



NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri

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EXTRAORDINARY SUSTAINABLE NAPIER COMMITTEE

Open Agenda

Meeting Date: Thursday 6 August 2020

Time: 9.00am

Venue: Ikatere Boardroom
Capeview Building
265 Marine Parade
Napier

Committee Members Mayor Wise, Councillor Price (In the Chair), Deputy Mayor Brosnan, Councillors Boag, Browne, Chrystal, Crown, Mawson, McGrath, Simpson, Tapine, Taylor and Wright

Officers Responsible Director Infrastructure Services, Director City Strategy

Administration Governance Team

**Next Ordinary Sustainable Napier Committee Meeting
Thursday 10 September 2020**

ORDER OF BUSINESS

Apologies

Nil

Conflicts of interest

Public forum

Nil

Announcements by the Mayor

Announcements by the Chairperson

Announcements by the management

Agenda items

1 Three Waters Reform Programme - Memorandum of Understanding3

Public excluded54

AGENDA ITEMS

1. THREE WATERS REFORM PROGRAMME - MEMORANDUM OF UNDERSTANDING

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| <i>Type of Report:</i> | Contractual |
| <i>Legal Reference:</i> | N/A |
| <i>Document ID:</i> | 951023 |
| <i>Reporting Officer/s & Unit:</i> | Adele Henderson, Director Corporate Services Jon Kingsford, Director Infrastructure Services |

1.1 Purpose of Report

Provide information to Council on the Memorandum of Understanding being the first stage of the Three Water Services Reform Programme

Officer's Recommendation

The Sustainable Napier Committee:

- a. Approve entering into the Memorandum of Understanding and associated Funding Agreement and Delivery Plan for the first stage of the Three Waters Services Reform Programme.
- b. Note the Reform Programme is part of the Governments programme to reform current water service delivery, into larger scale providers, to realise significant economic, public health, environmental, and other benefits over the medium to long term, and that signing this MOU does not create any obligation upon Council with regard to future steps of this reform programme;
- c. Note that details on the allocation of the funding will come back to Council as a separate paper. Details of the actual funding are only provided on the signing of the Memorandum of Understanding.
- d. Delegate signing of the MOU to the Chief Executive, noting the attached is a template.

1.2 Background Summary

Over the past three years, central and local government have been considering solutions to challenges facing delivery of three waters services to communities.

This has seen the development of new legislation and the creation of Taumata Arowai, the new Water Services Regulator, to oversee and enforce a new drinking water regulatory framework, with an additional oversight role for wastewater and stormwater networks.

While addressing the regulatory issues, both central and local government acknowledge that there are broader challenges facing local government water services and infrastructure, and the communities that fund and rely on these services.

There has been underinvestment in three waters infrastructure in parts of the country and persistent affordability issues; along with the need for additional investment to meet improvements in freshwater outcomes, increase resilience to climate change and natural hazards, and enhance community wellbeing.

In July 2020, the Government announced a funding package of \$761 million to provide immediate post-COVID-19 stimulus to local authorities to maintain and improve three waters (drinking water, wastewater, stormwater) infrastructure, and to support reform of local government water services delivery arrangements.

The Government has indicated that its starting intention is public multi-regional models for water service delivery to realise the benefits of scale for communities and reflect neighbouring catchments and communities of interest. There is a preference that entities will be in shared ownership of local authorities. Design of the proposed new arrangements will be informed by discussion with the local government sector.

There is a shared understanding that a partnership approach between Central and Local Government will best support the wider community interests, and ensure that any transition to new service delivery arrangements is well managed and as smooth as possible. This has led to the formation of a joint Three Waters Steering Committee to provide oversight and guidance on three waters services delivery and infrastructure reform.

Three Waters Steering Committee

At the recent Central/Local Government Forum, central and local government leadership discussed challenges facing New Zealand's water service delivery and infrastructure, and committed to working jointly on reform.

The Joint Three Waters Steering Committee has been established to provide oversight and guidance to support progress towards reform, and to assist in engaging with local government, iwi/Māori and other water sector stakeholders on options and proposals.

The Steering Committee comprises independent chair Brian Hanna, local government mayors, chairs and chief executives, representatives of Local Government New Zealand and the Society of Local Government Managers, officials and advisors from the Department of Internal Affairs, Taumata Arowai, and the Treasury.

The Steering Committee will ensure that the perspectives, interests and expertise of both central and local government, and of communities throughout New Zealand are considered, while the challenges facing water services and infrastructure are addressed. This will include periods of engagement, in the first instance with the local government sector.

The Steering Committee is supported by a secretariat made up of advisors and officials from Local Government New Zealand, the Society of Local Government Managers, the Department of Internal Affairs, and the Treasury.

Reform programme and funding package

In July 2020, the Government announced funding to provide immediate post-COVID-19 stimulus to maintain and improve water networks infrastructure, and to support a three-year programme of reform of local government water services delivery arrangements.

Central and Local Government consider it is timely to apply targeted infrastructure stimulus investment to enable improvements to water service delivery, progress reform in partnership, and ensure the period of economic recovery following COVID-19 supports a transition to a productive, sustainable economy.

While the Government's starting intention is for publicly-owned multi-regional models for water service delivery, with a preference for local authority ownership, final decisions on a service delivery model will be informed by discussion with the local government sector and the work of the Steering Committee.

Initial funding will be made available immediately to those councils that sign up to the Memorandum of Understanding (MoU) and associated Funding Agreement and Delivery Plan for the first stage of the Three Waters Services Reform Programme.

The Reform Programme is designed to support economic recovery post COVID-19 and address persistent systemic issues facing the three waters sector, through a combination of:

- stimulating investment, to assist economic recovery through job creation, and maintain investment in water infrastructure renewals and maintenance; and
- reforming current water service delivery, into larger scale providers, to realise significant economic, public health, environmental, and other benefits over the medium to long term.

The three waters reform programme can be found on the Department of Internal Affairs website.

Sector Engagement

In addition to working with the Steering Committee, there will be an ongoing programme of engagement with local government, Iwi/Māori, the wider water services sector, and communities of interest throughout the transformation programme.

Initial engagement started July/August 2020 with local government and Iwi/Māori partners to discuss the Memorandum of Understanding (MoU) and associated Funding Agreement and Delivery Plan. This first engagement provides a forum for councils considering signing up to the reform programme to raise issues and work through questions ahead of signing the MoU.

Signing the Memorandum of Understanding commits councils to engage with the reform programme and share information but does not require them to continue with future stages of the reform.

From the initial workshops, ongoing work will continue with ad-hoc sessions and webinars, targeted engagement and formal information-sharing sessions with local government, Iwi/Māori, water service providers and interested parties as we progress the reform programme.

Iwi/Māori interests

Over the past three years central and local government have been considering solutions to challenges facing three waters services delivered to communities. There have been a series of hui and workshops with Iwi/Māori as part of this, through the

Three Waters Review and the establishment of Taumata Arowai. The progress of the proposed reform requires further engagement with iwi/Māori to more fully understand Treaty rights of interests over the course of the reform period.

A range of engagements are proposed over the next 6-12 months both directly through central government and in partnership with local government.

1.3 Issues

Signing the Memorandum of Understanding commits councils to engage with the reform programme and share information but does not require them to continue with future stages of the reform.

1.4 Significance and Engagement

Although the funding is considered significant, the projects that the funding will go towards are likely to be already covered in an existing Annual Plan or Long Term Plan. A separate paper will come back to Council on how the funding will be allocated should the Memorandum of Understanding be signed.

1.5 Implications

Financial

Funding will be provided as soon as practicable following agreement to the Memorandum and the associated Funding Agreement and Delivery Plan. The Delivery Plan will need to show that the funding is to be applied to operating or capital expenditure on three waters service delivery (with the mix to be determined by the Council) that:

- supports economic recovery through job creation; and
- maintains, increases and/or accelerates investment in core water infrastructure renewals and maintenance.

The Delivery Plan will be based on a simple template and will include a summary of projects, relevant milestones, costs, location of physical works, number of people employed in works, reporting milestones and an assessment of how it supports the reform objectives set out in this Memorandum.

The Delivery Plan will be supplied to Crown Infrastructure Partners, and other organisations as agreed between the Parties, who will monitor progress of application of funding against the Delivery Plan to ensure spending has been undertaken consistent with public sector financial management requirements.

Agreement to this Memorandum and associated Funding Agreement and Delivery Plan are required prior to the release of Government funding. The Council will have the right to choose whether or not they wish to continue to participate in the reform programme beyond the term of the Memorandum.

Social & Policy

This Memorandum of Understanding (Memorandum) sets out the principles and objectives that the Parties agree will underpin their ongoing relationship to support the improvement in three waters service delivery for communities with the aim of realising significant public health, environmental, economic, and other benefits over the medium to long term. It describes, in general terms, the key features of the proposed reform programme and the Government funding arrangements that will support investment in three waters infrastructure as part of the COVID 19 economic recovery.

Risk

The Council will have the right to choose whether or not they wish to continue to participate in the reform programme beyond the term of the Memorandum.

1.6 Options

The options available to Council are as follows:

- a. Sign the Memorandum of Understanding that will underpin the ongoing relationship to support the improvement to three waters service delivery, with the provision of funding upfront (a share of Hawkes Bays \$50m with actual amount to be distributed to Napier City Council yet to be confirmed)
- b. Not sign the Memorandum of Understanding

1.7 Development of Preferred Option

Sign the Memorandum of Understanding that will underpin the ongoing relationship to support the improvement to three waters service delivery, with the provision of funding upfront (a share of \$50m with actual amount for Napier City Council to be confirmed)

1.8 Attachments

- A 3 Waters Reform Programme - A3 [↓](#)
- B 3W Reform FAQ's [↓](#)
- C Slide Pack July and August [↓](#)
- D 3 Waters Reform Memorandum of Understanding [↓](#)

Three Waters Reform Programme

A proposal to transform the delivery of three waters services

1. BACKGROUND

Over the past three years central and local government have been considering solutions to challenges facing the regulation and delivery of three waters services. This has seen the development of new legislation and the creation of Taumata Arowai, the new water services regulator.

Both central and local government acknowledge that there are broader challenges facing the delivery of water services and infrastructure, and the communities that fund and rely on these services. There has been regulatory failure, underinvestment in three waters infrastructure in parts of the country, and persistent affordability challenges.

Iwi/Māori also have a significant interest in te mana o te wai. Both central and local government acknowledge the importance of rights and interests under the Treaty of Waitangi and the role of the Treaty partners in progressing these issues.

Additional investment is required to increase public confidence in the safety of drinking water, and to improve environmental outcomes. The reform of three waters services will also support increased sustainability and resilience of communities to natural hazards and climate change.

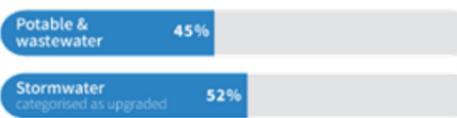
2. CHALLENGES

THE EXISTING INFRASTRUCTURE DEFICIT

Quantifying the precise infrastructure gap remains challenging. The Office of the Auditor General (OAG) has raised concerns about relevant and reliable information about assets remaining a challenge.

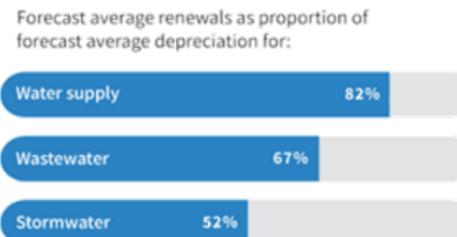
UNGRADED ASSETS

Across our water networks



RENEWAL GAPS

A more recent analysis highlights the extent of the reinvestment challenge and the "renewals gap".



While unquantified in New Zealand due to limited asset quality data, experience from places like Scotland that have undertaken significant water services reforms indicates the bulk of asset replacement value (potentially up to 80%) and the accumulated infrastructure deficit likely lies in renewal of pipes rather than treatment plants.

FURTHER RESEARCH COMMISSIONED BY DIA FOUND:

\$309-\$574 million Estimated cost for upgrading networked drinking water treatment plants to meet drinking water standards, with an additional annual operating cost of \$11-\$21 million.

\$3-\$4 billion Estimated cost for upgrading wastewater treatment systems that discharge to coastal and freshwater bodies to meet national minimum discharge standards, with an annualised operating cost of \$126-\$193 million.

3. OBJECTIVES

- A** Significantly improving safety and quality of drinking water services, and the environmental performance of wastewater and stormwater systems.
- B** Ensuring all New Zealanders have equitable access to affordable three waters services.
- C** Improving resource coordination and unlocking strategic opportunities to consider national infrastructure needs at a larger scale.
- D** Increasing resilience of three waters service provision to both short- and long-term risks and events, particularly climate change and natural hazards.
- E** Moving three waters services to a financially sustainable footing, and addressing the affordability and capability challenges faced by small suppliers and councils.
- F** Improving transparency and accountability in cost and delivery of three waters services, including the ability to benchmark performance of service providers.

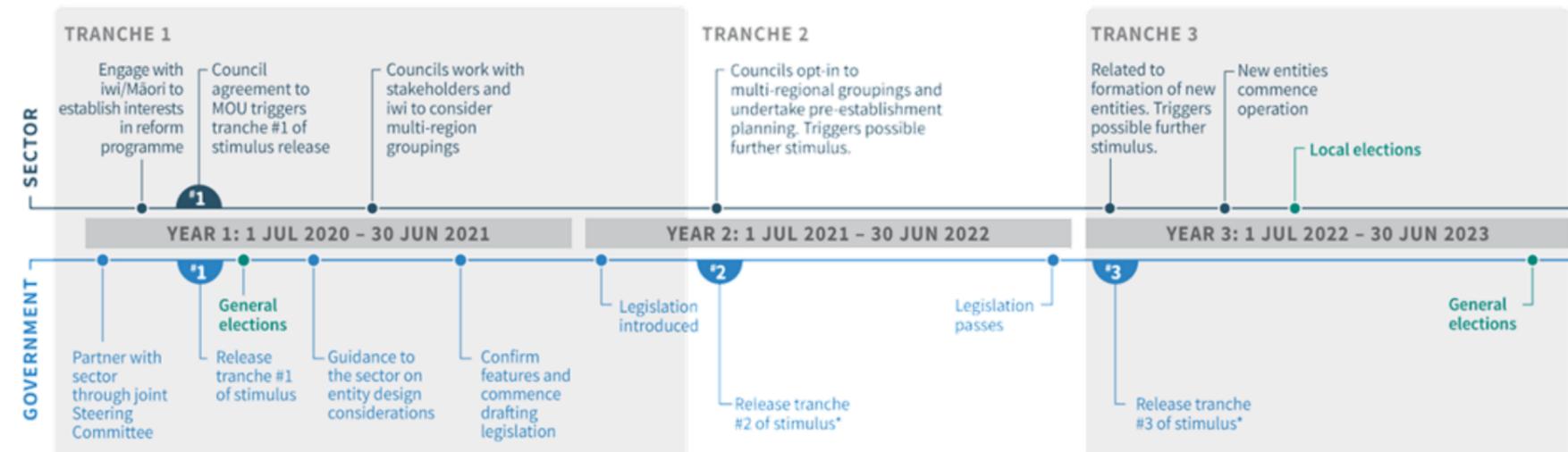
4. KEY FEATURES

Design features of the proposed reform programme should examine, as a minimum:

- A** Water service delivery entities that are:
 - of significant scale (most likely multi-regional) to enable benefits from aggregation to be achieved over the medium- to long-term;
 - asset-owning entities with balance sheet separation, to support improved access to capital, alternative funding instruments and improved balance sheet strength; and
 - structured as statutory entities with appropriate and relevant commercial disciplines and competency-based boards.
- B** Delivery of drinking water and wastewater services as a priority, with the ability to extend to stormwater service provision only where effective and efficient to do so.
- C** Publicly owned entities, with a preference for collective council ownership.
- D** Mechanisms for enabling iwi /Maori and communities to provide input in relation to the new entities.

5. INDICATIVE REFORM PATHWAY

* Subject to Government decision-making



6. PROPOSED PROCESS

- An opt-in reform and funding programme to:**
 - Stimulate investment, to assist economic recovery through job creation, and maintain investment in water infrastructure renewals and maintenance.
 - Reform current water service delivery into larger scale providers, to realise significant economic, public health, environmental, and other benefits over the medium- to long-term.
- Progressed in phases:**
 - Three phases of reform with three tranches of investment proposed (as set out above). The first phase of the programme includes a Memorandum of Understanding between central and local government to progress the reform in partnership. Reform will be guided by a joint Steering Committee at key stages.
- Memorandum of understanding:**
 - Non-binding MOU between each Council and Government.
 - Does not commit Councils to reforming water services or transferring assets.
 - Enables Councils to access funding for three waters through an associated Funding Agreement and Delivery Plan.

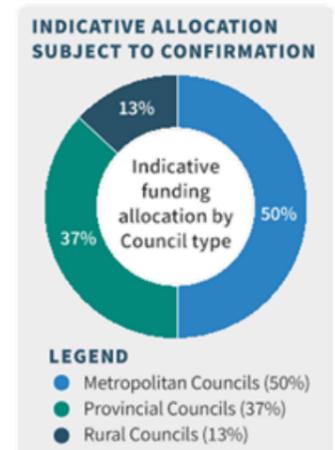
7. FUNDING AND IMPACT

| | | |
|---------------------------|-----------------------------|---------------|
| Government funding | \$761 million | |
| Jobs protected or created | (direct) | 2,288 jobs |
| | (direct, indirect, induced) | 7,230 jobs |
| GDP increase | (direct) | \$236 million |
| | (direct, indirect, induced) | \$800 million |

ALLOCATION OF FUNDING

First tranche funding provided as a grant to Councils who opt-in to participate in the reform process. Allocation is based on a simple formula applied on a nationally consistent basis.

Future additional funding will be subject to Government decision-making and reliant on progress against the reform objectives.



The central and local government Steering Committee has put together the following compilation of FAQs to assist councils with an understanding of the proposed reform programme. These will be added to and updated as further questions arise and the reform programme progresses.

Three Waters Reform Programme: Frequently Asked Questions

FAQs Part 1: High-level questions on reform parameters and scope, and the joint approach

1. Why does service delivery reform need to happen?

- The Havelock North inquiry highlighted some significant deficiencies in the provision and regulation of safe drinking water. This has seen the Government progress a programme of three waters regulatory reform, including the establishment of Taumata Arowai, the new Water Services Regulator.
- While addressing the regulatory issues, both central and local government acknowledge there are broader challenges facing local government water services and infrastructure, and the communities that fund and rely on these services.
- Under-investment in three waters infrastructure in some parts of New Zealand and persistent affordability challenges make it increasingly difficult to meet rising drinking water and environmental regulatory requirements and community expectations, while providing resilient infrastructure. There are concerns that the economic recovery from COVID 19 will exacerbate this situation.
- Addressing these challenges through service delivery reform is intended to facilitate good public health and environmental outcomes, increase resilience to climate change and natural hazards, and enhance community wellbeing and equitable access to affordable water services for all New Zealanders.

2. What will the reform programme entail?

- The reform programme is an opt-in programme designed to support economic recovery post COVID-19 and address persistent systemic issues facing the three waters sector, through a combination of:
 - stimulating investment, to assist economic recovery through job creation, and maintain/accelerate/increase investment in water infrastructure renewals and maintenance; and
 - reforming current water service delivery to realise significant economic, public health, environmental, and other benefits over the medium to long term. The Government's starting intention is for new service delivery arrangements, such as multi-regional entities, which can achieve the benefits of scale, and reflect neighbouring catchments and communities of interest.
- Alongside the above, the reform programme also has the following objectives:
 - significantly improving the safety and quality of drinking water services, and the environmental performance of wastewater and stormwater systems;
 - ensuring all New Zealanders have equitable access to affordable three waters services;

The central and local government Steering Committee has put together the following compilation of FAQs to assist councils with an understanding of the proposed reform programme. These will be added to and updated as further questions arise and the reform programme progresses.

- improving the coordination of resources and unlocking strategic opportunities to consider New Zealand's infrastructure needs at a larger scale;
 - increasing the resilience of three waters service provision to both short- and long-term risks and events, particularly climate change and natural hazards;
 - moving the supply of three waters services to a more financially sustainable footing, and addressing the affordability and capability challenges faced across the sector and particularly by some small suppliers and councils;
 - improving transparency about, and accountability for, the delivery and costs of three waters services, including the ability to benchmark the performance of service providers; and
 - undertaking the reform in a manner that enables local government to further enhance the way in which it can deliver on its broader “wellbeing mandates” as set out in the Local Government Act 2002.
- The reform is expected to proceed in phases, enabling councils to determine at each point in the process whether they will participate in future phases on a voluntary, opt-in basis.
 - The first phase of the programme includes a Memorandum of Understanding (MoU) between central and local government to progress the reform in partnership and targeted infrastructure stimulus to enable improvements to water service delivery and ensure economic recovery following COVID-19.
 - The subsequent phases of the reform programme will be guided by the process undertaken in partnership throughout phase one. However, the Government’s starting intention is to reform current water service delivery arrangements into larger scale providers. These phases will also be on an opt-in basis for local government.

3. What is the timeframe for the reform programme?

- Below is an indicative timetable for the full reform programme. While this is subject to change as the reform progresses, this provides an overview of the longer-term reform pathway.



The central and local government Steering Committee has put together the following compilation of FAQs to assist councils with an understanding of the proposed reform programme. These will be added to and updated as further questions arise and the reform programme progresses.

4. Why are central and local government working together on this programme and why is this the best approach to take?

- A partnership approach between central and local government enables the expertise and aspirations of both parties to guide the proposed reform programme.
- An initial allocation of funding will be made available upon signing of a MoU that commits parties to work together on the reform programme. This stimulus investment will support three waters projects, creating and maintaining jobs and investment in water infrastructure renewals in the context of COVID-19 pressures.
- Additional funding will be subject to Government decision-making and reliant on the parties demonstrating substantive progress against the reform objectives. The amount, timing, conditions and any other information relating to future funding will be advised at the appropriate time.

5. What are the key features the Government is expecting from future reformed service delivery arrangements?

- The first phase of the programme will involve central and local government working in partnership to design and develop the proposed new service delivery arrangements and operating models.
- The initial focus of phase one is on drinking water and wastewater assets and services; however, we will work through the inclusion of stormwater, where appropriate, as part of the reform programme.
- However, the Government is expecting new service delivery arrangements, such as multi regional entities, which can achieve the benefits of scale, and reflect neighbouring catchments and communities of interest. The new water entities would also likely be governed by competency-based boards.
- There are also a number of features that central government expects to be included/retained in new water service delivery entities including:
 - The new water entities must be able to borrow independently of councils;
 - The new entities must be publicly owned – with a preference for collective council ownership – and there need to be mechanisms to protect against privatisation in the future;
 - Consumer interests must be protected, and the model must allow for consideration of the needs and well-being of local communities;
 - At a minimum, drinking water and wastewater must be included in the new water entities. Stormwater services may be included where efficient and effective to do so; and
 - The new entities will be statutory entities (i.e. designed and established by legislation).

The central and local government Steering Committee has put together the following compilation of FAQs to assist councils with an understanding of the proposed reform programme. These will be added to and updated as further questions arise and the reform programme progresses.

- The reform of water service delivery is likely to present a range of Treaty interests which will need to be identified and explored as part of the reform programme through targeted engagement with iwi/Māori.

6. Can councils choose to participate in the reform?

- This reform of service delivery arrangements is an opt-in reform programme. However, the initial stimulus funding to invest in critical water services and infrastructure is contingent upon councils participating in the reform programme. This will entail working with neighbouring councils over the course of the reform period to consider the creation of multi-regional entities.
- There will be subsequent phases of the reform at which councils can choose to opt-in. Later phases are likely to require councils to opt-in by signing a binding contract committing to the reform of their water services.
- Regardless of participation in this process, all water service providers will be required to meet drinking water and wastewater regulatory requirements, including complying with the proposed new drinking water regulatory system that will be overseen by Taumata Arowai (the new Water Services Regulator).

7. What will happen to the voluntary service delivery reform programmes that some councils have already embarked on?

- Those councils that have already begun discussions about three waters reform will be well placed to engage with the reform design.
- It is a decision for councils as to whether they continue their voluntary programmes or sign the MoU and commit to working to get alignment with the reform objectives.
- We will work with these councils on whether their current programmes are likely to meet the objectives of the benefits of scale, and reflect neighbouring catchments and communities of interest as we work through the reform process.

FAQs Part 2: Councils' role in the reform programme

1. How can local government play a role shaping the reforms?

- To ensure reformed water service delivery entities have longevity they need to be shaped and influenced by both central and local government.
- Central and local government have created a Three Waters Steering Committee with representatives from central and local government to oversee and provide input into the design of the proposed service delivery entities.
- The Steering Committee comprises elected members and chief executives from local government along with LGNZ, SOLGM and central government officials.
- Councils signing the MoU will be committing to engage in the reform programme and to work with their neighbouring councils to consider the creation of multi-regional entities.

The central and local government Steering Committee has put together the following compilation of FAQs to assist councils with an understanding of the proposed reform programme. These will be added to and updated as further questions arise and the reform programme progresses.

- Initial sector engagement is planned for July and August 2020 to provide an initial forum for raising issues and areas for the Steering Committee to work through and consider in the detailed design and policy work.
- As we progress beyond this date, we will provide you with updates, and hold workshops or webinars on specific topics to explain options and trade-offs and hear your views.

2. What would my council actually be committing to?

- Councils signing the MoU are committing to the principles and objectives of working together with central government through the first stage of the reform programme.
- This will entail working with neighbouring councils over the course of the reform period to consider the creation of multi-regional entities for the improvement of three waters service delivery for communities. This will include:
 - Open communication and a no-surprises approach to matters related to the reform programme;
 - Working with neighbouring councils over the course of the reform period with a view to creating multi-regional entities; and
 - Openly sharing information and analysis undertaken to date on the state of the system for delivering three waters services and the quality of the asset base.
- The initial funding allocation will be provided as soon as practicable following agreement to the MoU and associated Funding Agreement and Delivery Plan.
- The Delivery Plan and associated reporting arrangements will need to show that the funding is to be applied to operating or capital expenditure on three waters service delivery that:
 - supports economic recovery through job creation; and
 - maintains, increases or accelerates investment in core water infrastructure renewals and maintenance.
- This funding will not need to be repaid if the council does not ultimately commit to subsequent stages of the reform programme provided you meet the terms of the Funding Agreement and Delivery Plan.
- Additional funding will be subject to Government decision-making and reliant on the parties demonstrating substantive progress against the reform objectives.

3. Is the stimulus a grant or a loan?

- The stimulus is a grant.
- The initial funding will be made available following the signing of the MoU and associated Funding Agreement and Delivery Plan and can be applied to three water services as described in those documents.
- It is important that this funding is spent effectively and efficiently as soon as possible to support the economic recovery following COVID-19.

The central and local government Steering Committee has put together the following compilation of FAQs to assist councils with an understanding of the proposed reform programme. These will be added to and updated as further questions arise and the reform programme progresses.

- Additional funding will be subject to Government decision-making and reliant on the parties demonstrating substantive progress against the reform objectives. We anticipate this will include signing a binding contract to commit to water reform (and any associated funding agreements).

4. What does my council need to decide and when?

- As part of the voluntary opt-in process, councils need to consider and sign the MoU and associated Funding Agreement and provide a Delivery Plan by the end of August 2020.
- This MoU covers the first phase of the programme and commits central and local government to partner and work towards the reform of three waters service delivery.
- Councils should approach the MoU in good faith. However, if they initially support the MoU and reform programme and subsequently opt-out, they can do so.
- If a council opts-out, it will not be able to access future funding associated with future phases of the programme.

5. Why does the MoU need to be signed by the August deadline?

- The first phase of the reform programme is in part designed to support economic recovery relating to COVID-19 through urgent funding stimulus. To achieve this, the investment needs to be made and actioned very promptly.
- The initial allocation of funding will be released immediately upon signing the MoU and associated Funding Agreement and Delivery Plan.
- This will help create and maintain jobs, investment in infrastructure renewals and maintenance, and protect the safety and sustainability of this essential infrastructure and its associated services.

6. What role will iwi/Māori have throughout the reform programme?

- It is important that the rights and interests of the Crown's Treaty partners are well understood and that our work is informed by this relationship.
- We acknowledge the range of relationships councils have with tangata whenua that will need to be considered alongside the reform programme.
- We will be formally engaging with iwi/Māori throughout the reform programme to understand the Treaty rights and interests as they relate to the reform. However, we encourage councils to remain engaged with their iwi partners throughout the journey as well.

7. Will councils need to consult with their communities before signing the MoU?

- While each council will have their own significance and engagement policy, our best advice is that you will not have to consult your communities to sign up to the MoU and participate in phase one of the reform programme.
- Signing the MoU, and committing to participate in the reform programme, does not commit the council to change the way it currently delivers three waters services.

The central and local government Steering Committee has put together the following compilation of FAQs to assist councils with an understanding of the proposed reform programme. These will be added to and updated as further questions arise and the reform programme progresses.

- However, you will need to consider your own significance and engagement policy when considering investment to be made through the Funding Agreement and Delivery Plan.
- The decision to commit to the transition to new water entities will not occur until the second phase of the reform programme which is likely to be mid-2021 at the earliest.
- Commitment to subsequent stages of the reform programme may require changes to your LTP which would require public consultation at that stage in the process.

8. How does participating in the reform programme impact my council planning process?

- Participating in this initial stage of the reform programme does not impact your LTP process.
- However, subsequent stages of the reform programme may require changes to your LTP to reflect commitment to future changes as part of this phase of the reform.
- We will work with councils to understand the implications of future stages of the reform, how to undertake public consultation to reflect future commitment to the reform, and how we might reduce the burden of this as the reform programme progresses.

FAQs Part 3: Potential forms of new water service delivery entities

1. What sort of model (ownership/financial) is envisaged?

- The first phase of the reform will work through this question in partnership with central and local government. However, the Government's starting intention is for the entities to meet the objectives of the reform, as above, including to be financially self-sufficient and sustainable.
- The Government's preferred model is that the entities remain in public ownership and that they should be statutory entities.
- Statutory entities are created in legislation and are different from Crown entities.. They can have non-commercial functions or commercial imperatives.
- Each statutory entity usually has its own establishing legislation that contains entity-specific objectives that could be a mix of social, cultural, public policy, and commercial. There will be opportunities for local government to help shape the key features of this legislation through the reform programme.
- The entities will need to be legally separate from councils to ensure balance sheet separation for both the water entity and councils to drive improved access to capital and funding instruments.

2. Will this be a set model for each entity or will there be flexibility?

- The Government is expecting new service delivery arrangements, such as multi-regional entities, which can achieve the benefits of scale, and reflect neighbouring catchments and communities of interest. We anticipate that the entities will have many features in common, as provided for in legislation.

The central and local government Steering Committee has put together the following compilation of FAQs to assist councils with an understanding of the proposed reform programme. These will be added to and updated as further questions arise and the reform programme progresses.

- However, the exact make up of each entity may differ to allow some flexibility at a local level in terms of operations, management, governance, and funding and financing, while ensuring the long-term success and sustainability of these entities.

3. Why does the Government prefer a multi-regional entity?

- A multi-regional entity implies an entity or organisation that is not limited to or constrained by regional boundaries and is likely to include councils in more than one neighbouring region.
- Ministers have indicated a preference for a small number of entities, with at least one large urban centre within each entity. The exact numbers and boundaries of these would be finalised following discussions with local government through the reform programme. However, these decisions are likely to be based on factors such as benefits of scale, communities of interest, and catchments.
- A multi-regional approach is preferred by the Government as it is more likely to achieve the size (population and customer density) over which scale efficiencies are likely to be necessary to meet the objectives of the reform programme.
- The aim of the first phase of the reform programme will be to identify configurations that best meet the objectives of the reform in partnership with central and local government.

4. Looking after water services is a large part of what my council does – if this is being done by other entities what will my council do instead?

- This is an important consideration and will be discussed through the reform programme in partnership with local government.
- Councils provide a wide range of services to communities, and play an essential role in supporting community wellbeing. These roles and potential new roles will be fully explored alongside the reform programme.

5. How will community interests be maintained under the new entity?

- We understand that councils will want to ensure that your ratepayers are protected. The reform process and subsequent design of the water entities will provide mechanisms to ensure this happens.
- New governance and management structures will be put in the place for the new entities with an appropriate establishment phase. These entities will be independently and commercially run and separate from council.
- Councils may no longer have direct control over the assets or water provision in your area. However, there will be mechanisms put in place to ensure local service delivery considerations and influence are maintained.

FAQs Part 4: Potential forms of new water service delivery entity ownership and governance

1. Is this privatisation by stealth and how will public ownership be protected?

The central and local government Steering Committee has put together the following compilation of FAQs to assist councils with an understanding of the proposed reform programme. These will be added to and updated as further questions arise and the reform programme progresses.

- No. The Government has been clear that, if service delivery arrangements are reformed, water infrastructure must remain in public ownership.
- Most water infrastructure is already publicly owned – by communities through their council.
- The preference is for multi-regional water entities to be collectively owned by councils – on behalf of their communities – as shareholders.
- However, the new water entities will need sufficient legal separation to ensure they can borrow, independently of councils and without impacting councils' balance sheets.
- The basis for shareholding will need careful consideration and financial and commercial analysis through the first phase of the reform programme. This analysis will also investigate ways to ensure protections against any future impulse towards privatisation.

2. Will there be Crown ownership?

- The possibility of some form of Crown shareholding has also been raised, but these matters require further consideration and will be worked through as the design process proceeds.
- There are several reasons why the Crown may consider having an ownership interest, including to reflect its level of investment through the economic stimulus packages, and to support the reform objectives. However, these matters require thorough analysis through the early phases of the reform programme.

3. What is the iwi/Māori role in entity ownership and governance?

- It is important that the rights and interests of the Crown's Treaty partners are well understood and that our work is informed by this relationship.
- At a minimum, the entities will be set up in legislation and this may require the relationship to the Treaty to be clearly expressed.
- A programme of targeted engagement will be undertaken with appropriate parties to canvass matters of mutual interest as the programme proceeds.

FAQs Part 5: Asset ownership and transfers

1. Will my council still have control over our assets and service conditions?

- It is proposed that the assets related to provision of water services will be transferred to the new water entities. This would be to ensure that they are owned, maintained and operated independently by the new entities.
- The transfer of assets enables the water entities to take a strategic approach to infrastructure planning and development and funding and financing arrangements.
- We will work to ensure councils and the communities they represent will be able to have their say on service conditions and expectations through mechanisms set up in the design of the statutory entities.

2. If water assets and liabilities are taken out of my council, what will this do to its ability to borrow?

The central and local government Steering Committee has put together the following compilation of FAQs to assist councils with an understanding of the proposed reform programme. These will be added to and updated as further questions arise and the reform programme progresses.

- We will be asking councils for information on assets and liabilities to assess this and determine the impact, on balance sheets, revenue, liabilities and on the ability to borrow. This will vary from council to council.
- We will work through this with participating councils as part of the reform programme.

3. What will happen with my internal resource/staff allocated to water services? Will they transfer too?

- Ultimately this will be a matter to be worked through between employers and employees.
- Consideration will need to be given to the overall level of resource and capability required at an aggregated entity level. However, an objective of the reform is to see efficiencies through shared service delivery at scale.
- Efficiencies mentioned above may not necessarily mean a reduction in staff, but will instead help address current capability and capacity issues, as staff will be used more efficiently across the entity area.
- Once groupings are determined associated resourcing will also need to be worked through and we anticipate an appropriate establishment phase.
- Where your staff operate across water and other council assets, decisions will need to be made as to the best place for this skilled resource to remain.

4. Should I continue with my three waters investment programme now?

- For now, carry on as planned. We are asking councils to not let this process stop you from making planned investment in water assets.
- The additional investment provided by the Government as part of this reform programme is designed to enable you to undertake this planned investment despite the significant impact of COVID-19 on all councils and address existing investment gaps.
- We don't want to stop investment at this key time when improvements and change are needed nationwide, and economic benefits of investment and the associated impact of improved water services are needed.
- When we ask for information to help us shape the reform programme, we will also be interested in your planned capital investment in water and any debt you are planning on raising to fund this.

FAQs Part 6: Water related revenue

1. Will councils retain their water-related revenue?

- Revenue relating to these assets would need to be available to the new entities to ensure that they have the funding (or are able to raise debt against this funding) to maintain, replace and invest in future water assets.
- Different models for revenue collection are applied across the country and we will work with you to understand this and consider whether this will need to evolve over time.

2. How will my ratepayers be charged for water under this model?

The central and local government Steering Committee has put together the following compilation of FAQs to assist councils with an understanding of the proposed reform programme. These will be added to and updated as further questions arise and the reform programme progresses.

- We are looking to minimise the change to consumers.

3. How do I get comfort that ratepayers will not be cross-subsidising other regions and/or face increased costs?

- An aggregated model of service delivery will always involve some degree of cost sharing across the region. However, the extent and scale of this will be worked through in partnership with councils as part of the policy development through the reform programme.
- The intention of this reform is to address the significant ongoing under-investment in three water services in some areas and the capability, capacity and affordability issues that are facing some councils, particularly in light of the expected impact of COVID-19.
- From a national perspective, any increased costs due to cross-subsidisation in the short-term are likely to be offset in the medium-term by benefits of the changes to create sustainable larger scale entities.
- In the medium- to long-term, this includes the operational and efficiency advantages and cost benefits of operating at scale.

FAQs Part 7: Other considerations

1. I am a small council - will I get a say in shaping the solution or just have to follow suit? Will design be dominated by larger councils?

- The intention is that the reform is to ensure that the needs and interests of all communities are identified and understood.
- The views of all councils that sign the MoU will be heard and considered in the final design of the reform.

2. What happens if no neighbouring councils want to join up with my council?

- Once the MoUs have been signed, we will work with those councils that are interested in considering reform.
- The ability to join the reform programme is open to all councils at any stage so more councils may choose to join at subsequent phases.
- However, once the deadline for opting into funding has past, there is no further opportunity for councils to access that funding.

3. What is the process for submitting questions and continued engagement in the reform programme?

- We expect questions to arise throughout the process and will be updating FAQs and distributing these to our webpage as we progress.
- Beyond our proposed initial period of engagement, we will continue to meet and discuss pressing issues with the Steering Committee. We will also provide your council with regular update emails, and opportunities to join webinars and formal information-sharing sessions.
- If there are questions you would like to discuss prior to MoU signing, we will do our best to accommodate this. Please send an email to 3WatersSteeringGroup@dia.govt.nz with your query.

The central and local government Steering Committee has put together the following compilation of FAQs to assist councils with an understanding of the proposed reform programme. These will be added to and updated as further questions arise and the reform programme progresses.

- Please make it as specific as possible so we can do our best to answer it in the short timeframe available. Given the short timeframes and work to be done as part of the programme, we may not be in a position to answer your question fully.

Three Waters Reform Programme

A proposal to transform the delivery
of three waters services

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

Email: 3waterssteeringgroup@dia.govt.nz



Quick overview

1 An opt-in reform programme

With an initial **\$761 million funding package** from central government, and designed to support economic recovery post COVID-19 and address persistent systemic issues facing three waters, by:

- stimulating investment and job creation to assist with **economic recovery**;
- reforming water service delivery, **into larger scale providers**, to realise significant economic, public health, environmental, and other benefits over the medium to long term.

2 Phased delivery

The reform programme will be undertaken in phases, each informed by the previous stage.

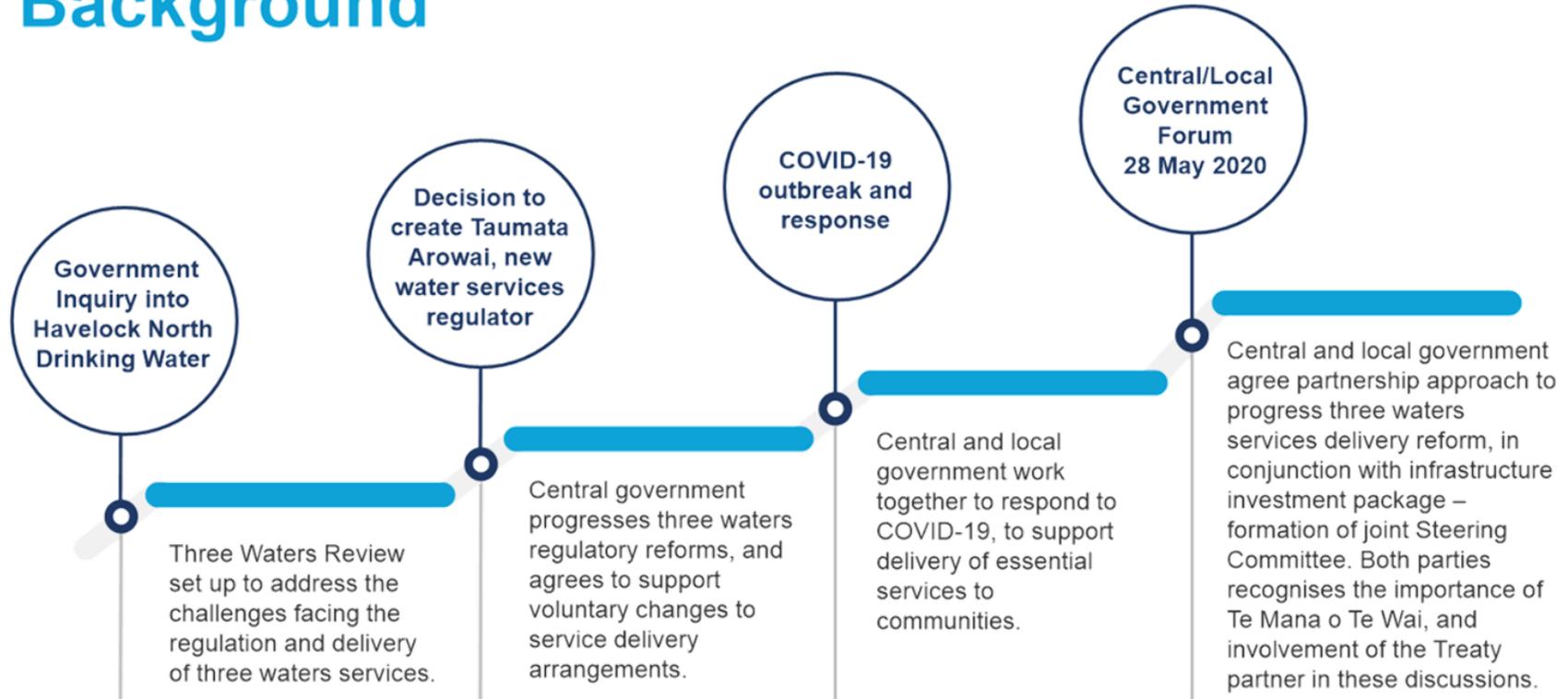
The first phase requires Councils to consider a **non-binding MOU** to share information and participate in reform programme and **does not require asset transfers**.

This is a **good faith** agreement to work together.

3 3-year horizon

Subsequent phases will occur over the **next 3 years** and will require close collaboration, including with input from iwi/Māori.

Background

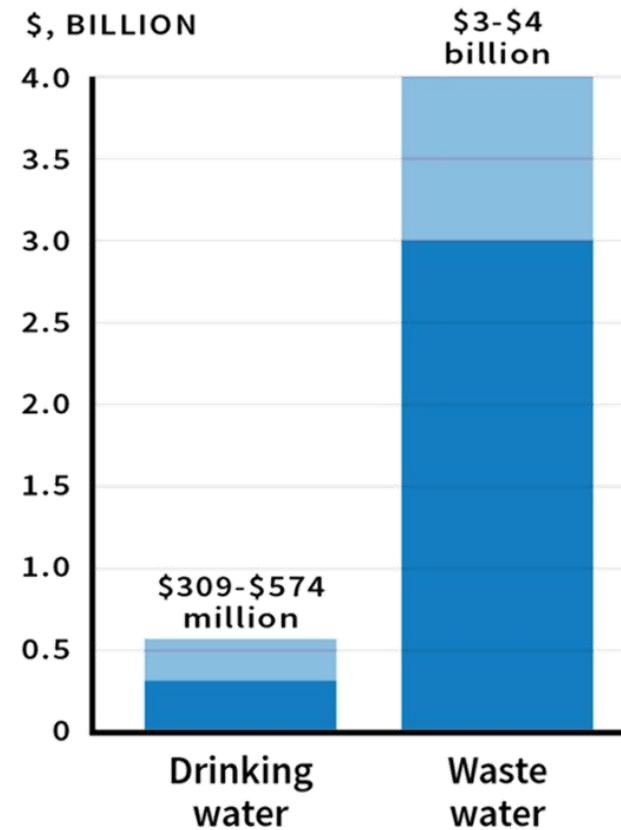


Regulation

- Taumata Arowai, new drinking water regulator, with a focus on compliance, monitoring and enforcement of new drinking water regime.
- Water Services Bill to give effect to Cabinet decisions to significantly strengthen the regulatory framework.
- Potential economic regulation to:
 - Improve transparency about infrastructure and investment
 - Protect interests of customers
 - Support efficiency

Investment challenges

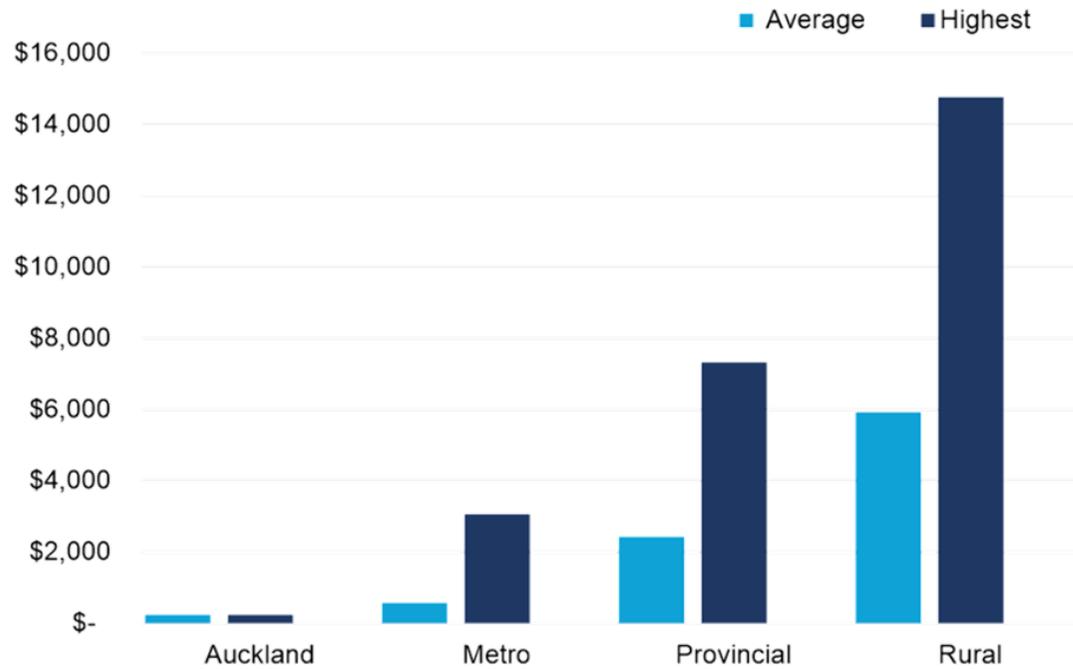
1. Staying ahead of the significant reinvestment and renewals has been a challenge.
2. The cost of meeting drinking water and waste water standards will be high.
3. Funding, financing and affordability issues are only going to be exacerbated by the revenue challenges following COVID-19.
4. Pipes are 80% of the asset base, and are in addition to this.



Funding and affordability challenges

The challenge is greatest for small councils with fewer ratepayers to share costs.

Estimated cost per rateable property for upgrades to wastewater plants that discharge to coastal and freshwater*



* Wastewater costs are driven by existing RMA consent requirements, not three waters changes

Parallel Conversation

There is a parallel opportunity for the local government sector to partner with the Government to ensure the sector is better positioned to expand their role in delivering community wellbeing.

- The Government is acutely aware of the significance of the proposed reform programme for the roles and functions of local government in supporting community wellbeing.
- Over the last year DIA has engaged with local government on how to better promote community wellbeing. We have heard:
 - All parties would need to operate in a different, more seamless and sustainable way;
 - Needs a partnership between local government and central government, iwi, NGOs, and industry to better deliver community-led priorities.

Proposal

The Government is proposing a programme for reforming three waters service delivery arrangements, which would be delivered in parallel with an economic stimulus package of Crown investment in water infrastructure.

| Economic stimulus package |
|--|
| <ul style="list-style-type: none"> • \$761m in FY 2020/21. • Funding provided to territorial authorities who opt-in to a partnership process, before the end of August. • Funding to be invested in three waters infrastructure that support economic recovery. • Further tranches will depend on Government decisions and progress against reform objectives. |

| Service delivery reform Programme |
|--|
| <ul style="list-style-type: none"> • A phased, three-year programme to reform three waters services delivery arrangements. • Supported by joint central/local government steering committee. • Engagement with sector, Iwi/Māori and stakeholders throughout the programme. |

Reform objectives

A Significantly improving safety and quality of drinking water services, and the environmental performance of wastewater and stormwater systems.

B Ensuring all New Zealanders have equitable access to affordable three waters services.

C Improving resource coordination and unlocking strategic opportunities to consider national infrastructure needs at a larger scale.

D Increasing resilience of three waters service provision to both short- and long-term risks and events, particularly climate change and natural hazards.

E Moving three waters services to a more financially sustainable footing, and addressing the affordability and capability challenges faced by small suppliers and councils.

F Improving transparency and accountability in cost and delivery of three waters services, including the ability to benchmark performance of service providers.

Reform design features

Design features that the **proposed** reform programme should examine, as a minimum:

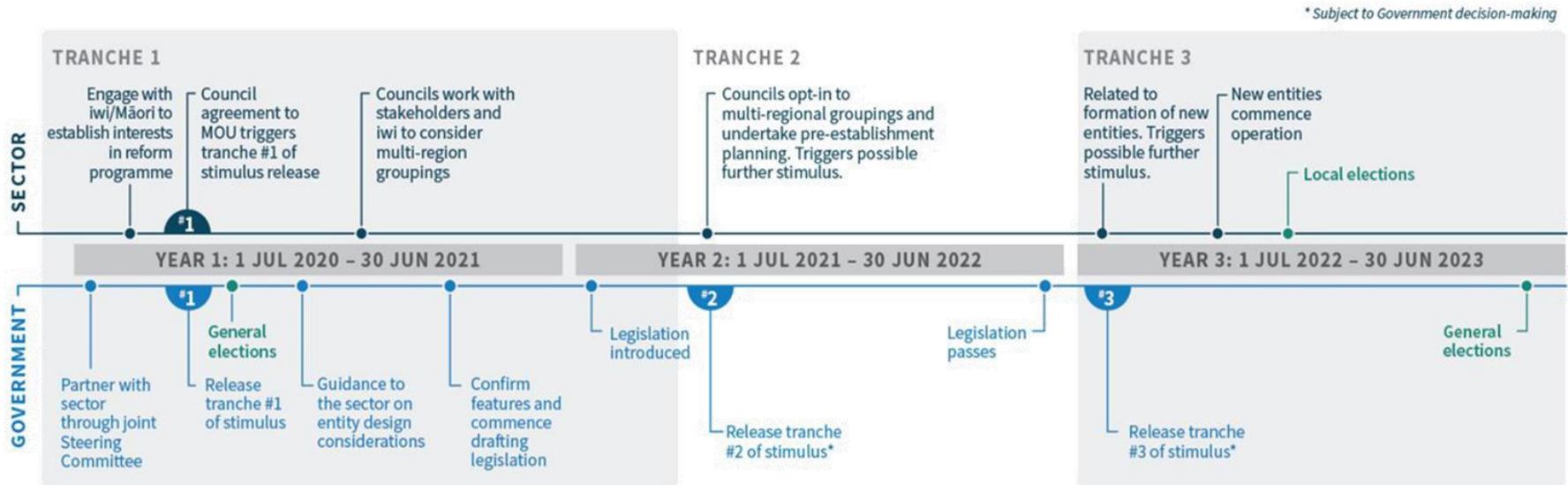
- A** Water service delivery entities that are:
 - of **significant scale** (most likely multi-regional) to enable benefits from aggregation to be achieved over the medium- to long-term;
 - **asset-owning entities** with balance sheet separation, to support improved access to capital, alternative funding instruments and improved balance sheet strength; and
 - **structured as statutory entities** with appropriate and relevant commercial disciplines and competency-based boards.
- B** Delivery of drinking water and wastewater services as a priority, with the ability to extend to stormwater service provision only where effective and efficient to do so.
- C** Publicly owned entities, with a preference for collective council ownership.
- D** Mechanisms for enabling iwi /Māori and communities to provide input in relation to the new entities.

Approach to aggregation

The potential size of the entities will need to be considered against three principles:

| | |
|---------------------------------------|---|
| Scale benefits | Potential to achieve scale benefits from the greater scale of water service delivery to consumers at a multi-regional level to ensure full benefits of scale are achieved through a population/customer base. |
| Communities of interest | Alignment of geographical boundaries to encompass natural communities of interest , belonging and identity including rohe/takiwā. |
| Relevant regulatory boundaries | Relationship with relevant regulatory boundaries particularly to enable water to be managed from source to the sea. |

Indicative timeline



Questions?

Breakout session

Let's break into small groups and discuss:

- 1** What are your thoughts on the proposed minimum design features and reform process?
- 2** What factors do you think the Steering Committee should consider as the reform programme progresses?
- 3** What guidance or support do you think would be helpful?

Next steps

What mechanisms and support
will be made available to local
authorities to participate in this
process?

Memorandum of understanding

A model agreement developed by the Steering Group for each Council to enter into with the Government:

Legal opinion commissioned by SOLGM on behalf of the Steering Committee was provided by Simpson Grierson that the MoU **does not** contain any explicit triggers for consultation under the Local Government Act 2002.

| Committed to... |
|---|
| <ul style="list-style-type: none">• Engage in the first phase of the reform programme.• Work with neighbouring councils to consider the creation of large scale entities.• Principles and objectives of working together with central government.• Openly share information and analysis undertaken on the state of the three waters asset base and delivery system. |

| Does not... |
|--|
| <ul style="list-style-type: none">• Legally commit Councils to future phases of the reform programme.• Require Councils to transfer assets or establish new water entities.• Exclude participation in later phases – Councils that choose to opt-in later can still do so but will not have access to the initial funding package. |

Funding

1 Funding provided to maintain and accelerate three waters infrastructure investment

- Funding provided as a grant.
- Can be used for Capex and/or Opex.
- Drinking water and wastewater priority.

2 Funding allocation to be determined shortly

- Ministers working to confirm this shortly.

3 Planning implications

- Likely focus on renewals and bringing forward of BAU capital works programme.

Decision to opt-in to tranche one required no later than the end of August to access initial stimulus funding

Funding Agreement

Mechanisms for accessing the Government funding package:

Funding Agreement

- Standard-form agreement between Crown and local authorities.
- Guides the release and use of funding.
- Grant funding.
- Sets out:
 - Funding amount.
 - Funding conditions.
 - Public Finance Act/ public accountability requirements.
 - Reporting obligations.

Delivery Plan

Potential
mechanism for
accessing the
Government
funding package:

Potential Delivery Plan

- Short-form template submitted to Crown Infrastructure Partners for review and monitoring.
- Show that funding is applied to operating or capital expenditure that supports economic recovery and maintains/increases investment in core water infrastructure.
- Sets out:
 - A summary of works.
 - Estimated cost.
 - Location of the physical works.
 - Number of people employed in the works.
 - Reporting arrangements.
 - Assessment of how it supports the stimulus objectives.
 - Expected benefits/outcomes.

What are we inviting local authorities to do before August?

Consider whether you will opt-in to a partnership process with the Government to:

- Explore and design a pathway for reforming three waters service delivery arrangements in a way that will be beneficial for your communities.
- Secure an initial release of funding to stimulate economic recovery and maintain, increase or accelerate planned investment in three waters infrastructure.

NOTE: Decisions required no later than the 31 August to access initial stimulus funding.

Next Steps

Upcoming Future Engagement

- Updated FAQs and guidance material following workshops (ongoing)
- Webinar with CEs and Water Managers (early August)
- Webinar for Legal and CFOs (early August)
- Iwi/Māori engagement, in conjunction with Taumata Arowai (September/October)
- Steering Committee communications and updates (ongoing)
- Policy and Commercial discussions (post August)

Questions?

Breakout session

Let's break into small groups and discuss:

- 1** What are your thoughts about the proposed MoU/Funding Agreement and Delivery Plan?
- 2** What further advice or information would your Council require to consider opting in to tranche one?
- 3** What guidance or support do you think would be helpful?

Ngā mihi Thank you

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

Email: 3waterssteeringgroup@dia.govt.nz



Te Tari Taiwhenua
Internal Affairs

We are.
LGNZ.
Te Kāhui Kaunihera o Aotearoa.

 **SOLGM**
New Zealand Society of
Local Government Managers

MODEL

Memorandum of Understanding Three Waters Services Reform

Between the [Sovereign in right of New Zealand acting by and through the Minister of Local Government] and

[Territorial Authority]

Date

PURPOSE

This Memorandum of Understanding (Memorandum) sets out the principles and objectives that the Parties agree will underpin their ongoing relationship to support the improvement in three waters service delivery for communities with the aim of realising significant public health, environmental, economic, and other benefits over the medium to long term. It describes, in general terms, the key features of the proposed reform programme and the Government funding arrangements that will support investment in three waters infrastructure as part of the COVID 19 economic recovery.

BACKGROUND

Over the past three years central and local government have been considering solutions to challenges facing the regulation and delivery of three water services. This has seen the development of new legislation to create Taumata Arowai, the new Water Services Regulator, to oversee and enforce a new drinking water regulatory framework, with an additional oversight role for wastewater and stormwater networks.

While addressing the regulatory issues, both central and local government acknowledge that there are broader challenges facing the delivery of water services and infrastructure, and the communities that fund and rely on these services. There has been regulatory failure, underinvestment in three waters infrastructure in parts of the country, and persistent affordability challenges, and additional investment is required to increase public confidence in the safety of drinking water and to improve freshwater outcomes. Furthermore, investment in water service delivery infrastructure is a critical component of a collective response to climate change and increasing resilience of local communities.

The Parties to this Memorandum consider it is timely to apply targeted infrastructure stimulus investment to enable improvements to water service delivery, progress reform in partnership, and ensure the period of economic recovery following COVID-19 supports a transition to a productive, sustainable economy. Additional funding will be subject to Government decision-making and reliant on the Parties demonstrating substantive progress against the reform objectives. The quantum, timing, conditions, and any other information relating to future funding will be advised at the appropriate time but will likely comprise additional tranches of funding and more specific agreement to key reform milestones.

The reform process and stimulus funding, proposed by Government, is designed to support economic recovery post COVID-19 and address persistent systemic issues facing the three waters sector, through a combination of:

- stimulating investment, to assist economic recovery through job creation, and maintain investment in water infrastructure renewals and maintenance; and
- reforming current water service delivery, into larger scale providers, to realise significant economic, public health, environmental, and other benefits over the medium to long term.

There is a shared understanding that a partnership approach will best support the wider community and ensure that the transition to any eventual new arrangements is well managed and as smooth as possible. This requires undertaking the reform in a manner that enables local government to continue and, where possible, enhance delivery of its broad "wellbeing mandates" under the Local Government Act 2002, while recognising the potential impacts that changes to three waters service delivery may have on the role and functions of territorial authorities.

PRINCIPLES FOR WORKING TOGETHER

The Parties shall promote a relationship in their dealings with each other, and other Parties related to the three waters services reform, based on:

- mutual trust and respect; and
- openness, promptness, consistency and fairness in all dealings and communication including through adopting a no-surprises approach to any matters or dealings related to the reform programme; and
- non-adversarial dealings and constructive problem-solving approaches; and
- working co-operatively and helpfully to facilitate the other Parties perform their roles; and
- openly sharing information and analysis undertaken to date on the state of the system for delivering three waters services and the quality of the asset base.

This Memorandum is intended to be non-binding in so far as it does not give rise to legally enforceable obligations between the Parties.

REFORM OBJECTIVES AND CORE DESIGN FEATURES

By agreeing to this Memorandum, the Parties agree to work constructively together to support the objectives of the three waters service delivery reform programme.

The Parties agree that the following objectives will underpin the reform programme and inform the development of reform options/proposals:

- significantly improving the safety and quality of drinking water services, and the environmental performance of drinking water and wastewater systems (which are crucial to good public health and wellbeing, and achieving good environmental outcomes);
- ensuring all New Zealanders have equitable access to affordable three waters services;
- improving the coordination of resources, planning, and unlocking strategic opportunities to consider New Zealand's infrastructure and environmental needs at a larger scale;
- increasing the resilience of three waters service provision to both short- and long-term risks and events, particularly climate change and natural hazards;
- moving the supply of three waters services to a more financially sustainable footing, and addressing the affordability and capability challenges faced by small suppliers and councils;
- improving transparency about, and accountability for, the delivery and costs of three waters services, including the ability to benchmark the performance of service providers; and
- undertaking the reform in a manner that enables local government to further enhance the way in which it can deliver on its broader "wellbeing mandates" as set out in the Local Government Act 2002.

In addition to these objectives, the Parties recognise that any consideration of changes to, or new models for, water service delivery arrangements must include the following fundamental requirements and safeguards:

- mechanisms that provide for continued public ownership of water service delivery infrastructure, and protect against privatisation; and
- mechanisms that provide for the exercise of ownership rights in water services entities that consider the interests and wellbeing of local communities, and which provide for local service delivery.

The Parties also recognise the reform programme will give rise to rights and interests under the Treaty of Waitangi and both Parties acknowledge the role of the Treaty partner. This includes maintaining Treaty settlement obligations and other statutory rights including under the Resource Management Act 1991 and the Local Government Act 2002. The outcome of discussions with iwi/Māori will inform design of appropriate mechanisms to reflect Treaty interests. This will include clarity of roles and responsibilities.

The Parties agree to work together to identify an approach to service delivery reform that incorporates the objectives and safeguards noted above, and considers the following design features as a minimum:

- water service delivery entities, that are:
 - of significant scale (most likely multi-regional) to enable benefits from aggregation to be achieved over the medium to long-term;
 - asset owning entities, with balance sheet separation to support improved access to capital, alternative funding instruments and improved balance sheet strength; and
 - structured as statutory entities with appropriate and relevant commercial disciplines and competency-based boards;
- delivery of drinking water and wastewater services as a priority, with the ability to extend to stormwater service provision only where effective and efficient to do so; and
- publicly owned entities, with a preference for collective council ownership;
- mechanisms for enabling communities to provide input in relation to the new entities.

The Parties acknowledge that work will also be undertaken to develop a regulatory framework, including mechanisms to protect the interests of consumers.

FUNDING ARRANGEMENTS

The Government has indicated its intention to provide funding to stimulate investment to enable improvements in water service delivery, support economic recovery and progress Three Waters Services Reform. The quantum of funding available for the Council (and each participating Council) will be notified by Government prior to signing this Memorandum.

Funding will be provided as soon as practicable following agreement to this Memorandum and the associated Funding Agreement and Delivery Plan. The Delivery Plan will need to show that the funding is to be applied to operating or capital expenditure on three waters service delivery (with the mix to be determined by the Council) that:

- supports economic recovery through job creation; and
- maintains, increases and/or accelerates investment in core water infrastructure renewals and maintenance.¹

The Delivery Plan will be based on a simple template and will include a summary of projects, relevant milestones, costs, location of physical works, number of people employed in works, reporting milestones and an assessment of how it supports the reform objectives set out in this Memorandum.

The Delivery Plan will be supplied to Crown Infrastructure Partners, and other organisations as agreed between the Parties, who will monitor progress of application of funding against the Delivery Plan to ensure spending has been undertaken consistent with public sector financial management requirements.

Agreement to this Memorandum and associated Funding Agreement and Delivery Plan are required prior to the release of Government funding. The Council will have the right to choose whether or not they wish to continue to participate in the reform programme beyond the term of the Memorandum.

FUTURE AGREEMENTS

The Parties may choose to enter other agreements that support the reform programme. These agreements will be expected to set out the terms on which the Council will partner with other councils to deliver on the reform objectives and core design features, and will include key reform milestones and detailed plans for transition to and establishment of new three waters service delivery entities.

PROGRAMME MANAGEMENT

The Government will establish a programme management office and the Council will be able to access funding support to participate in the reform process.

The Government will provide further guidance on the approach to programme support, central and regional support functions and activities and criteria for determining eligibility for funding support. This guidance will also include the specifics of any information required to progress the reform that may be related to asset quality, asset value, costs, and funding arrangements.

TERM

This Memorandum is effective from the date of agreement until 30 June 2021 unless terminated by agreement or by replacement with another agreement related to the reform programme.

¹ Maintains previously planned investment that may have otherwise deferred as a result of COVID-19.

INTERACTIONS, MONITORING, INFORMATION AND RECORDS

The Parties nominate the following representatives to act as the primary point of communication for the purposes of this Memorandum and any other purpose related to the reform programme.

| | |
|-----------------------------|----------------------------------|
| Government's representative | Council |
| [As delegated] | [Chief Executive of the Council] |

It is the responsibility of these representatives to:

- work collaboratively to support the reform objectives;
- keep both Parties fully informed;
- act as a first point of reference between Parties and as liaison persons for external contacts; and
- communicate between Parties on matters that arise that may be of interest to either party.

If the contact person changes in either organisation, the other party's contact person must be informed of the new contact person immediately and there should be an efficient transition to ensure the momentum of the reform process is not undermined.

CONFIDENTIALITY

Neither of the Parties is to disclose, directly or indirectly, any confidential information received from the other party to any third party without written consent from the other party, unless required by processes under the Official Information Act 1982 or the Local Government Official Information and Meetings Act 1987 (whichever applies), or under a Parliamentary process- such as following a Parliamentary question, in which case the relevant party is to inform the other party prior to disclosure. Protocols will be established to enable exchange information between Councils where that is consistent with progressing reform objectives.

DISPUTE RESOLUTION

Any dispute concerning the subject matter of this document is to be settled by full and frank discussion and negotiation between the Parties.

.....

SIGNED on behalf of the Crown
by [insert name - DELETE TEXT]

[Sovereign in right of New Zealand acting by
and through the Minister of Local
Government]:

.....

SIGNED by [insert name of the Mayor of the
Territorial Authority signing - DELETE TEXT] on
behalf of [Territorial Authority]

.....

SIGNED by [insert name of the Chief Executive
of the Territorial Authority signing - DELETE
TEXT] on behalf of [Territorial Authority]

.....

Witness signature

Witness name [insert name - DELETE TEXT]
Witness occupation [insert occupation -
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-DELETE TEXT]

Witness address [insert address - DELETE
TEXT]

PUBLIC EXCLUDED ITEMS

That the public be excluded from the following parts of the proceedings of this meeting, namely:

CONFIRMATION OF MINUTES

Public Excluded Minutes of the Sustainable Napier Committee meeting held on Thursday, 13 February 2020

The general subject of each matter considered while the public was excluded, the reasons for passing the resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution were as follows:

| General subject of each matter to be considered. | Reason for passing this resolution in relation to each matter. | Ground(s) under section 48(1) to the passing of this resolution. |
|--|--|---|
| 1. Chief Executive Contract | 7(2)(a) Protect the privacy of natural persons, including that of a deceased person 7(2)(g) Maintain legal professional privilege | 48(1)A That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987. |