



NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri

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SUSTAINABLE NAPIER COMMITTEE

Open Minutes Attachments

Meeting Date:	Thursday 19 August 2021
Time:	10.00am
Venue:	Via Zoom and live streamed to Council's Facebook page.

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Water Reform Risk Summary

The following items were discussed at an Audit and Risk Committee workshop held on the 10th August 2021. There were three scenarios discussed as part of the exercise, Entity C Model, Hawkes Bay Model and Status Quo. The Hawkes Bay Model had a number of boundary variations, but it was found that the risks associated with each variant were similar. The Status Quo of retaining the Napier City boundary was considered unviable in terms of affordability for the community to meet the growth requirements and increasing legislative standards for the 3 water networks. For this reasoning this scenario was not considered for further assessment.

Scenario – Entity C Model

Risks identified were:

- Compromised Growth Plan Implementations
- Household ability to Pay
- Gaps in Service Delivery and Funding Responsibilities
- Increased Cost of Works
- Increased Incident Response Time
- Vague Growth Objectives
- Lack of Programme Coordination
- Limited Technical Capability
- Failure to Develop Additional Water Capacity

The conversation surrounding this model highlighted concerns around the complexity of amalgamating 21 Councils and the potential loss of local influence on governance, levels of service and meeting the needs of growth.

The concern was also with the complexity of the governance structure and the distance of Maori governance and input into the activities of the Water Services.

The structure proposes to reduce the representation from a locally elected structure from the communities to an independently appointed (suitable qualified) board.

The lack of local representation in this board model raised the question, how were local pressures and needs going to be met in the future?

Scenario – Hawkes Bay Model

The Hawkes Bay Model had a number of variations which ranged from the current Hawkes Bay regional boundary including Napier, Hastings Wairoa and Central Hawkes Bay District Councils.

There have been other examples proposed with the addition of neighbouring districts to include Ngati Kahungunu and Tairāwhiti to improve the coverage with the focus on an Iwi based geographical area.

Risks identified were:

- Staff Contractor Retention
- Stranded Overheads
- Loss of Customer Experience
- Resistance to Change
- Speed of Change
- Lack of Business Confidence

The ability to raise the debt ratio to greater than 250% may not be as great as the proposed levels in the Entity C Model the government is proposing.

The model also would not be as cost effective as the Entity C Model without the inclusion of the metropolitan areas of Wellington Marlborough, Nelson and Palmerston North. The reduction in affordability would then be the trade-off for greater local governance.

There is a possibility with this model that other councils and communities may prefer the Entity C Model for more favourable economic advantages. This could also lead to stranded community areas where their immediate neighbours are in a different entity to the one they may wish to join.

Both models will require a change in legislation to allow Local Authorities to form part of a greater Water Entity, however the risk to the HB Model is that the legislation may limit the ability to deviate from the current 4 entity model.

Community preference for greater economic savings compared to the desire for local governance has been discussed as a risk to this model with respect to the current speed of the changes and the ability to explain the benefits and risks to the community for an informed decision process. This may lead the communities into an uninformed decision that could result in an undesired outcome.

Memorandum of Understanding Three Waters Services Reform

Between the Sovereign in right of New
Zealand acting by and through the
Department of Internal Affairs and
NAPIER CITY COUNCIL

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	Territorial Authority's representative
Allan Prangnell threewaters@dia.govt.nz CC. Chief Legal Advisor Legal.notices@dia.govt.nz	Keith Marshall, Chief Executive, Napier City Council chiefexecutive@napier.govt.nz

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 by The Sovereign in right of New Zealand
acting by and through the Chief Executive of the
Department of Internal Affairs

Date 28 August 2020



SIGNED by
Mayor Kirsten Wise

on behalf of
Napier City Council

Date 27th August 2020



SIGNED by
Keith Marshall, Chief Executive

on behalf of
Napier City Council

Date 27th August 2020

Witness signature



Witness name
Adele Henderson

Witness occupation
Director Corporate Services

Witness address

26 Pukekura Place, Taradale, Napier

Date 27th August 2020

A new system for three waters service delivery

DIAGRAM 1

JUNE 2021

1. A CASE FOR CHANGE

This Government has ambitions to significantly improve the safety, quality, resilience, accessibility, and performance of three waters services, in a way that is efficient and affordable for New Zealanders. This is critical for:

- public health and wellbeing;
- environmental outcomes;
- economic growth and employment;
- housing and urban development;
- adapting to the impacts of climate change;
- mitigating the effects of natural hazards.

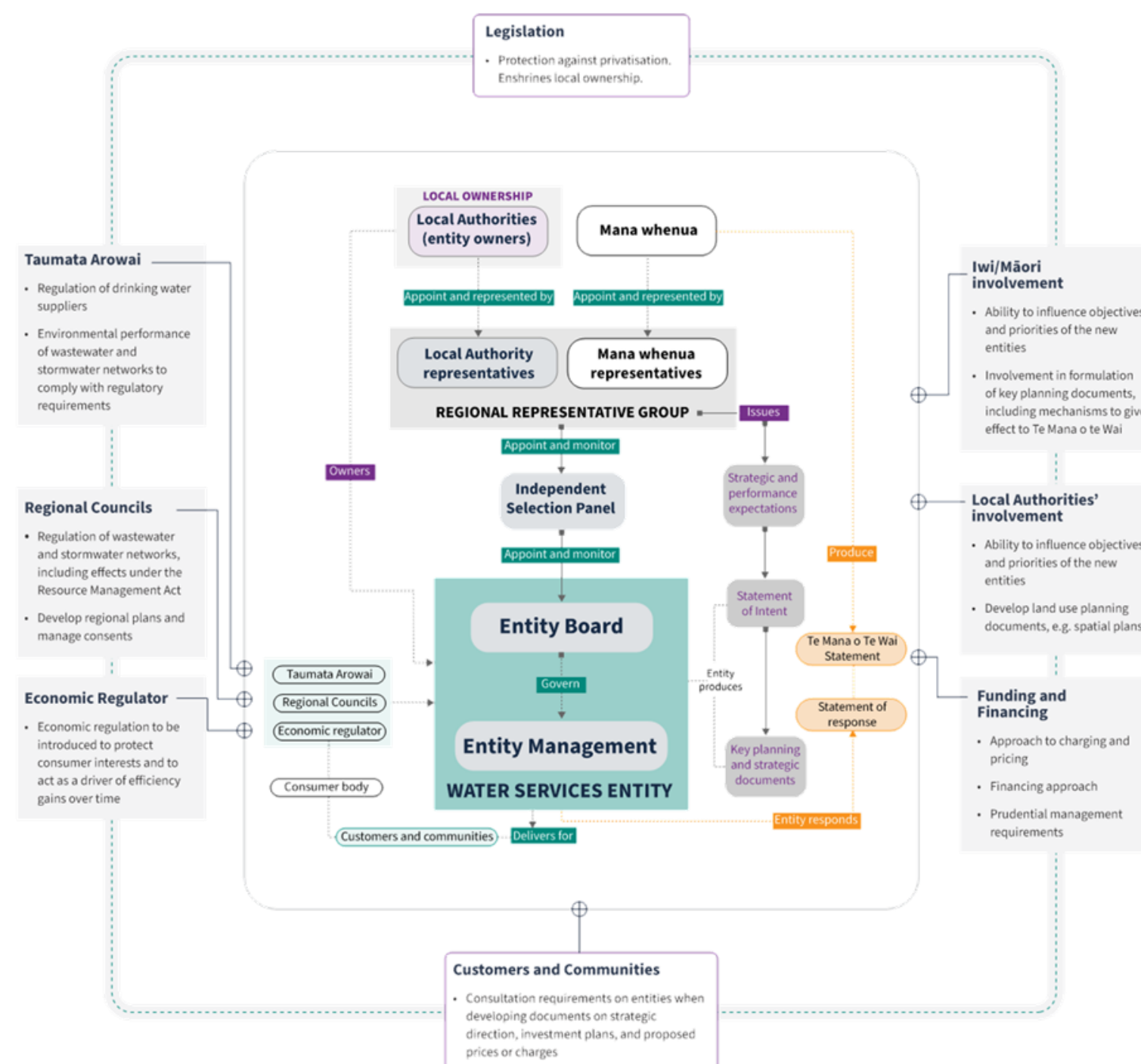
Government also wants to ensure it delivers on Treaty-related obligations, including by improving outcomes for iwi/Māori in relation to three waters service delivery.

Integral to this is effective infrastructure delivery, underpinned by an efficient, high-performing, financially-sustainable, and transparent three waters system.

2. KEY DESIGN FEATURES

- Maintaining local authority ownership of water services entities;
- Protecting against privatisation;
- Retaining influence of local authorities and mana whenua over strategic and performance expectations;
- Providing the necessary balance sheet separations from local authorities; and
- An integrated regulatory system.

3. A NEW WATER SERVICES SYSTEM



4. OBJECTIVES FOR THE CROWN/MĀORI RELATIONSHIP

Enabling greater strategic influence to exercise rangatiratanga over water services delivery.

- A Integration of iwi/Māori rights and interests within a wider system.
- B Reflection of a holistic te ao Māori perspective.
- C Supporting clear account and ensure roles, responsibilities, and accountability for the relationship with the Treaty partner.
- D Improving outcomes at a local level to enable a step change improvement in delivery of water services for iwi/Māori.

5. A PARTNERSHIP-BASED REFORM

Government will continue to work in partnership with iwi/Māori and local authorities.

A large scale communication effort is required to ensure local government support reform.

Further decisions are yet to be taken by Cabinet on the arrangement for transition to, and implementing, the new system.

A new system for three waters service delivery

The number and boundary of entities needs to balance scale with other factors

DIAGRAM 2
JUNE 2021

1. FACTORS CONSIDERED TO DETERMINE NUMBER AND BOUNDARIES

A range of factors have been analysed to help determine how many entities there should be, and their boundaries:

- A** Potential to achieve scale benefits from a larger water service delivery entity to a broader population/customer base.
- B** Alignment of geographical boundaries to encompass natural communities of interest, belonging and identity including rohe/takiwā.
- C** Relationship with relevant regulatory boundaries including to enable water to be managed from source to the sea - ki uta ki tai.

Applied economic analysis, informed by international evidence, provides further confidence that each entity would need to serve a connected population of at least 600,000 to 800,000 to achieve the desired level of scale.

The preferred approach is to create four new water services entities, and to enable all communities to benefit from reform.

2. PROPOSED BOUNDARIES

Government has agreed to a preferred set of entity boundaries. However, the Government remains interested in continuing discussion with local government and iwi/Māori most affected by the proposed boundary choices. In particular:

South Island entity
Whether there should be a single entity covering the whole of the South Island, or instead take an approach that uses the Ngāi Tahu takiwā.

Taranaki region
Which entity would include the Taranaki region, taking into account ki uta ki tai, whakapapa connections, and economic geography/community of interests.

Hauraki Gulf
Whether to include other districts surrounding the Hauraki Gulf, enabling a more integrated approach to the management of the Hauraki Gulf marine catchment.

The map highlights the recommended boundaries.

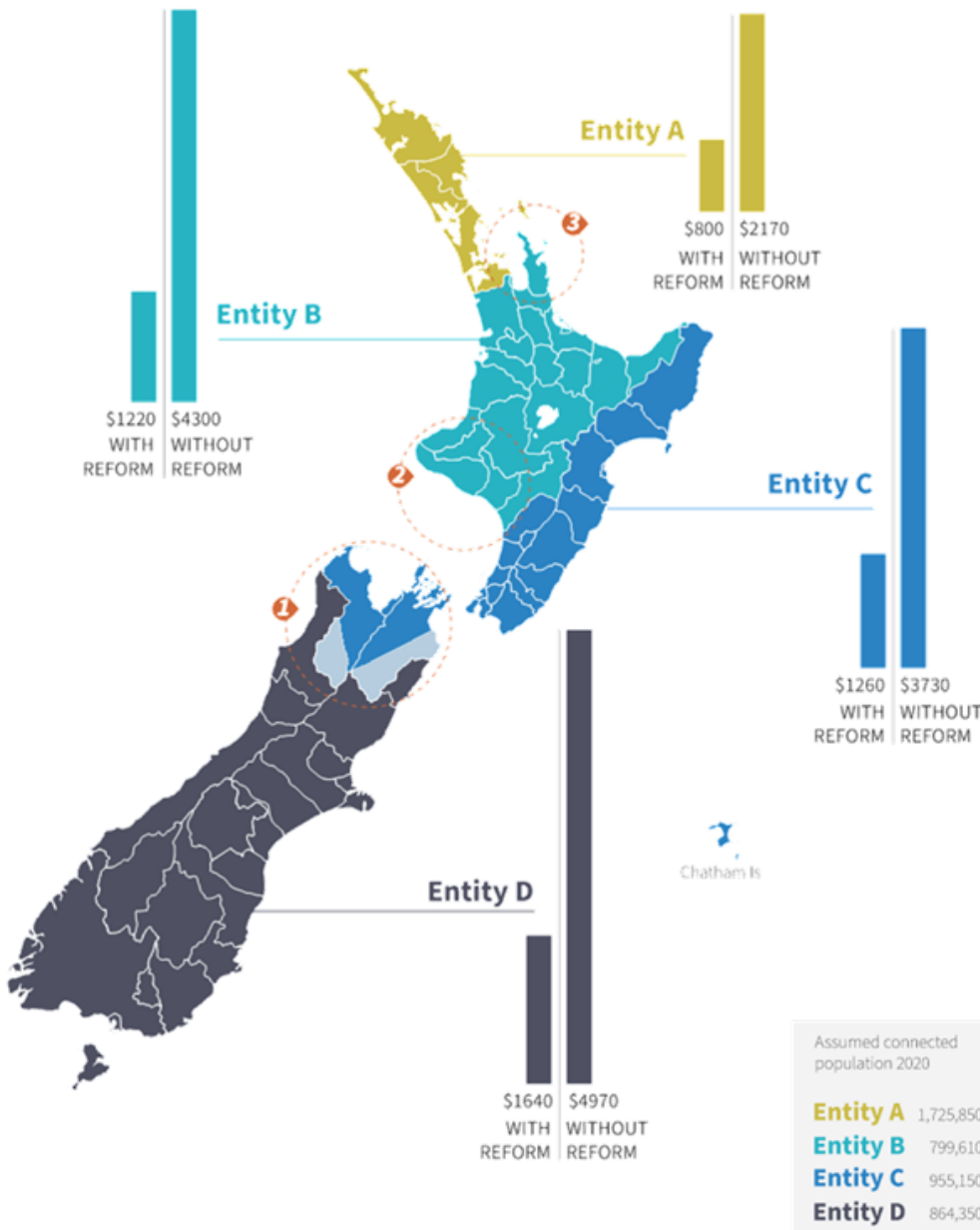
3. OUR INTENTION IS THAT ALL COMMUNITIES BENEFIT FROM REFORM

Latest estimates indicate that the amount of investment required to:

- provide for future population growth
- replace and refurbish existing infrastructure
- upgrade three waters assets to meet drinking water and environmental standards

Is in the order of
\$120 billion to \$185 billion
over the next 30 to 40 years.

4. PROJECTED HOUSEHOLD COSTS 2051



The figures presented above for household bills with and without reform set out what an average household would be likely to pay for three waters services in 2051, in today's dollars, based on analysis by the Water Industry Commission for Scotland.

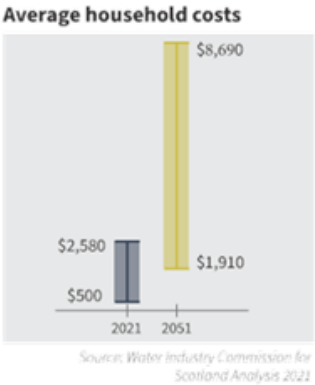
A weighted average figure is presented for household bill estimates without reform, to account for the wide variance between council pricing policies. This weighted average figure reflects the proportion of the connected population that resides in each council area relative to neighbouring councils within the relevant water services entity.

5. POTENTIAL IMPACTS

Difference in household costs

Average household costs for most councils on a standalone basis in 2051 are likely to range from between \$1,910 to \$8,690.

The scale of investment required between now and 2051, would require average household costs to increase by between three to 13 times in real terms for rural councils, between two and eight times for provincial councils and between 1.5 and seven times for metropolitan councils.



Current household costs

Currently there are a wide range of current (2019) average household costs.

	LOW	HIGH	MEDIAN	MEAN
Metro	\$500	\$1,920	\$1,050	\$1,120
Provincial	\$610	\$2,550	\$1,120	\$1,300
Rural	\$210	\$2,580	\$1,340	\$1,390

Source: Water Industry Commission for Scotland Analysis 2021

Current costs are not necessarily a good reflection of what funding is required to meet the full costs of economic depreciation (that is, to provide resources for asset maintenance and renewal).

Potential economic impact of reform

The economic impact assessment estimates the impact of a material step up in investment in connection with reform, relative to the level of investment that might be expected in the absence of reform.

Change relative to counter-factual, 2022-2051

Net change in GDP p.a. over 30 years	▲	0.3% to 0.5%
Present value increase in GDP	▲	\$14b to 23b
Average increase in FTEs	▲	5,850 to 9,260
Increase in average wages	▲	0.2% to 0.3%
Present value increase in taxes	▲	\$4b to \$6b

Source: Deloitte Three Waters Reform Economic Impact Assessment 2021

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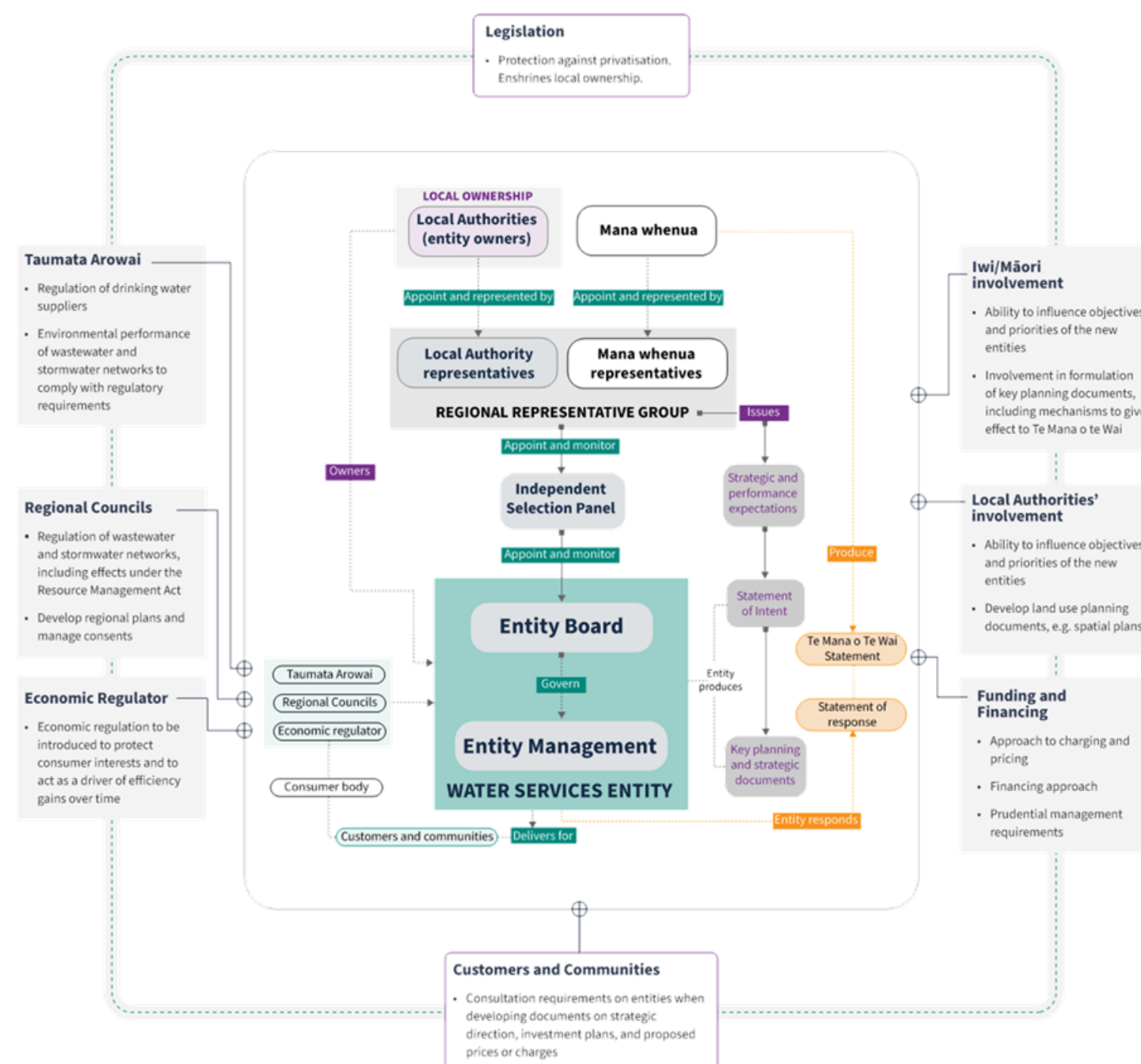
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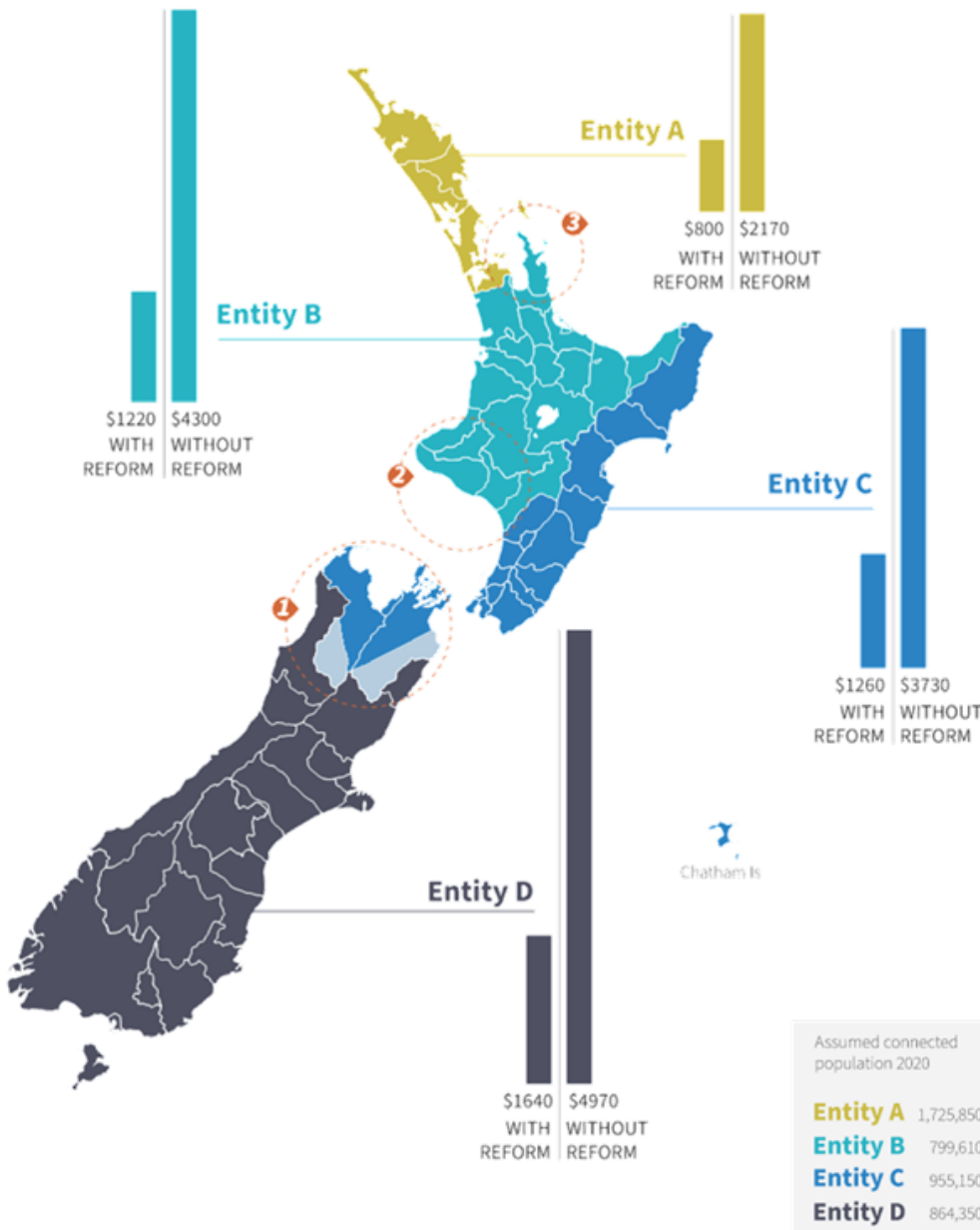
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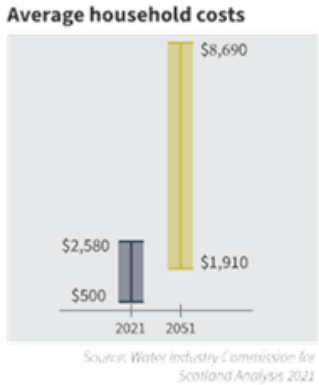
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