



TE KAUNIHERA-Ā-ROHE O TARATAHI
CARTERTON
DISTRICT COUNCIL

AGENDA

Late Reports Audit and Risk Committee Meeting

Date: Wednesday, 18 August 2021

Time: 9:30am

**Location: Carterton Events Centre
50 Holloway Street
Carterton**

Chair P Jones

Deputy Chair R Cherry-Campbell

Mayor G Lang

Deputy Mayor R Vergunst

Cr D Williams

Marae Representative C Kawana

Marae Representative M Sebire

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1 REPORTS



1.1 THREE WATERS REVIEW UPDATE

1. PURPOSE

For the committee to be updated on the three waters review request from Local Government New Zealand, Taituarā, and Te Tari Taiwhenua Internal Affairs

2. SIGNIFICANCE

The matters for decision in this report are not considered to be of significance under the Significance and Engagement Policy.

3. BACKGROUND

The Three Waters Review is a cross-government initiative led by the Minister of Local Government to improve the regulation and supply arrangements of drinking water, wastewater and stormwater (three waters).

The Department of Internal Affairs (DIA) website (<https://www.dia.govt.nz/Three-waters-review>) hosts a significant amount of information which has led to this point in the review. The review began in mid-2017 and ran in parallel to the latter stages of the Government Inquiry into Havelock North Drinking Water, which was set up following the campylobacter outbreak in 2016.

The Government has made policy decision on an integrated and extensive package of reform proposing the following core components:

- establish four, publicly-owned water services entities to provide safe, reliable, and efficient three waters services –with protections against future privatisation.
- the entities will own and operate three waters infrastructure on behalf of territorial authorities, including transferring ownership of three waters assets and associated debt.
- independent, competency-based boards to govern each entity.
- a suite of mechanisms to protect and promote iwi/Māori rights and interests.
- an economic regulatory regime to protect consumer interests and provide strong incentives for investment and performance.
- stewardship arrangements for the new system to ensure it adapts to shifts in national objectives and priorities and remains fit for purpose.

Specifically, there has been a request from Local Government New Zealand, Taituarā, and Te Tari Taiwhenua Internal Affairs, for Council to take 8 weeks (from 1 August 2021) to:

- engage with and understand the large amount of information that has been released on the nature of the challenges facing the sector, the case for change, and the proposed package of reforms, including the recently announced support package; and
- fully understand the proposal and how it affects the local authority and the community; and
- identify issues of local concern and provide feedback to LGNZ on what these are and suggestions for how the proposal could be strengthened.

No formal decisions are required from Council between now and 1 October 2021.

4. DIA DASHBOARD

In late June 2021 DIA created local dashboards to show the potential local impacts with and without three waters reform. The dashboard for Carterton District Council shows an incorrect cost per annum and incorrect debt to income numbers. Regardless, it would be difficult to make direct comparison between likely future costs under each scenario as the base modelling assumptions for the water entities versus Councils ten-year-plan fundamentally differ.

However, regardless of what body provides three water services the signalled increased regulation and associated higher service level requirements will mean increased future costs.

5. KEY CONSIDERATIONS OVER THE EIGHT WEEK PERIOD

The eight-week time period allows Council to engage with the model and the proposal and how it relates to the district. A decision on the advice, apart from noting, is not required, but the advice could form the basis of consultation with the community at a later date, if required.

From now till 1 October 2021, Council will carry out analysis to understand the potential impact of the reform by taking these steps:

- Understand the key features of the proposed model and how it is intended to work.
- Apply the proposed model to Council circumstances for today and for the future (i.e., a 30-year horizon).

Of note is that key considerations are wider than the financing aspect of the review. LGNZ have provided an outline of the areas that need careful consideration as shown in the diagram below.



Figure 1: Key consideration topics of the review

6. CDC’S FINANCIAL CONSIDERATIONS

Some high-level analysis has been undertaken in the very brief window since the release of the DIA guidance and will be refined and presented to Council as progress is being made.

6.1 DEBT

While the Council’s current debt to income ratio is reasonable, the 30-year infrastructure strategy shows further investment requirements beyond the 10 years, which are likely to put additional pressure on three waters debt levels.

However, from a total Council perspective debt levels are very manageable with cash reserves meaning net debt to income is kept below 100%.

This indicates that three waters debt levels are unlikely to constrain Council as a whole in the medium term and not a strong driver for consideration to move to a large entity.

6.2 RATES

Rates on Council’s three waters are around the national average but show increased pressure in the 2021-31 Ten-year-plan. Three waters rates will continue to rise throughout the ten-year-plan although off-set by increased income and spending reductions in other areas of Council activities.

Over the next ten years the three waters contribution to rates will have doubled between 2019/20 & 2031 (although masked by other council operations and savings). Water reform via the transfer of 3 waters to a separate entity will remove this pressure from CDC rates as well as key considerations regarding future legislative and regulation requirements.

There are several key legislative instruments that signal significant alterations in the way Council will be delivering three water services in the future. These include the National Policy Statement on Freshwater Management, GWRC Proposed Natural Resources Plan, Taumata Arowai–the Water Services Regulator Act 2020, The Water Services Bill, the yet to be released National

Drinking Water Standards, as well as the replacement of Resource Management Act 1991.

These all-present future unknown costing risks.

6.3 STRANDED OVERHEADS

Allocation of overheads to three waters activities is high relative to other councils but understandable given the internal operational workforce that Council use.

There is a significant risk of these overheads becoming stranded within the remaining organization if three waters are separated under reform. The Government's proposal includes funding to help manage this issue, but stranded overheads will have a negative impact on CDC under the proposed reforms.

7. OTHER KEY CONSIDERATIONS

Council have yet to work through the details of the other areas that may be impacted by the reforms and questions associated with those considerations such as:

- Service levels:
 - What will the drinking water standards be in the future and what will we need to meet them?
 - What could be the long-term wastewater irrigation water standards have on Council?
 - What are the details regarding future stormwater requirements?
 - Where do water races fit into the proposed reforms?
 - What may happen with private water suppliers and what potential impact may this have for the TA?
- Community, Social and Economic Wellbeing:
 - How does Council best involve Iwi in the decision making?
 - How does Council retain autonomy over growth decisions and infrastructure prioritisation?
 - What impact will the reform process have on the community in terms of jobs, GDP, or growth?
- Workforce, delivery, and capability
 - How does Council ensure job security for staff including job retention should an entity be created that CDC is not part of?
 - New regulations will require a significant increase in resourcing. Will this be available in the workforce.

8. CONSIDERATIONS

8.1 Climate change

Climate change considerations are a driver for three waters reform.

8.2 Tāngata whenua

This topic will be of interest to Maori, and as noted above, we will need to consider how best to engage with iwi in any decision making.

8.3 Financial impact

As discussed above, the financial implications of three waters reform will continue to be considered by Council.

There are substantial financial implications associated with reform. These will be covered in more depth in future advice to Council once the Crown communicates what the financial transition methodology will be. Water reform will impact Council's revenue, balance sheet and asset base, future financial liabilities and debt.

8.4 Community Engagement requirements

Community engagement on the three waters reform is very important. At this stage, Government is leading communications. Guidance is being prepared for Councils, and this will be incorporated into future advice to the Committee/Council, including any consultation requirements.

8.5 Risks

As discussed in this report, there are significant risks for Council to consider as it continues to work through the implications of the proposed water reforms.

9. RECOMMENDATION

That the Committee:

1. **Receives** the report

File Number: 135385

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Attachments: Nil