



# CLUTHA DISTRICT COUNCIL

Address all correspondence to:  
The Chief Executive

Our Reference  
745041

20 July 2022

The Chair  
Finance and Expenditure Committee  
Parliament Buildings  
Wellington 6160  
[fe@parliament.govt.nz](mailto:fe@parliament.govt.nz)

## CLUTHA DISTRICT COUNCIL SUBMISSION: WATER SERVICES ENTITIES BILL

### SUMMARY OF RECOMMENDATIONS

1. That Council supports the goals of ensuring communities are provided with safe and affordable water services that support good public health and environmental outcomes as well as stronger recognition of the Treaty partnership in the Three Waters context.
2. That Central Government hold a national referendum on Three Waters service delivery reform.
3. That the legislative process should pause.
4. That rural water schemes have an option to opt out of the Water Services Entity subject to criteria, or if not provided for in the Water Services Entities Bill, then nothing in that Bill should prevent it.
5. That the Community voice be reinforced by requiring the Water Service Entities to respond to how they will give effect to District or City statements, like the treatment of Te Mana o te Wai statements.
6. That s27 be amended to add a new sub clause such that “no territorial authority may appoint more than one territorial authority representative”.
7. That Subpart 5 be amended to read:
  - a. Clause 45(1) The constitution of a water services entity may establish 1 or more regional advisory panels and must establish a regional advisory panel if a shareholding territorial authority requests.
  - b. Clause 45(2) Each regional advisory panel may include an equal number of-

- c. **Clause 46 The role of a regional advisory panel is to provide advice to a regional representative group and a water services entity about that group or entity's performance or exercise of its duties, functions, or powers (see sections 11 and 28) in respect of, or otherwise affecting, a particular geographic area—**

**8. That the National Transition Unit be required to urgently recruit overseas for skilled staff to address capacity risks that exist now.**

**9. That transition clauses 11(2)(a) and 21 of Schedule 1 be redrafted.**

## **GENERAL**

10. The Clutha District Council (CDC) thanks the Finance and Expenditure Committee for the opportunity to provide a submission on the Water Services Entities Bill (the Bill).
11. CDC has previously provided feedback to the Hon. Nanaia Mahuta, Minister of Local Government (the Minister) on 30 September 2021. We highlighted areas of concern with the proposed reforms on the matters of rural water schemes, governance arrangements, meaningful consultation with Communities, planning and investment for growth, workforce support and development, integration with other reform processes, transition arrangements, ownership, privatisation, and key funding principles.
12. On 18 October 2021 Cabinet decided to proceed with the Three Waters delivery reforms using a legislated "all-in" approach.
13. In December 2021 CDC issued a position statement to our public who were requiring comment on the about turn by Cabinet that took away the opportunity to consult with our communities. "Whilst being infuriated by this change which has denied our right to self-determination and the ability to conduct meaningful engagement with our ratepayers, nevertheless CDC committed to being engaged and working within the process to influence meaningful change."
14. Mayor Cadogan chaired the Rural Supplies Technical Working Group and CDC has supported recommendations from the Governance Working Group and the Rural Supplies Technical Working Group.
15. Recent months have been challenging and the community is divided over these reforms. CDC has engaged constructively, particularly with our Rural Water Schemes and we have been very well supported by the Department of Internal Affairs (DIA) and Taumata Arowai, who have taken opportunities to understand the uniqueness of those schemes. This hasn't prevented the prevalence of misinformation and the hijacking of public information events by special interest groups. It is with regards to this community division that CDC is obliged to address a particular petition in this submission that calls for a referendum on Three Waters reform and for CDC to leave Local Government New Zealand (LGNZ).
16. Given CDC's position statement of December 2021, it is consistent for CDC to call for Central Government to hold a national referendum on Three Waters reform. For that to have meaning then the reform legislative process should pause.
17. CDC also takes the opportunity in this submission to advise that it has no intention of leaving LGNZ.

18. CDC shares common goals with Government in wanting to ensure communities are provided with safe and affordable water services that support good public health and environmental outcomes, as well as stronger recognition of the Treaty partnership in the Three Waters context. CDC wants to be an active participant in ensuring such goals are met.
19. CDC will confine our submission to CDC's key areas of concern.

## **RURAL WATER SCHEMES**

20. We refer to the Rural Supplies Technical Working Group (RSTWG) report to the Department of Internal Affairs dated 31 May 2022. CDC supports the recommendations of the RSTWG.
21. The report recognises the uniqueness of mixed-use rural drinking and stock water supplies. It recommended a pathway to allow consideration to transfer such schemes back to users, should they desire to do so and should they meet relevant criteria. Further to this, if there are degrees of uniqueness, then Clutha District Rural Water Schemes can be categorised as the most unique mixed-use rural supplies in New Zealand. This has been the consistent feedback from DIA and Taumata Arowai senior officials with every engagement.
22. The Committee is requested to read our feedback of 30 September 2021, in particular the section on Rural Water Schemes and Attachments A-C which are appended for ease of reference as Appendix 1. The schemes are a significant reason why Clutha District has the third longest reticulated water network in the country. Certainty of supply to our farms is the number one priority, because we can always boil water if there is a quality issue, but we can't conjure up water if there is a supply issue. The rural schemes exist because Clutha District doesn't have plentiful on-farm sources of water and reticulated schemes were the most efficient and effective option. When supply is considered, our at-risk population isn't so much 6,700 people served by the schemes it is the over 2.1M (2017 figures) of livestock population which is at risk, including the consequential economic business loss. This is one area where drinking water standards may conflict with necessity of supply. It is critical Water Services Entities (WSEs) that have responsibility for rural water schemes understand this.
23. CDC strongly supports a provision in this Bill or later legislation where rural water schemes have an option to opt out of the WSE subject to meeting relevant criteria (which are being discussed with DIA and Taumata Arowai) including the requirement for 75% of the scheme users to agree. CDC is already working with rural water schemes, DIA and Taumata Arowai to develop the criteria and we will support transparent and agreed fact-based information sharing in a process that gets to a rural water scheme user decision point. If provisions were to be considered in future legislation CDC requests that nothing in this Bill prevents that.
24. Whilst not specific to this Bill, it may be for future legislation or for WSE constitutions. CDC still requests the Committee note our concerns that where rural waters schemes are included in a WSE, then there needs to be consideration of:
  - a. Connecting the rural water scheme committees to the WSE,
  - b. Pricing concerns,
  - c. Certainty of supply, and
  - d. Retention of local knowledge and local responsiveness.

## LOSING THE COMMUNITY VOICE

25. CDC remains concerned that our communities will not be well represented on the WSE. Despite having the third longest reticulated water network in the country there are a lot less positions on the Regional Representative Group (RRG) than there are Territorial Authorities (TA's). The Bill doesn't help in this respect because it gives no guidance or direction on how TAs are to appoint representatives, other than requiring they are elected members, TA chief executives or senior managers.
26. There is no guarantee CDC will be on an RRG or that a WSE will establish a Regional Advisory Panel (RAP).
27. A TA is accountable to its community, it has over time and through continual engagement set the strategic direction for its District across the four well-beings. It understands the now and the future and sets that out in Financial Strategies, Infrastructure Strategies, Long-Term Plans, District Plans and Reserve Management Plans. The Bill does not provide for a WSE being required to take that into account. S13(f) simply says that operating principles of a WSE are partnering and engaging early and meaningfully with TA's and their communities. S29(a) doesn't help in that respect as the RRG (which is not wholly representative of our region for example), is only required to perform its functions, duties and powers "wholly or mostly for the benefit of all communities in the entity's service area".
28. Given that the RRG under the Bill cannot provide any certainty a TA's views are being heard and considered by the WSE, there remains a risk that the TA and community voice will be lost. This has been a consistent theme raised by those opposed to the legislation. Any changes to how the RRG works or how RAP's may work only skirt the issue and don't solve it.
29. One solution that may assist is to assert the same treatment applied to Te Mana o te Wai (under various sections of the Bill but most illustratively at s140-142) to TAs through District or City statements. There has always been suggested weakness in the reform proposals around integrated planning and this proposal can also assist with that concern. The proposal would mean one statement per District or City, but the Bill already has the objective of early and meaningful engagement with (every) TA and their community, so it isn't unreasonable. If a TA knew that the WSE must respond to a District Statement, there may be less parochial risk attached to membership of an RRG and potentially less need for an RAP.
30. It would be consistent with this approach that s145, 148, 151, and 154 included in the relevant required content how the entity addresses District or City Statements.

## RRG's and RAP's

31. Despite our proposal that District and City Statements have a place in preserving and enhancing the community voice, CDC has additional comments on sections of the Bill relating to RRG's and RAP's.
32. Where any shareholding Council requests the creation of an RAP then it should not be a discretionary decision for the WSE. Clause 45 of the Bill currently states that the constitution of a WSE may establish one or more RAP's. This should be amended to state "and must if one or more shareholding Councils request".
33. The role of an RAP is to provide advice to the RRG on the RRG's performance or exercise of its duties, powers, and functions. When first considering s45-49 it is not immediately apparent that the RAP is not set up to provide local voice to the WSE, it is only providing advice to the RRG on what the RRG is doing.

It is CDC's view that the RAP role should be expanded to provide feedback on the performance of the WSE with respect to the geographical area of the RAP.

34. Additionally, given the limited nature of the role of the RAP, even with the suggestion in Clause 33 above, requiring equal mana whenua members may be problematic. CDC is interested in the Ngāi Tahu view on this for WSE 4, and it may be that Cl45(2) be amended to say "may" rather than must or provide an alternative option, if there are multiple RAP's, that mana whenua or TAs should they wish to, may create independent RAP's.
35. CDC also submits that where there are more TA's than places on the RRG (WSE4 as an example) no TA should have the right to appoint more than one member. If this is not made clear, then there is the potential for large urban areas to dominate the RRG.

### WHAT IS NOT INCLUDED IN THE BILL

36. CDC is concerned that this Bill leaves out for later legislation or for inclusion in individual constitutions:
  - a. Inter-relationships with land-use planning.
  - b. How assets and liabilities are to be addressed.
  - c. How to address conflicts of use where properties have uses in addition to three waters asset use.
  - d. Pricing and charging, and
  - e. Economic regulation and consumer protection.
37. It is difficult to consider this Bill in isolation either to that which is left out above, or the impact of the significant numbers of reforms impacting on local government. There seems no doubt that should the legislation pass then the reforms will proceed to implementation, as creating the WSE's is an essential building block. Regulatory reform through Taumata Arowai on the other hand will work irrespective of the delivery agent. This Bill is however the first of a series of legislation and constitutions such that we as TA's, users, and the community have no idea what the final picture and impact will be.
38. CDC is fully supportive of and accepts the need for regulatory and service delivery reform. However, CDC opposes the way in which the Bill is being progressed through Parliament and the current lack of detail in the Bill. It is difficult to provide a submission on the Bill because so much detail will be contained in the second bill, the constitutions and in other reform programmes. This is another reason why a pause is requested.

### TRANSITIONAL PROVISIONS

39. The transitional provisions are operationally difficult, and clauses 11(2)(a) and 21 in Schedule 1 are problematic or unworkable.
40. CDC accepts that to establish WSEs, there needs to be cooperation and information sharing between TAs and an establishment entity. Conversely there needs to be acceptance that CDC must be able to continue with "business as usual" during the establishment period.
41. Clause 11(2)(a) of Schedule 1 is problematic because it requires CDC to comply with any reasonable request for the secondment of CDC staff. How business as usual is expected to be carried out when staff can be required to be seconded out in an environment where we can't recruit sufficient staff is beyond

us. We have made many representations that the Transition Unit and the Government needs to act now to increase the supply of engineers in New Zealand. Otherwise, the WSEs will not have the ability to start on the proposed implementation date with any realistic staffing numbers. The latest representation was made direct to the Hon. Kieran McNulty, where we suggested the National Transition Unit recruit overseas and councils would be happy to train the recruits over the next 18 months. In many cases this could include paying salaries as well because there isn't a council in NZ that doesn't have engineering vacancies.

42. Clause 21 is also unworkable because there is ambiguity over what is covered by the decision requirement, the likely time commitment involved in providing information and seeking and obtaining approvals from DIA, and key details are being left to be determined later by the chief executive of the DIA (such as the value of any water related contract that a TA can sign). This seriously impacts on the ability of TAs to make democratically elected decisions, timely decisions, and deliver services during the establishment period.

## **CONCLUSION**

43. CDC thanks the Finance and Expenditure Committee again for the opportunity to provide a submission on the Water Services Entities Bill.
44. CDC requests the opportunity to make an oral submission to the Committee on the Bill.



Bryan Cadogan  
**Clutha District Mayor**

## **Appendix 1**

**Letter to Hon Nanaia Mahuta 30 September 2021 regarding Three Waters Reform Proposal**

**Attachment A – Map of Water scheme Network Reticulation**

**Attachment B – Supplemental Report on Rural and Urban household charges – Morrison Low**

**Attachment C – Three Waters Reform Proposal – Interaction with Rural Schemes**

## Appendix 1



# CLUTHA DISTRICT COUNCIL

Address all correspondence to:  
The Chief Executive

Our Reference  
637329

30 September 2021

Hon. Nanaia Mahuta  
Minister of Local Government  
Parliament Buildings  
**Wellington 6160**

Email: [n.mahuta@ministers.govt.nz](mailto:n.mahuta@ministers.govt.nz)

Dear Minister Mahuta

### **Feedback regarding 3 Waters Reform Proposal**

Thank you for the opportunity to provide feedback on the 3 Waters Reform proposal. The current proposal will have a huge impact on our district if it is implemented as currently and we would welcome the opportunity to discuss any specific points with you or your staff or government officials.

### **Rural Water Schemes**

Council has considered the August 2021 “Three Waters Reform: Interaction with Rural Schemes” (Attachment C) high-level overview and the Rural Water Scheme Workshop notes dated 8 September 2021 (Attachment D). Our view presented to the Workshop was that the August 2021 document did not understand or recognise the uniqueness of the Rural Water Schemes in Clutha District. The August 2021 document advises that privately owned schemes and supplies would not be transferred, some rural schemes have mixed ownership and only those Council-owned assets necessary for the delivery of the service would transfer, rural stock schemes would not be managed by the Entity, and that “acceptable solutions” (such as point of entry devices treating water at the house) are available for rural supplies.

Clutha District Council has 11 Rural Water Schemes and along with a number of urban water supplies with a combined network length of 2,420 km. The rural schemes currently have 50 pump stations and 16 water treatment plants. Each rural scheme is governed by a sub-Committee of Council made up from scheme users that are elected on a triennial basis. The Scheme Committee delegations are:

- Power to resolve. Authority to decide on applications for changes to existing connections or for additional connections or disconnection to the rural water scheme.

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- Power to recommend to the Service Delivery Committee. To recommend any matters concerning operations, maintenance, development, and policy for the scheme.
- Financial Delegations include approving expenditure and contracts but not approval of budgets which remains with Council.

As an indicator of how the schemes fit within the total District Supply, we have estimated the following:

Category	Population Supplied	Est. Households - 2 people per household
Urban WTP	8,655	4,328
Urban - by Rural WTP	1,080	540
Rural WTP	4,860	2,430
<b>Total</b>	<b>14,595</b>	<b>7,298</b>

Based on a Clutha District Population of 18,350 people, we are supplying approximately 80% of the district with drinking water:

Total water units sold in rural schemes	18,213 Units	
Assuming 1 unit per rural household use	2,430 Units	household supply
Total units less rural household use	15,783 Units	rural use units
Rural use estimate	87%	

Attached to this Feedback is a map of the water scheme network reticulation for urban, stock and rural drinking water supplies (Attachment A).

The proposals do not consider that:

- There is a sense of ownership felt by the members of the Rural Water Schemes derived from a combination of contributions of labour, land, and funding when the schemes were initiated, and the current governance arrangements where the Schemes have a significant say in the operations and capital work programmes of the networks.
- The Morrison Low report (Attachment B) "Supplementary Report on Rural and Urban Household Charges" concluded:
  - The disparity between the potential benefits of reform for rural and urban ratepayers highlights the need for any new service delivery model to have bespoke pricing and charging mechanisms in place for rural water supplies which would need careful consideration when implemented.
  - Increases for urban water customers are likely to be larger than the increases for rural water customers (on a per unit basis and percentage basis), with urban water customers facing increases exceeding 100% (before inflation) over the next ten years.



- While service delivery reform is likely to have positive impacts on future household charges for urban water customers, it is unlikely that rural customers would see similar benefits over the next ten years, and unclear whether any benefits would exist over a 30-year time period.
- There is a complexity of service levels between the needs of the farm unit and the needs of household unit in an environment where 87% of the volume produced is used by the farm units.

Unless the proposals are modified to address those matters above it is expected that the Rural Water Scheme Committees of Clutha District will not be in favour of the proposals.

Council requests that due to the unique and significant nature of these Rural Drinking Water Schemes and the feedback from Allan Prangnell and Bill Bayfield that they be considered separately for inclusion/exclusion as part of Entity D. This may be other service delivery arrangements or exclusion, but this would be considered as part of a future consultation process.

### **The Need to Achieve a Democratic Link to the Entity**

The proposal describes opportunities for democratic influence in the entity as:

- Making decisions on who are to be the Local Authority Representatives for the Regional Representative Group.
- Consultation requirements on the Entity when developing documents on strategic direction, investment plans, and proposed prices and charges.
- Development of land use and spatial planning documents by Council.
- Some form of Consumer Protection body.

Council considers that the proposal has insufficient democratic links between Council representing the community of Clutha District, the residents and ratepayers of Clutha, the rural water schemes, and the Entity. The issues from the Rural Water Scheme perspective are covered in the section above. The other issues were covered in the Governance Workshop held on 31 August 2021 (Attachment E) and Council endorses the problem statements and the potential ideas for further consideration.

### **Governance Arrangements**

We recognise that there will be a balance with regard to governance arrangements regarding representation and maintaining an effective governance structure. We request that specific consideration be given to the arrangements to ensure that there is fair governance representation that reflects the type and geographic interest of communities contributing to the entity. We also request that the governance structure is arranged such that no individual council has the right to appoint more than one representative to the representation group for Entity D.

We agree with the requirement that an independent selection panel to select board members and request that this be retained in the final proposal.

## Meaningful Consultation with Communities

If councils are required to make a formal decision, there must be adequate time and appropriate information to engage with communities on service delivery reforms. Clutha District Council is committed to engaging with the community before a decision is made and requires detailed but understandable information to support this engagement. In order to enable this to occur the Clutha District Council requests that once the final proposal is released there is a minimum of an 8-week period for preparation of information and consultation with our communities subject to covid alert levels being at Level 1 or 2.

## Planning and Investment for Growth

The new Entity cannot replicate the amount of control this Council has with respect to the investment decision-making framework, the Council and Communities aspirations for growth, and long-term certainty for planning and investment. Council has concerns that:

- The Entity's Debt position on creation will significantly impact on investment priorities.
- Council will have little practical influence on the work programme and investment priority.
- There will be disconnects between Council's growth plans and the ability to provide infrastructure via the Entity.
- Entity D's investment decision-making framework should give effect to council and community aspirations for growth and provide long-term certainty.
- 

Councils must retain the balance of power for determining where and when growth occurs.

## Workforce Support and Development

Nationwide three waters workforce development initiatives are required to upskill and develop capacity. This would be irrespective of what direction the reforms take. Statements made via the Transition Agency to give certainty to staff working in the Three Waters field are welcomed, because retaining staff to deliver the existing services and deliver on planned capital upgrades is a concern. The water industry is already short of qualified staff and Councils are all expanding the capital works programmes within the transition timeframe through to 2024 and beyond. Current experience with nationwide workforce development initiatives such as Building Control Officials and more recently Civil Defence Controller training haven't been great examples of successful initiatives.

We support the reform proposal in that staff will be retained in their local area. We also request a commitment that both technical and operational staff be retained and reside within the Clutha District.

## Integration with other Local Government Reform Processes

It has been made known by the Local Government Sector that the Three Waters Reforms were not integrated with the Resource Management Act Reforms, and the Future of Local Government Reforms only came about after concerns from Local Government of the impacts of those two reform processes. Council is still concerned that the various reforms are not well integrated. Council may be asked to decide on the Three Waters reforms, or we may be told that the reforms will proceed, in an environment where we still don't know all the impacts of the RM reforms, and we have no guarantee that Future of Local Government Reform recommendations will be acted upon. Council would expect that work would be commissioned to understand the collective impact of the Three Waters and RM Reforms on local government sustainability soonest, and independent of the Future of Local Government Reform timeframe.

## Transition Arrangements

If the proposals are to proceed Council expects to be fully compensated for all Debt associated with Three Waters, including internal and external debt, stranded overheads, and any other relevant transition costs. Council is concerned about retaining existing staff and the possibility of head-hunting of staff by the Entity through the transition process. There must be safeguards or procedures in place to protect the delivery of the essential nature of Three Waters services and the progression of planned and budgeted capital projects.

## Ownership

The proposal makes the following statements with respect to ownership:

- Local authorities would be the owners of the entity, on behalf of their communities.
- The entities would own and operate three waters infrastructure on behalf of territorial authorities – they would hold three waters assets and associated debt
- The assets aren't being sold – the new entities would be collectively owned by councils, on behalf of communities.

It is well understood that Balance Sheet separation is a stated requirement of the proposal and that this structure meets the requirements of separation. When Council is asked about who owns the assets it is difficult to explain an arrangement whereby our assets are part of a much larger Entity, where governance influence is shared in some form with Mana Whenua and other South Island Councils, in which this Council will have minimal governance influence, and yet we as a Local Authority are described as an owner of the Entity. Residents and Ratepayers will not understand this.

## Privatisation

The Council understand that there are protections to provide for a robust process if privatisation of the new entities is to be considered in the future. The Clutha District Council requests that if privatisation of Entity D operations is considered and approved via the referenda process then the Clutha District Council or any subsequent entity has the first right of refusal to revert to council operation of these services.

## Key Funding Principles

The proposal provides overarching principles that the Clutha District Council agree with. As such we support the current proposal that the entities do not return a dividend and only charge for the cost of providing services.

However, there are key funding principles that are very important to the Clutha District Council, and we request that these are confirmed as part of the proposal. We request that a key funding principle that is confirmed in the entity establishment is that you only pay for the service that you receive. We have a number of customers throughout our district that receive one or two of the proposed services and it would not be fair to be charged for a service that you do not receive a benefit from. We also request that there is no cross-subsidisation between services.

We also request that another key funding principle is that charging is based on the level of service you receive. If a customer is receiving a lower level of service, then they would pay less than a customer who receives a higher level of service. An example of this would be someone on a rural restricted supply would pay less than an urban on-demand supply.

Yours sincerely



Bryan Cadogan  
**Mayor**

cc: [ThreeWaters@dia.govt.nz](mailto:ThreeWaters@dia.govt.nz)





**Clutha District Council**  
Supplemental report on rural and urban household charges

September 2021

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### Document status

Ref	Approving Director	Date
2642	Dan Bonifant	17 September 2021
2642	Dan Bonifant	22 September 2021

## Introduction

Morrison Low has previously provided advice and support to Clutha District Council (Council) on issues relating to the current proposals for three waters reform through the Otago Southland Three Waters Office. That work produced a number of reports regarding the challenges and opportunities for the future delivery of three waters services in Clutha and the broader Otago and Southland regions and culminated in the report titled “*Impacts Assessment*” of June 2021.

Subsequently, the Government released information packs for all councils in New Zealand which provided high level analysis of information disclosed in responses to the Government’s request for information (RFI). As part of this information release, the Government provided projections of future household costs under both the opt in (i.e. transfer water service delivery to a new water services entity servicing the Ngāi Tahu Takiwā – “Entity D”) and opt-out (Council continues to deliver three waters services on its own) scenarios. Following the release of this information Morrison Low prepared an additional report entitled “*Review of WICS data*” which outlined the differences in approach taken by Morrison Low and the Water Industry Commission of Scotland (WICS).

Both the Morrison Low reports, and the government’s own analysis, did not specifically address the differences in service delivery, governance, ownership and funding mechanisms that relate to rural water supply schemes. In Clutha, many rural water schemes are owned and operated by Council, with governance provided through rural water supply boards, who are able to make recommendation to (but not formal decisions) elected members regarding levels of service and investment. The schemes are characterised by having the primary function of providing water for agricultural and horticultural purposes, while also providing water for household consumption and in this report that is what is meant by ‘rural water customers’

This means that the future approach to rural schemes of this nature (service delivery, treatment and compliance) is unlikely to be the same as for urban supplies and that the costs are therefore also likely to be different.

This report is intended to supplement both of the earlier reports prepared by Morrison Low by including further analysis on the potential cost impacts specifically for rural<sup>1</sup> and urban schemes. Accordingly, it should be read in conjunction with those earlier reports, as the additional analysis and commentary outlined in those reports is not repeated herein.

<sup>1</sup> For reference, rural schemes in the context of this report refers to the Balmoral, Clydevale, Glenkenich, Moa Flat, North Bruce, Richardson, South Bruce, Tuapeka, Waipahi, Waitahuna, and Wangaloa rural water schemes.



## Summary of findings

Morrison Low has undertaken a comparison of the financial impacts of service delivery reform on rural and urban three waters customers using two separate methodologies:

- Utilising the financial model used for the Otago-Southland three waters collaboration work.
- Utilising the financial model produced by the WICS.

Both approaches show that future charges for water for both rural and urban customers will increase significantly over the next 10 – 30 years and they both highlight differences in the potential future household costs for rural and urban ratepayers. In particular:

- The disparity between the potential benefits of reform for rural and urban ratepayers highlights the need for any new service delivery model to have bespoke pricing and charging mechanisms in place for rural water supplies which would need careful consideration when implemented.
- Increases for urban water customers are likely to be larger than the increases for rural water customers (on a per unit basis and percentage basis), with urban water customers facing increases exceeding 100% (before inflation) over the next ten years.
- While service delivery reform is likely to have positive impacts on future household charges for urban water customers, it is unlikely that rural customers would see similar benefits over the next ten years, and unclear whether any benefits would exist over a 30 year time period.
- In our view these differences are likely to be driven by the difference in estimated future costs associated with the provision of water to rural and urban customers, and the application of volumetric pricing for rural water customers (i.e. the costs have a spread over a large number of water “units” such that the impact on an individual unit is lesser).

## Approach and analysis

In order to assist Clutha District Council to understand the impact of future water service delivery on its rural and urban ratepayers, Morrison Low has undertaken high level modelling using two different approaches:

Using the same methodology applied as part of our three waters work undertaken for the Otago and Southland regions. This modelling uses Council’s investment plans and revenue sources, with a number of standard adjustments applied by Morrison Low<sup>2</sup>. The modelling covers a ten year period and in this report compares only the impact on drinking water charges. The analysis in this report also relies on more up to date information, which includes a larger investment programme than used in the earlier work undertaken for the Otago and Southland Councils.

<sup>2</sup> The details of this modelling approach are outlined in the report titled “Clutha District Council – Impact Assessment” of June 2021

## ATTACHMENT B

- Using the modelling undertaken by WICS which applies a top-down approach to assessing future household costs. In assessing future investment requirements Morrison Low used WICS' assumption regarding future investment, with adjustments to reflect the relative proportion of investment between rural and urban three waters that has been observed in Clutha's own investment plans. This analysis compares three waters charges in 2051. Because there are no rural wastewater or stormwater schemes in Clutha, no analysis is provided for rural schemes. Instead, projected three waters charges have been presented for Clutha for urban ratepayers and for a combined network to demonstrate the impact that including rural water customers has on the projections and on that basis make some assumptions about the potential impact on rural water customers.

### Morrison Low modelling

The results from modelling using the Morrison Low approach are outlined in the table below. Note that average charges for 2021 as presented in the table below may not reconcile to actual charges levied by Council, as the calculation of charging has been standardised in the Morrison Low model to ensure comparability between 2021 and 2031 charges.

**Table 1 Comparison of rural and urban water charges and earlier analysis**

	2021	2031	% Increase
<b>Urban water (per household)</b>	\$596	\$1,218	104%
<b>Rural water (per unit)</b>	\$257	\$406	58%
<b>Average water charge per Morrison Low report of June 2021</b>	\$606	\$772	27%
<b>Average three waters charge in Morrison Low report of June 2021</b>	\$1,252	\$2,549	104%
<b>Projected water charge under entity model per Morrison Low report of June 2021</b>	N/A	\$841	N/A

The comparison shows that the proposed impacts of water reform will be more significant for urban ratepayers than they will for rural ratepayers, although both groups will see increases in water charges that exceed 50% of current charges before inflation.

Along with lower future investment costs being projected for rural water supplies, the lower future increases in unit costs for rural customers is also related to the particularly high number of water units sold to rural customers. This means that while the increases for rural customers are lower, per unit, in percentage terms, the actual cost impact on rural customers that buy multiple units of water could be significant.

## ATTACHMENT B

If a universal water charge was implemented, water charges for rural water supply customers are likely to increase more under a revised service delivery model (including an Otago-Southland entity) than they would under continued council service delivery. This emphasises the need for any future service delivery reform to be sympathetic to the impacts on rural water customers, and for separate pricing/charging arrangements to be implemented for rural water supply.

The disaggregated analysis presented in this report also shows a larger increase in water charges than was highlighted in Morrison Low's report of June 2021 due to the larger investment programme than used in the earlier work undertaken for the Otago and Southland Councils.

### WICS modelling

As outlined in Morrison Low's report entitled "*Review of WICS data*", WICS have undertaken high level analysis of potential future household costs under the reform (i.e. Entity D) and no reform (i.e. Council alone) scenarios. That modelling uses a top-down approach that determines future household costs based on investment and borrowing requirements.

The approach adopted by WICS does not attempt to separate future water, wastewater or stormwater costs. Neither does it attempt to separate future household charges between rural or urban communities.

In order to provide additional context when comparing the reform and no reform scenarios, Morrison Low has attempted to model the impact of the proposed reform on Clutha's urban three waters alone. To do this the WICS investment projections have been adjusted according to Clutha's own split between projected rural and urban investment needs (urban three waters accounts for 66.6% of planned future investment) from its RFIs as well as the number of connections.

The results of this analysis are demonstrated in Figures 1 and 2 below and show that:

- In both the combined network and urban three waters scenario it is likely that household charges would be higher under continued Council service delivery than under an entity model by 2051.
- However, future household charges for urban customers in Clutha are likely to increase more than they would for rural customers because:
  - WICS modelling assumes that rural customers will pay for all three waters, whereas they only receive drinking water
  - Future investment in rural drinking water for rural schemes is lower, particularly when considered on a per unit basis, than investment in urban drinking water schemes.

This suggests that the benefits of three water reform for rural customers are not likely to be as large as they may be for urban customers.

- The WICS analysis is directionally consistent with that undertaken by Morrison Low. That is, under both models, urban ratepayers are likely to see larger increases in future three waters charges than rural ratepayers, and that the benefits of a change in service delivery model for rural water users are likely to be much lower than the benefits for urban water users.

ATTACHMENT B

Figure 1 Summary of sensitivity analysis – combined network

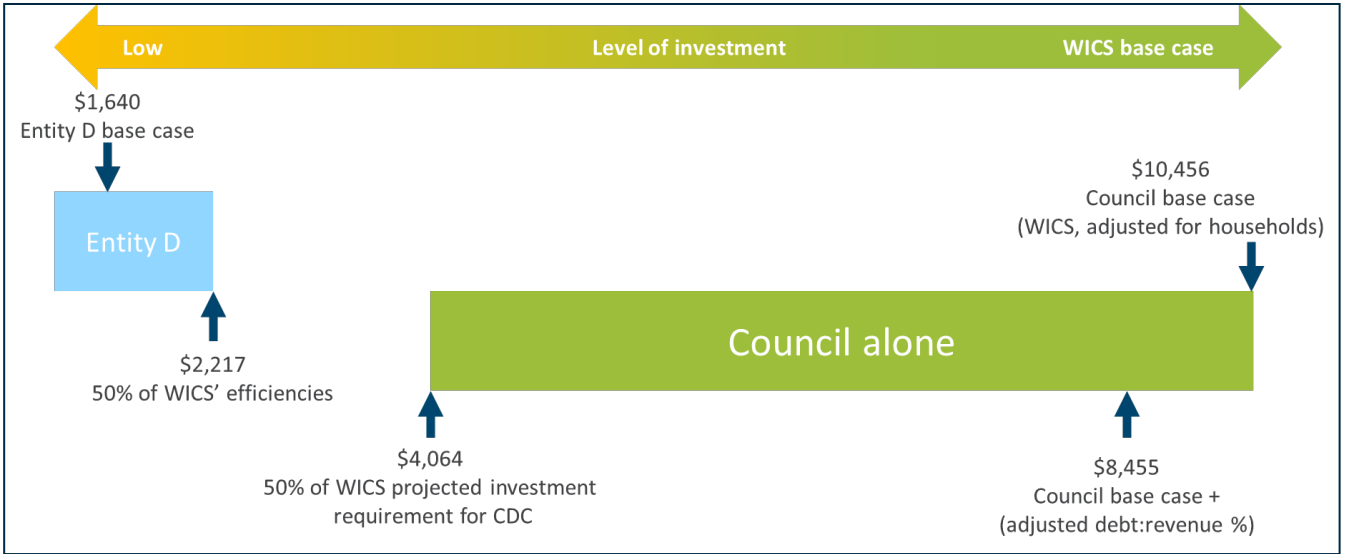
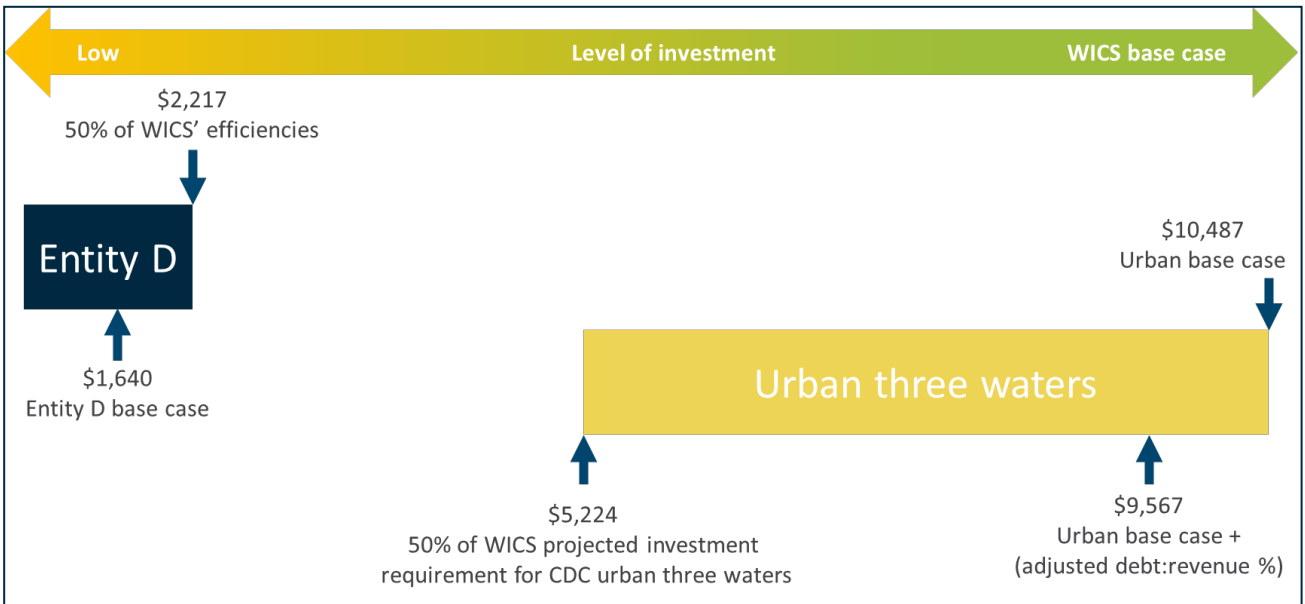


Figure 2 Summary of sensitivity analysis – urban three waters



# Three Waters Reform: Interaction with Rural Schemes

This document is part of a series providing a high-level overview of key elements of the three waters reform proposals. Its purpose is to support discussion and feedback on these proposed arrangements.

## **Foundational elements of the interaction with rural schemes**

The reform proposals are about ensuring all New Zealanders have access to safe, affordable three waters services that meet the expectations of communities now and into the future. We know that for some small/rural communities these services will become increasingly expensive into the future.

The three waters service delivery reform is proposing to reform council-owned drinking water, wastewater and stormwater supplies. It is not designed to reform privately owned supplies. It does not impact single household self suppliers.

However, the Government acknowledges there are a range of rural water schemes that provide a combination of drinking water and stock water to rural communities and/or supplies that have mixed ownership. Supplies of this nature exist throughout rural areas and are essential to the economy and local communities. Many were developed by central government funding in the 1970s, are funded and run by committees of farm users, and receive council expert assistance to run the supply.

### ***The changing regulatory environment***

Alongside the three waters service delivery reforms, the Government is progressing regulatory reform, including to the compliance, monitoring and enforcement of quality standards for three waters services. This includes the establishment of Taumata Arowai and the regulatory environment it will monitor through the Water Services Bill.

The quality regulations have foundational principles that all New Zealanders deserve to have confidence in the safety of their drinking water and environmental performance of wastewater and stormwater networks, including those on rural supplies. (See separate paper on regulatory pressures on the three waters system for more detail).

This means that the drinking water quality safeguards are being extended to all drinking water suppliers, including small rural suppliers. Some have raised concerns that this will place pressure on rural supplies and could lead to these schemes being stopped or altered leaving some communities without a service.

## What is proposed in the reformed system

An important principle underpinning the service delivery reforms is that councils will not be left with any residual services/obligations following the reform and transfer of their assets and expertise. This means obligations that currently sit with councils to deliver three waters services would transfer to the proposed water services entities. For example, specific obligations to make assessments of drinking water, wastewater, and sanitary services and to ensure communities have access to safe drinking water.

Where there are existing service delivery arrangements between councils and community/rural schemes, we would need to work together with all parties through the transition period to identify these and ensure the services continue in the future system with appropriate agreements in place with the new entities. For example, where private community operated services require technical assistance.

The Government proposals include setting out a series of operating principles in the legislation, to guide and inform how the water services entities deliver their objectives and functions. These include principles of working with other suppliers and communities to ensure services are delivered that meet the needs of these communities.

[In June 2021, Cabinet agreed](#) that these operating principles would include:

- developing and sharing capability and technical expertise – both internally, and across the wider three waters, development, control, and land-use planning sectors;
- being innovative in the design and delivery of water services and infrastructure;
- being open and transparent – including in relation to the calculation and setting of prices, determining levels of service, and reporting on performance;
- partnering and engaging early and meaningfully with Māori, local government, and communities;
- cooperating with, and supporting, other water services entities and infrastructure providers, local authorities, and the transport sector – including in relation to infrastructure planning, and development control and land-use planning processes;
- understanding, supporting, and enabling mātauranga Māori and tikanga Māori and kaitiakitanga to be exercised – both within the entities and when engaging with iwi/Māori.

### ***What assets would transfer – does this include rural schemes***

As above, privately owned schemes and supplies would not be transferred to the new entities. However, there are a range of rural water schemes that provide a combination of drinking water and stock water to rural communities and/or supplies that have mixed ownership. There are also a number of assets that form part of the wider system, such as natural environment assets, parks and wetlands.

The Government is proposing that only those council-owned assets **necessary** for the delivery of three waters services would be transferred to the new water service delivery entities.

While further work needs to be undertaken on which assets will transfer to the new entities, where an asset has a different primary use, such as a sports field that also acts as a stormwater asset in times of flood, this would remain with the council and a service agreement with the entity would be considered where appropriate.

Under current proposals, the Water Service Entities will not manage rural stock schemes, as the primary purpose is for farmers/private landowners to manage their stock.

### ***Supporting Private/Rural Supplies into the future***

The Water Services Bill brings about a new regulatory approach. The Bill will require all drinking water suppliers other than domestic self-suppliers to provide safe drinking water and meet New Zealand's existing drinking water standards. This includes supplies in rural areas.

The Bill includes specific obligations on councils to make assessments of drinking water, wastewater, and sanitary services operated by non-council suppliers and to ensure communities have access to safe drinking water. This includes assessing that each community in its district has access to drinking water services, and considering the implications of the assessment in relation to:

- a) the territorial authority's current and future infrastructure strategy and long-term plan;
- b) the territorial authority's district plan prepared under the Resource Management Act 1991; and
- c) the territorial authority's broader duty to improve, promote, and protect public health within its district in accordance with section 23 of the Health Act 1956.

Where a territorial authority finds a community does not have access to safe drinking water it must work with the community. Taumata Arowai and drinking water suppliers to find a solution to the problem.

With the quality regulations and introduction of Taumata Arowai, questions have been raised about where responsibilities would sit for supporting private water schemes or taking these on should they fail or need support following the reforms.

As above, should the reforms proceed as proposed, any obligations that sit with councils currently would transfer to the new entities. The Department is considering what, if any, additional arrangements might need to be put in place for the new entities to work with private schemes that require or ask for assistance.

### ***Why are small/rural supplies being regulated now***

There has been longstanding poor compliance by small and rural supplies with drinking water standards in New Zealand. The drinking water standards in New Zealand reflect standards that are set by the World Health Organisation and remain unchanged through the quality reforms.

A Ministry of Health study found that an estimated 34,000 people each year become ill through consumption of unsafe drinking water. The Ministry of Health's annual report on drinking water quality 2019 – 2020 reported compliance with standards as follows:

- Supplies serving 501 – 5000 consumers – 43.8% compliance;

- Supplies serving 101 – 500 consumers – 31.3% compliance
- Compliance among supplies serving 100 consumers or less is unknown but is likely to be low.

Currently, under the Health Act regime, “rural and agricultural supplies” are defined as supplies used for stock water but provide drinking water to more than 25 consumers. These supplies are covered by guidelines – they do not have to meet drinking water standards. However, most if not all of these supplies currently chlorinate their drinking water and many have additional treatment.

These supplies were always intended to meet drinking water standards when the Health Act was passed – the guidelines were an interim measure, but the work to bring them into the regime never occurred.

However, all aspects of the regulation of drinking water supplies must be tailored by Taumata Arowai according to the “scale, complexity and risk profile” of a supply. This means that new treatment options will be available to rural supplies that have not been allowed under the Health Act.

In particular, “point of entry” devices, which are UV and filter devices that treat drinking water where it enters a house, are explicitly allowed under the Water Services Bill. Devices like this are a simple, cost-effective way for small rural supplies to provide safe drinking water that meets standards.

Alongside that, the Bill contains new, simple regulatory solutions. For rural supplies, they will be able to comply with an “acceptable solution” which is a safe harbour arrangement. If a supplier complies with an acceptable solution, they will be deemed to have complied with the regime. An acceptable solution for rural and agricultural supplies has been developed specifically for these supplies, and an exposure draft is available online: [Acceptable solutions for rural supplier exposure draft](#)