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FOR INFORMATION: Local Water Done Well Reform Update

1. Purpose

- 1.1 The purpose of this report is to update the Mayoral Forum on progress with the agreed work packages that arose from the completion of the Three Waters Regional Options Appraisal Project to ensure the region is best placed to secure outcomes beneficial to its communities in response to the Government's Local Water Done Well reforms.
- 1.2 It also reports on the progress of each Council in concluding their individual options appraisals and individual decisions about what is their proposed model is to consult on.
- 1.3 The Mayoral Forum is asked to agree the recommendations set out below which effectively close this Project as one overseen by the Mayoral Forum.

2. Executive Summary

- 2.1 In September, the Local Government (Water Services Preliminary Arrangements) Act 2024 was passed by parliament. This was a crucial step in the government implementing its Local Water Done Well policy. This Act:
 - 2.1.1 Places a legal obligation on councils to produce a Water Services Delivery Plan and accompanying implementation plan by 3 September 2025
 - 2.1.2 Requires councils to demonstrate that their water services are financially sustainable; and
 - 2.1.3 Introduces greater Central Government oversight through economic and quality regulation.
- 2.2 The government is driving a tight timeframe for the changes and intends to introduce further water services legislation in December 2024 to be enacted in mid-2025 that will establish the economic and regulatory oversight regime for water services.
- 2.3 Whilst there is no mandatory approach set by government, the clear signals continue to be that some form of collaboration is encouraged, and consideration of this is expected to be the outcome for many councils.
- 2.4 Following the completion of the Regional Options Appraisal project the Mayoral Forum agreed that councils should continue to work together on a Joint WSDP for the region while they conclude their own appraisals of their options. This phase of work has considered the most appropriate form of joint delivery model, the proposed shareholding and governance arrangements, and further development of an implementation plan to identify implementation issues that may be material to decision-making.
- 2.5 These work packages all align with the mandatory information requirements for the WSDP consultation process as set out in legislation and were considered 'no-regrets' work regardless of the outcome of individual councils decision-making processes. The conclusion of these work packages is reported here.
- 2.6 This work has continued in parallel with each council considering its own options to determine its proposed model of service delivery before the end of the year so that consultation can be carried out in the new year in order to meet the government's deadlines.
- 2.7 At the time of writing, each council was still working through its own decision making process as to its preferred model to consult on. Whilst this process is yet to conclude, the early decision of Manawatu District Council to discontinue participation in the full regional model

suggests that sub-regional options will emerge as the preferred option for some. A verbal update will be provided at the meeting.

3. Recommendations

- 3.1 That this report is received.
- 3.2 **Note** the decisions already reached by some participating councils and the future decision dates for the remaining councils.
- 3.3 **Agree** that this report will formally close the Three Waters Regional Options Appraisal Project and that development of any regional or sub-regional joint delivery models will be subject to bespoke governance and oversight mechanisms determined by the councils participating in any joint model.
- 3.4 **Note** the conclusion of the further analysis of the best joint delivery model if the decision is to proceed with a joint arrangement.
- 3.5 **Note** The analysis of potential shareholding and governance arrangements and that if the eventual decision is to establish one or more WS-CCOs in the region then the officer recommendation would be that each shareholding council should have equal representation regardless of the number of councils forming a joint arrangement.
- 3.6 **Note** the feedback received at the hui held with the Iwi chairs and other key Iwi/hapu stakeholders of each council to update them on the findings of the Regional Appraisal Project and that individual councils will follow up as necessary.
- 3.7 **Note** the proposed implementation approach for any joint arrangement.
- 3.8 **Note** that every district is expected to eventually need expensive infrastructure upgrades, and maintaining a cost-to-serve model in joint WS-CCO model is expected to undermine the reasons for forming a joint delivery model. However, it is expected that any new pricing strategy would only be implemented after the completion of a phased transition period that would take until 2028 to enable the participating councils to manage their stranded overheads.
- 3.9 **Note** that the DIA has provided an amalgamated financial model of all seven councils which has been used by the individual councils as necessary to conclude their financial modelling of different options available to them.
- 3.10 **Note** the analysis of the options for stormwater in any joint arrangement; and that decision-making regarding future stormwater arrangements remains a decision of the individual participating councils.
- 3.11 **Note** that if the decision is to transfer staff to a WS-CCO, and subject to the third Bill, the treatment of staff providing or supporting the delivery of three waters services is expected to be a key matter for each council to determine, having regard for their current conditions of employment.

4. Decision-making to date

- 4.1 In order to meet the government's timeline to develop, adopt and submit a WSDP by September 2025 it will be necessary to formally consult communities on the proposed delivery model in the new year. To facilitate planning and delivery of co-ordinated and consistent communications and consultation on any joint delivery model it was agreed that individual councils would seek to reach a decision by the end of the year about their proposed delivery model and advise the Mayoral Forum of its decision.
- 4.2 The Mayoral Forum has previously been advised that on 7 November Manawatu District Council voted unanimously to discontinue any further work on a full Manawatu-Whanganui regional WS-CCO but continue work to consider a number of sub-regional approaches to its WSDP.
- 4.3 At the time of writing this report the remaining council decisions on the preferred option to

consult on were scheduled as set out in the table below. Mayors and Chief Executives will be invited to give a verbal update in the meeting.

- 4.4 The final decisions will be circulated by email following the relevant Council meeting. It is expected that whatever these are the oversight mechanism will be bespoke to the combination of councils who share a preferred delivery model and potentially be expanded to include other stakeholders. The Mayoral Forum will therefore cease to be the most appropriate body to oversee that next phase of work, although may wish to request periodic updates on progress if multiple sub-regional options are pursued.

Council	Nature of decision	Date
HDC	Which options to include in Statement of Proposal and which to identify as the preferred option.	Wed 27-Nov
RuDC	Decision on which two options to consult on	Wed 27-Nov
All	Mayoral Forum – no decision-making role	Tue 3-Dec
PNCC	Preferred option to consult on	Thu 5-Dec
WDC	Which options to include in Statement of Proposal and which to identify as the preferred option.	Tue 10-Dec
RaDC	Preferred option to consult on	Thu 12-Dec
TDC	Preferred option to consult on	Wed 18-Dec
MDC	Preferred option to consult on	Thu 19-Dec

5. Appraisal of Service Delivery Models

- 5.1 Councils will have a choice of six delivery models: In-house business unit, single council WS-CCO, multi-council WS-CCO, mixed council/consumer trust, or consumer trust owned, or arrangements under s137 of the LGA 2002. These have varying levels of financial support from the parent council(s).
- 5.2 Board appointments to a Water Organisation (WS-CCO or Trust) must be competency based and have the appropriate mix of skills, knowledge and experience. The guidance is explicit that they cannot include council staff or elected members.
- 5.3 Whatever model is adopted, there will be legislative restrictions against privatisation, and regardless of delivery arrangements, existing responsibilities, commitments and obligations under LGA and Treaty settlement legislation continue to apply.
- 5.4 The Transition Managers working group carried out a multi-criteria analysis of these options to determine the preferred type of joint model, if the decision is to pursue a joint model. For the purposes of appraisal, it was assumed that the same number of councils would enter the joint arrangement.
- 5.5 The models were assessed against five categories given the following weightings:

Financial	20%
Levels of Service	30%
Operational	20%
Relationships & Trust	15%
Strategic	15%
Total	100%

- 5.6 The result of the assessment was that if the decision was to proceed with a joint arrangement, then a WS-CCO would be the best option for the participating councils. The Consumer Trust

model would see the ownership of assets transferred away from councils, or the participating councils being minority shareholders, and this was considered a limiting factor on the suitability of the model.

- 5.7 Likewise, the Shared Service model would mean councils retain control over the pricing of water services; and the development of policy related to water services. They would rate for the services provided by the shared service but would only be able to borrow up to their own financial covenants and not access the higher levels of financing. This was considered a major disadvantage to the model, and a fundamental flaw to the Wellington Water model which has taken a similar approach and is not considered to have been successful in the long run. The model also has two further disadvantages: it still requires skilled and experienced clienting resource inside the partner councils; and, one of the key areas of efficiencies available is in overhead services, so either those efficiencies cannot be realised, or if they are the transition doesn't help the participant councils to manage their own stranded overheads.
- 5.8 It was left to the discretion of each council whether to apply this multi-criteria analysis to options specific to them – i.e. in-house business unit and a single Council CCO.

Criteria	Weighting	Multi-council WS-CCO	Mixed council/ consumer trust	Consumer trust owned	Shared Service (under s137 of the LGA 2002.)
Financial	20%	61%	35%	35%	37%
Levels of Service	30%	88%	77%	70%	64%
Operational	20%	95%	86%	82%	91%
Relationships & Trust	15%	38%	30%	20%	32%
Strategic	15%	73%	41%	31%	54%
Weighted Score	100%	74%	58%	52%	58%

6. Appraisal of Shareholding options and options for the structure and membership of the 'Shareholder Committee'.

- 6.1 In the event of establishing a WS-CCO, the shareholding councils that owned it would agree a mechanism by which they would appoint/remove the Directors of the WS-CCO, set the Letter of Expectations and monitor the performance of the CCO. This expected to be via a 'Shareholder/Constitutional Committee'.
- 6.2 At its September meeting the Mayoral Forum agreed a set of proposed principles to guide further work on how this mechanism might work and consideration of the approach to determining any future shareholding. The proposed principles were:
- 6.2.1 As small as possible / can't be too big.
 - 6.2.2 Equal representation for participating councils.
 - 6.2.3 There is a role for iwi representation that brings a Te Ao Māori perspective to the shareholder decisions.
 - 6.2.4 Draw on existing examples of good practice from local government and the water sector to inform the development.
 - 6.2.5 Horizons Regional Council's role as Regulator precludes them from being part of the governance mechanism.
- 6.3 Subsequent to this meeting, the Transition Managers of each council were asked to give consideration to whether the shareholding councils should have equal votes or if a proportional approach should be taken.
- 6.4 Transition Managers gave consideration to three options:

- 6.4.1 **Equal Vote:** The shareholding councils are given an equal vote on the Shareholder Council regardless of their shareholding contribution. Each council would hold one vote, and decisions would typically require a majority or supermajority to pass.
- 6.4.2 **Weighted Voting with Equal Representation:** Each council appoints one Shareholder Council member, giving equal representation. However, voting rights are weighted according to each council's equity share. For example, Council A has 33% voting power, Council B has 5% etc.
- 6.4.3 **Hybrid Structure with Proportional and Equal Seats:** Combine proportional and equal representation by having a set number of seats filled proportionally (e.g., three seats for Council A, two for Council B and one for each other council, e.g. totalling 10 seats)
- 6.5 While Proportional Voting options, such as weighted or hybrid models, align influence with financial stakes, which often leads to more stable decision-making that reflects the distribution of risks and rewards, these systems may be seen as less equitable by smaller councils. Proportional voting may be preferred when stability, alignment with financial risk, and incentivizing investment are critical.
- 6.6 Equal Voting is simpler and more inclusive but risks causing frustration among larger councils due to the lack of alignment with financial contributions and risk. Equal voting works well if inclusivity and balanced representation are key.
- 6.7 The conclusion of this analysis was that if a joint WS-CCO was to be established then equal representation for all shareholding councils on the Shareholding/Constitutional Committee remains first preference regardless of the number of councils forming the joint arrangement. Equity of representation is considered a priority and there are many existing examples of this model working well in the region.
- 6.8 If the shareholding of the WS-CCO is divorced from the decision-making rights of the participating councils in this way, then the shareholding affects very little: at most the amount of uncalled for capital if borrowing from the LGFA, and the handling of a council changing its membership of the CCO in some way.
- 6.9 With this in mind, the Transition Managers agreed the methodology should be as simple as possible and assume three waters as the baseline. This could then be revised to reflect each council's decision about stormwater in the future and in light of further discussion with LGFA to understand how each council's obligations in relation to uncalled capital would be linked to shareholding.
- 6.10 The proposed shareholding methodology would equally weight the following for each of the waters a council chooses to transfer:
 - 6.10.1 Equity
 - 6.10.2 Capital Replacement Value,
 - 6.10.3 Annual Revenue,
 - 6.10.4 and Number of Connections.
- 6.11 This is considered to balance the factors that reflect past investment decisions with the considerations that will drive the future revenue generating potential and therefore borrowing headroom of any future COO.

7. Feedback received at the received at the Regional Iwi hui

- 7.1 At the September meeting of the Mayoral Forum it was agreed that Mayors would invite Iwi chairs and other key Iwi stakeholders that their individual councils have relationships or obligations to, to a hui to provide an update on this period of options appraisal, including sharing the findings of the Regional Appraisal Project and the next steps the region is taking to meet the legislative requirement to produce a WSDP within 12 months.

- 7.2 The hui - held on 12 November - provided valuable feedback and insights from Iwi and Hapū representatives on the future of water service delivery in our region, with key points that will help guide the decision-making process of individual Councils in the region. These included:
- 7.2.1 **Consultation and Timing:** Iwi emphasised the importance of sufficient time for consultation and internal discussions before decisions are made. They called for a clear and transparent process, ensuring that iwi input is meaningfully integrated into the planning stages.
 - 7.2.2 **Representation and Trust:** There were concerns about tokenistic representation at decision-making tables. Iwi advocates called for genuine participation, suggesting that iwi should be included early in Chief Executive (CE) discussions for co-development.
 - 7.2.3 **Economic Participation:** Iwi highlighted the significant role of the Māori economy and expressed interest in participating as investors in water infrastructure. They also questioned the financial implications of the increased 500% borrowing limits associated with new reforms and urged that opportunities for iwi-led investment be kept open.
 - 7.2.4 **Te Mana o te Wai:** A key issue raised was disagreement with the government's move to revoke the hierarchy of Te Mana o te Wai. Iwi emphasised that Te Mana o te Wai is a fundamental principle and must remain central to water governance.
 - 7.2.5 **Local Voice and Efficiency:** Iwi also raised concerns about the potential loss of local voice, particularly in areas like Ruapehu, and argued that efficiencies can only be realised when local needs are respected.
 - 7.2.6 **Collaboration:** Iwi advocates stressed the importance of collaboration across iwi, councils, and stakeholders to ensure that decision-making reflects local values and priorities.
- 7.3 Each council will follow up with its own partners and stakeholders as necessary to keep them updated on the final work of this Options Appraisal phase and discuss how they might work together as they enter the next phase.

8. Developing an Implementation Plan

- 8.1 Legally, a WSDP must contain an Implementation Plan, (and a commitment to implement it). The Secretary for Local Government has the statutory power to monitor progress with implementation. Given the tight timeframe it was prudent to begin to consider how this might work in the event of individual councils choosing to establish a joint CCO. This work also necessitated further work on a number of key issues relevant to options appraisal and decision-making; namely, the proposed approach to price harmonisation and the location of staff and operational teams.
- 8.2 The transition team proposes a 'CCO led' approach to implementation, which would have a number of phases. These would only commence after the Secretary for Local Government confirms if the WSDP is acceptable or not – this is expected to be November 2025 at the earliest.
- 8.3 The draft Implementation Plan is also designed around the requirement to demonstrate Financial Sustainability by 30 June 2028, and the commencement of economic regulation. The Commerce Commission expects to implement the full regime after the third bill is passed, (currently expected in mid-2025), starting with information disclosure, and introducing the other regulatory tools including quality standards, performance requirements, and price-quality regulation to be no earlier than 2026 if they are required. If price-quality regulation is considered to be required the Commerce Commission will have powers to set minimum and/or maximum prices that may be charged, and/or minimum and/or maximum revenues. This would be alongside quality and performance requirements.
- 8.4 After the WSDP is confirmed as acceptable, the first implementation phase would begin with the finalisation of the shareholding, constitution and governance arrangements, leading to

the formation of the WS-CCO itself. From there the shareholding councils would recruit an independent board of skills-based directors, before they appointed a Chief Executive. Once this person was in place, along with a transition team, the assets would be transferred to the WS-CCO to enable access to improved financing and the individual councils contracted to deliver operational and overhead services for the remainder of the transition period. This phase is expected to take approximately six months.

- 8.5 A period of organisational design and detailed implementation planning would then follow, and at the conclusion of that operational service delivery would transfer to the WS-CCO. It is expected that even in the long-term each council area will continue to have localised operational teams in a similar way to now, as it is impractical to do otherwise for many operational jobs. Consolidation will come in the managerial and back-office functions such as asset management. During this phase, the individual councils would continue to provide overhead services.
- 8.6 One key matter which each council will need to address in planning the implementation of its preferred delivery option is the treatment of staff providing or supporting the delivery of three waters. The previous Government had included obligations for this in its legislation, but that has been repealed. It is not known whether the new Bill will propose similar mechanisms.
- 8.7 The final phase would be the transfer of overhead functions, in the third year of the WS-CCO's existence. This would allow the individual councils to plan for and manage the residual stranded overhead they will be left with.
- 8.8 Whilst optional, eventual price harmonisation is considered by officers as a necessary eventual aspect of any CCO model. Every district is expected to eventually need expensive infrastructure upgrades, and maintaining a cost-to-serve model is expected to undermine the reasons for amalgamating, in particular ensuring affordability for all water users in the long term. The principle of 'cost to serve' is also considered one of the contributing factors to the challenges that Wellington Water has faced. It is expected that any new pricing strategy that moved towards price harmonisation would only start after the completion of these phases. Developing this pricing strategy and policy is expected to take some time and form part of the detailed work of implementation planning. The Commerce Commission is signalling that while price harmonisation is not a requirement of government policy, over time this may be an area where they step in if they perceive one group of bill payers is being charged inequitably.

9. Updated analysis of Financial and Asset Information to meet legislative requirements.

- 9.1 Along with the details of the options for future water services delivery models, in September the DIA released WSDP templates and further guidance about the requirements to demonstrate financial sustainability. They initially provided each council with a template pre-populated with their own LTP figures and have also recently provided a model that amalgamates the figures of the seven councils in the region.
- 9.2 The outputs of this modelling are in line with the findings of the previous Regional Options Appraisal project and show that the financial impact on customers of a new joint CCO and on rates charged by the Council following transition is marginal and any decision to join up will be for strategic reasons rather than financial

Proposed Implementation Plan for WS-CCO stand up					
LTP	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
FY	24/25	25/26	26/27	27/28	28/29
Water Services Delivery Plan	March: Consult June: Adopt WSDP	Sept: Submit WSDP Nov: Minister confirms if acceptable Jan 26': Begin 18mth implementation			
CCO Stand Up		Yr 1 (Jan – Dec 2026) Jan 26: Begin 18mth implementation Agree shareholdings, governance. CCO Created Board Appointed CE appointed Assets Transferred Access to 500% Councils contracted to provide services to CCO	Yr 2 Ops and Project delivery transfer from Councils to CCO Indiv. Councils provide o'head services	Yr 3 Transfer overhead services to CCO	Yr 4 Begin \$ harmonisation

Figure 1 Draft Implementation Plan

10. Analysis of Stormwater options in any joint arrangement

10.1 In September, the government also announced its proposed new approach to the management of stormwater services under Local Water Done Well. Councils will retain legal responsibility and control of these services but will have flexibility to choose the arrangements that best suit their circumstances; this approach will have to be specified in the Water Services Delivery Plan, whether a joint or individual plan.

10.2 The [Factsheet](#) produced by the DIA sets out the three options councils will be able to choose from and further discussion with the LGFA has established the following implications of each option:

	Proposed options	Description	Implications
1	Continue to deliver stormwater services	BAU for Councils with in-house delivery of stormwater only. Council sets LoS / collects rates.	Duplicate expertise and/or no expertise in-house Borrowing as per the current limits of each council and no more than 280% of revenue if a council has a credit-rating. WW consents often contain conditions relating to SW which would be difficult to manage without control of stormwater services
2	Contract a new water organisation ¹ to deliver	CCO delivers services-only for the council. <ul style="list-style-type: none"> Assets remain with Council. People transfer. 	Borrowing as per the current limits of each council and no more than 280% of revenue if a council has a credit-rating.

¹ 'Water organisation' means the separate organisations that councils may establish to provide water services – and does not include councils. There will be various types of water organisation under Local Water Done Well. Local Water Done Well factsheet (August 2024)

	aspects of those stormwater services	<ul style="list-style-type: none"> • Council sets LoS through contract terms • Council collects rates for SW, pays CCO for services. • SW management delivered by CCO or other service provider 	
3	Transfer aspects of stormwater service delivery to a water organisation (this might include stormwater network assets ²)	<p>Transfer some aspects to CCO.</p> <ul style="list-style-type: none"> • Some assets e.g. 100% SW. Non-infrastructure/ mixed use /land could/would stay. • Debt associated with transferred assets transfer • People transfer • Council sets LOS through Letter of Expectation/Water Services Strategy • Council collects rates but must guarantee revenue to CCO or CCO charges customer directly 	WS-CCO can access up to 500% borrowing against revenue from Council, because CCO has control over debt and charges. (approach to be confirm with LGFA)

10.3 It remains for each individual council to determine its own decision in relation to stormwater if they choose to pursue a joint delivery model.

11. Options and Risks

11.1 There are no risks associated with the recommendations set out in this report.

12. Appendices

There are no appendices to this report.

Author(s)	<p>Kathryn Stewart, Transition Manager, Whanganui District Council Michael Hodder, Advisor to the Chief Executive, Rangitikei District Council. Review by the remaining Transition Managers.</p>	
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Approved by	<p>David Langford, Chief Executive, Whanganui District Council Following review by all Council CE's.</p>	
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² Councils will need to consider this on a case-by-case basis as part of any transfer arrangements, including whether or not it is appropriate to transfer any assets as well as determining appropriate funding and financing mechanisms.