

To: Local Government Elected Representatives
From: Three Waters National Transition Unit
Date: November 2022

RE: SUPPLEMENTARY BRIEFING ON THREE WATERS TRANSITION

Background & purpose

Many of you have already received a wider briefing from the Local Government Branch of the Department of Internal Affairs (DIA) about three waters.

This briefing provides supplementary, more detailed information on the Three Waters transition process.

It recognises how important it is for you to have a good understanding not only of what is changing and why, but also the process that is being followed, in order to ensure that your communities are best served in the transition to the new operating environment.

Context

Councils are under pressure to deliver an increasingly wide range of services and are impacted by increasing costs of delivery.

As you know, there are major challenges in three waters service delivery across the country which include ageing infrastructure, historical under-investment and the growing impacts of climate change. This has been overlaid with new future demands from accommodating population growth.

Meeting these challenges requires a lot more investment in water infrastructure (up to \$185 billion over the next 30 years). It also requires a different way of managing our three waters system. The status quo is not working.

Key to this is creating scale. The reform will shift water services from 67 councils to four new Water Service Entities (WSEs), each proportionately owned by their region's respective councils on behalf of their local communities.

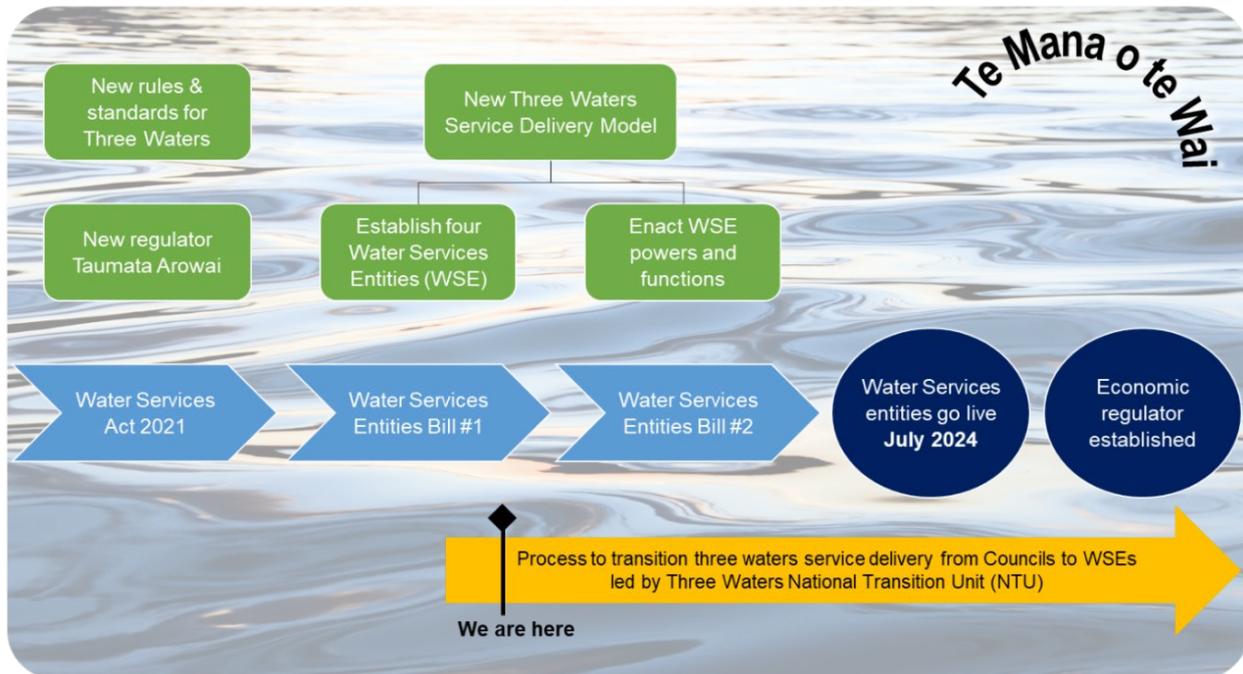
A key structural change is balance sheet separation from councils, enabling the WSEs to raise the levels of debt required to fund significant infrastructure investment over a long timeframe. The repayment of that debt would then be funded by water charges that are spread over a long-time horizon, rather than front-loaded onto today's ratepayers as is the case under the status quo.

Getting the transition right will lay the foundations for major transformation in water services management and delivery long-term.

In particular, there is the opportunity for a uniquely New Zealand approach to building a world-class water system guided by Te Mana o te Wai (the health and wellbeing of water). Putting Te Mana o Te Wai at the centre of the system is a whole different frame of reference for the delivery of three waters

services. It's about taking a catchment-based and interconnected view of the water system from source to sea, rather than the current highly fragmented approach that can lead to inconsistencies and adverse outcomes.

The Three Waters reform process at a glance



The first Bill establishes the four WSEs. This is currently before the Finance and Expenditure Committee and is expected to be reported back by 11 November. More than 80,000 New Zealanders engaged with the Select Committee to have their say on the Water Services Entities Bill. As a result of this feedback, we anticipate the Select Committee will make a number of recommendations to improve the legislation and positively impact the way the Entities will operate from 1 July 2024.

It is expected to be passed into law before the end of the year. This sets out Entity functions, objectives and operating principles. It covers the ownership, governance, accountability arrangements relating to the Entities, and provides for ongoing public ownership, safeguards against future privatisation, and transitional arrangements.

The second bill will be introduced towards the end of 2022. This will establish the detailed powers, functions and duties of the Entities necessary for the WSEs to deliver water services to communities in place of territorial authorities. It also encompasses transfer of assets and liabilities.

The Three Waters transition programme

The transition work programme is advancing at pace, in close partnership with your respective council executives and technical staff. We are collectively working to a tight timeframe on the work required to ensure the WSEs are ready to deliver for communities on 1 July 2024.

Broadly, the programme is structured into key workstreams as follows:

- *People and Workforce*: This workstream is tasked with designing and staffing the new WSEs in a way that is operationally sound and delivers a positive and inclusive transition.
- *Customer and Digital*: This workstream is accountable for the implementation of systems, data, tools, and digital processes required to enable the WSEs to operate on Day One.
- *Asset Management, Operations and Stormwater (AMOS)*: These sub-streams are working collaboratively to manage interdependencies to transition from the current environment to the new entities.
- *Financial and Commercial*: This workstream will develop the financial plans and structures which the WSEs will operate under.
- *Governance and Appointments*: This workstream is responsible for appointment of the chief executives for the new WSEs, as well as shortlisting candidates for the Establishment Boards and developing the draft Establishment Water Services Plan.

We are making good progress on this work programme, and recent milestones include:

- Requests for Information (RFIs) for Employment Relations and Organisational Design are underway, with help sessions to support councils to provide the necessary information.
- Digital workshops are underway, to engage with councils on the plan and approach for establishing the digital capability of the WSEs, with a focus on data migration.
- Establishment of the AMOS technical panel, enabling the National Transition Unit (NTU) to procure technical resource to assist the workstream.
- RFIs for key financial information have been issued, and the majority of councils have now completed and submitted their pro forma financial template.

Ongoing engagement with councils

The NTU has been working closely with councils on the transition programme for some time, and has established a number of channels for communication and engagement.

Our *Council Interface Managers (CIMs)* are connectors between NTU, councils and the workstreams in their Entities. Their role is to make it easy for councils to participate in the transition process. They are a local point of contact for programme-wide conversations with councils about transition workstream requirements, milestones and activity.

We have also established *Local Transition Teams* with council general managers and staff to collaborate with us on key activity within the NTU workstreams. This recognises the importance of local knowledge and expertise of council staff in delivering a seamless transition.

In addition to fortnightly updates we send to all council CEs and regular briefings through LGNZ and Taituarā, we recently concluded a two-week roadshow on the roadmap to Day One of the new WSEs. This was for council chief executives (CEs) and their key water reform representatives, designed to provide more certainty around the programme for planning purposes.

While a full report on the roadshow is being developed, a number of changes have already been made in response to feedback to improve engagement and information flows, including:

- The transition process workplan has been segmented into 90-day plans for early communication to councils, accompanied by an estimate of council input required.
- Entity-based forums for CEs and council technical leads have been established to provide greater visibility of the work programme.
- The Finance and Commercial workstream team have assigned local leads for each council, to facilitate more direct engagement.
- The Customer and Digital workstream are running workshops in each Entity region (as above).
- Feedback is being sought on WSE Organisational Design (as above), following a request from CEs.

We look forward to continuing to work with your council executive and staff to ensure the best outcomes for the communities you serve.

A handwritten signature in black ink, appearing to read "H. Shotter", with a long horizontal flourish extending to the right.

Heather Shotter
Executive Director
Three Waters National Transition Unit