training pathways could mitigate some of the labour supply challenges, there is a risk the benefit of these initiatives could be diluted. As borders open – particularly with Australia – parts of the the trained/skilled workforce may move offshore to better remunerated opportunities in the near term. This situation could be exacerbated if borders with Australia re-open before those with other countries such as South Africa, the UK and Ireland, which have traditionally been large sources of both skilled and semi-skilled labour.
- Issues with workforce availability are not unique to New Zealand. Globally the sector is experiencing challenges with an aging workforce and a step up in the skills required as new technologies have been introduced. Countries such as the US have introduced initiatives directed at addressing this challenge. America's Water Workforce Initiative is an example of how other jurisdictions are responding to this challenge. This is a combined initiative involving the Environmental Protection Agency and other federal agencies working with states, utilities, tribes, local government and other stakeholders to address workforce issues.
- In the longer term a combination of a better articulation of career opportunities, the changing nature and increased sophistication of the roles/emerging roles available and the scale of the investment going into the water sector creates the prospect of elevating the status of a career in the water sector with a flow through to the ability to attract both domestic and international talent.

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Executive Summary – Affected Industries

Reform should improve access to capital, and provide opportunities for significant productivity gains.

Capital Requirements

Reform should facilitate an easier access to capital to fund water infrastructure with flow through benefits to the supply chain.

- Long-term funding certainty for major infrastructure providers of water infrastructure, such as Councils currently or WSEs post reform, is pivotal to achieving gains in the sector. The need for regulatory certainty and the ability for regional water authorities to know they can recover capital costs in the long term from customers.
- The certainty provided enables an entity to take a long-term view of its investment programme. This allows it to develop a construction pipeline that can be funded through the economic cycle.
- Funding certainty by a long-term pipeline of work enables the ecosystem to work effectively, and drive innovation and efficiency. Parties can invest with confidence, leading to efficiencies which can be shared.
- The contracting and consulting firms we interviewed did not foresee capital constraints as an issue for them in scaling up in response to reform. The main hurdles discussed were labour supply and certainty of water entity investment.
- Smaller and mid-sized entities with more limited access to capital may be challenged if aspects of the supply chain start to consolidate. This situation could be exacerbated if lumpiness or uncertainty associated with the forward investment programme through the transition phase impacts cash flows and the ability to invest or retain/attract key staff.

Innovation & Productivity

Evidence from other jurisdictions indicates significant productivity gains are achievable over time with a different industry structure, and parallel developments such as an enhanced regulatory regime. Opportunities for productivity gains include:

- An immediate gain in developing a materially better understanding of the asset base and its condition, which should inform better planning processes and ensure the right investment decisions are being made and wasteful spending is reduced.
- Making more efficient investment decisions – for example, settling on the most efficient regional or cross regional waste-water plant networks.
- The ability to move away from current Council procurement practices which are seen as being fragmented, risk averse and too focussed on price as opposed to whole of life value in the tender evaluation process.
- Increased standardisation of componentry, which drives cost efficiency, specialisation and inventory management benefits.
- Increased use of intelligent componentry to reduce cost/improve performance.
- A better appreciation of/willingness to use international best practice/assets rather than a "do it yourself" approach.
- The ability to attract specialist global capability.
- The ability to outsource work at scale through improved procurement processes.

Despite the optimism around potential productivity gains, parties interviewed expressed some concerns given the:

- Country's relative isolation from major centres of capability
- Potential for a lack of collaboration between the WSEs, particularly in relation to cross boundary investment decisions and standardisation
- Risk workflow slows during the transition period as the supply chain scales up.

It was noted that productivity gains take time to accrue and there were mixed views expressed around the gains available in the water sector from advancements in technology enabled asset management practices until some of the more fundamental issues with the current system are addressed.

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2. Introduction and Scope

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The request

An economic impact assessment of the Three Waters Reform and its implications for affected industries

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Overview

Effective Three Waters services are essential to the health, environment and economic wellbeing of all New Zealanders. However, New Zealand's Three Waters system is facing major challenges, and will continue to do so without transformational reform. Estimates suggest local government water service providers face a significant infrastructure deficit, which could take 30 years to eliminate and exceed the funding and operational capacity of many Councils.

In June 2020, Cabinet agreed to the Three Waters Reform (reform) needed to address this infrastructure deficit. This will see the delivery of Three Waters services shifted from 67 Councils to a smaller number of multi-regional water services entities (WSEs). This reform programme builds on the progress made through the Three Waters Review, established in the wake of the Havelock North water supply outbreak, and recent regulatory reform, including the establishment of Taumata Arowai and development of a new water services regulatory framework.

Cabinet will take substantive policy decisions relating to the reforms in May 2021. The Department of Internal Affairs (DIA) is preparing a Regulatory Impact Assessment (RIA) to support Cabinet decision making. The RIA will assess the impacts of reform, as well options available to the Government regarding design features of the new WSEs, and the overall Three Waters system.

Purpose of this report

Deloitte Access Economics has been engaged by DIA to assess the potential economic impact of the reform, and to develop an understanding of the opportunities and risks for industries affected by reform. The economic impact assessment and affected industries study will provide evidence to support the RIA.

Structure of this report

This report presents the findings of the economic impact assessment and industry development study.

Part one - Economic Impact Assessment

- Overview of economic impact assessment
- Scenario overview
- Approach and inputs
- National impacts
- Workforce impacts
- Distributional impacts

Part two – Industry Development Study

- Overview, including engagement process and methodology
- Industry structure
- Supply chain and workforce
- Capital requirements, and innovation and productivity
- Potential impact of reform and case studies

Attachments to this report

- Appendix A provides an overview of our CGE modelling
- Appendix B outlines the aggregated sectors and regions we modelled
- Appendix C lists our stakeholder interviews
- Appendix D sets out restrictions in relation to the use of this report.

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Scope

An economic impact assessment of the Three Waters Reform and its implications for affected industries

Scope

The key requirements of the economic impact assessment were to:

- Analyse the potential economic impact of reform, focusing on how GDP, employment, wages and taxes could change as a result.
- Consider how this economic impact is distributed across areas, particularly at a national and regional level, and to a lesser extent, a local level.
- Discuss how these impacts could differ across sectors.
- Comment on the likely drivers of these impacts, where possible.
- Outline the assumptions and caveats behind this analysis.

The following analysis is out of scope for the economic impact assessment:

- While we have considered the high-level impact of reform on Councils, we have not analysed the detailed impact on individual Councils. Differences between individual Councils (e.g. different debt profiles) will influence the specific impact of the reform on that Council.
- We have not modelled wages and taxes at a sector level. Taxes are modelled in aggregate, rather than decomposed into specific types of taxes.
- Our analysis focuses only on the potential economic impacts of reform, not social, environmental, cultural, or other wider impacts.

The key requirements of the industry development study were to:

- Engage with affected industries through stakeholder interviews.
- Review relevant experiences of domestic and overseas reforms, and summarise key insights for New Zealand in case studies.
- Develop a narrative that sets out the industries most likely to be affected by reform, their current state, implications of reform for these industries, how they need to develop to leverage the benefits of reform, and how the Government could support industry development.

The following analysis is out of scope for the industry development study:

- While we have identified challenges associated with the envisaged increase in investment, from a workforce perspective our role has not extended to the development of the workforce strategy.
- Our engagement was focussed on entities and sector bodies associated with the immediate water sector supply chain. We did not engage with Councils, wider businesses, or social interests, which may also be impacted by the water reform.

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