Regulatory Impact Statement: Addendum to Decision on the reform of water services delivery arrangements

Purpose of Document	
Decision sought:	Policy decisions on the refocus of the Water Services Reform Programme.
Advising agencies:	Department of Internal Affairs
Proposing Ministers:	Minister of Local Government
Date finalised:	9 May 2023

Overview of this Regulatory Impact Assessment

The Government has ambitions to significantly improve the safety, quality, resilience, accessibility, and performance of three waters services (stormwater, wastewater and drinking water), in a manner that is efficient and affordable for New Zealanders.

In many parts of the country, communities cannot be confident that their drinking water is safe. The campylobacter outbreak in Havelock North in 2016 brought into sharp focus the challenges in the three waters system, and the risk to public health if left unaddressed.

The condition of water infrastructure across the country means that there are often poor environmental outcomes related to water services, such as discharge of treated and untreated wastewater into water bodies and large volumes of drinking water lost through leaks in pipes. Current water infrastructure is generally unfit to accommodate growth in population and housing, or to manage the impacts of climate change and natural hazard risks. Further, the accountability arrangements and decision rights through the water services system do not always clearly express, respond to, or uphold the rights and interests of iwi/Māori.

To address these issues, the Water Services Reform Programme was introduced in 2017, with a number of key Cabinet and legislative decisions made during 2021 and 2022. In December 2022, four water services entities (entities) were legally established, which would assume responsibility for delivering drinking water, wastewater and stormwater services from 1 July 2024.

Following extensive feedback during the passage of the Water Services Entities Act 2022, the new Minister of Local Government was asked in early February 2023 to report back to Cabinet in March 2023 with options to refocus the reforms. Based on the Minister's advice, Cabinet agreed on a 10-entity model whereby every territorial authority owner would be represented on the entity's regional representative group. The change from four to 10 entities was in response to significant stakeholder feedback and concerns raised about the dilution of local representation and influence in the four-entity model.

This Regulatory Impact Assessment details the options included in the refocus of the reforms in direct response to public and sector feedback. As a comprehensive Regulatory Impact Assessment was done in 2021 (the 2021 RIA) on the case for reform, this assessment is considered an addendum to the original impact statement because core policies and reform outcomes sought remain the same.

Limitations and Constraints on Analysis

Following a change in Prime Minister and Minister of Local Government in late January 2023, decisions have been made to refocus the reforms, in response to strong and consistent feedback from the local government sector, iwi, and communities.

The advice prepared by the Department has been within the limits set by Cabinet decisions taken in early April 2023. These decisions included that:

- a 10-entity model, where all territorial authorities will be represented on the Regional Representative Group, would be progressed;
- a new mechanism would be developed to provide an additional avenue for communities to express their interest in, and priorities for, bodies of water; and
- establishment of the entities would be deferred from 1 July 2024, and replaced with an approach where entity establishment will be staggered over two years, commencing from 1 July 2024, with all entities established by 1 July 2026.

These decisions have constrained the options that have been considered as a part of this assessment, and the amount of analysis that has gone into the development of options not agreed to by Cabinet.

Two bills that form part of the water reform legislative framework, the Water Services Legislation Bill and Water Services Economic Efficiency and Consumer Protection Bill, were being considered by the Finance and Expenditure Committee at the time of preparing this assessment. Progressing the 10-entity model will require amendments to the Water Services Entities Act 2022, other local government legislation, and will also require a small number of amendments to these two bills. The responsible Minister has expressed a desire to pass the legislative amendments and remaining two bills this parliamentary term, which significantly condenses timeframes for policy development.

Constraints on timing have limited the amount of research and analysis in the development of options. As a result of these constraints, officials are continuing to work with Ministers and the sector on the impacts of a 10-entity model on transitional arrangements for local government during the establishment period. This includes further work on the approach and timing to stand up the new entities in a way that best suits respective councils, bearing in mind that all new entities must be stood up by 1 July 2026; and the implications for council long-term plans. Officials are also still working with the sector, Taumata Arowai and the Commerce Commission to better understand the financial implications of the shift to 10 entities.

Responsible Manager(s) (completed by relevant manager)

Bex Sullivan

Policy Director

Policy and Stewardship Directorate

Department of Internal Affairs

9 May 2023

Quality Assurance (completed by QA panel)	
Reviewing Agency:	DIA impact assessment panel
Panel Assessment & Comment:	The panel considers that the information and analysis summarised in the RIA **partially meets** the quality assurance criteria. The RIA clearly explains the problem and need for action. The analysis around the benefits of the 10-entity model compared to the status quo is compelling, with a substantial amount of supporting evidence. The analysis comparing the different new options could have been communicated more clearly at times. Including more detail around what potential shared services are being progressed in practice would also have been useful. The RIA includes all of the necessary information or where appropriate makes links to previous RIA. There is a clear and concise description of the problem and the options, though much of the analysis is technical and could have been communicated in a more accessible way. There does not appear to have been direct consultation on the new options with all relevant stakeholders. But the RIA does clearly show how the new option is a direct response to stakeholder concerns and has been informed by extensive consultation.

Section 1: Background

The case for change

1. The Government has ambitions to significantly improve the safety, quality, resilience, accessibility, and performance of the three waters services, in a manner that is efficient and affordable for New Zealanders. This is critical for public health and wellbeing, economic growth and job creation, housing and urban development and improving outcomes relating to water services for iwi/Māori. Improving water infrastructure is also essential for environmental outcomes, such as adapting to the impacts of climate change and building resilience to natural hazards.

2. It is widely accepted, both by the sector and the public, that water reform is needed. This is true even for critics of the proposals, who acknowledge that reform is needed but have not agreed with the proposals to date.

3. Historic underinvestment in the three water services means that the level of investment required to improve water infrastructure is beyond the capacity of many local authorities. Modelling by the Water Industry Commission for Scotland has estimated that between $120 – 185 billion will be needed by 2051 to fix critical water infrastructure.[1] This means that without reform, New Zealanders will face unaffordable household bills for water services and there will continue to be inconsistent quality of water services across the country, along with pressure on network resilience in the face of climate change. For example:

[1] This modelling has been extensively peer-reviewed by Farrier-Swier and BECA. The WICS final report, and the peer reviews can be found at: three waters reform programme national evidence base - dia.govt.nz

- In 2021, more than 1 million people lived with tap water that did not meet drinking water standards – according to the Ministry of Health Drinking Water Quality Report.
- It is estimated that at least 35,000 New Zealanders get sick every year from drinking water that does not meet the international benchmark for clean drinking water.
- Twenty five percent of wastewater plants across the country are running on expired consents, and the country experienced 2,754 dry-weather wastewater overflows in 2020/21.
- Just over 100,000 households currently receive a rates rebate, about 78 percent of which are recipients of New Zealand Superannuation. Under the status quo, rates are slated to increase significantly for many areas.

4. Currently, 67 different local authorities own and operate the majority of the drinking water, wastewater, and stormwater services and infrastructure across New Zealand. However, some have arrangements with council-controlled organisations, such as Wellington Water and Auckland's Watercare, to provide three waters services and maintain some water services assets. Some council-controlled organisations, such as Watercare and Citycare Water, also provide services to other councils.

5. Under the current system, many councils lack the financial capacity to address these issues themselves, because they lack the balance sheet capacity required to take on significant levels of additional debt needed to address historic deficits in the provision of water services infrastructure. Many councils have either reached their debt limit, or cannot service higher debt without significantly increasing rates. Most councils also lack the scale needed to efficiently operate three waters infrastructure, which will be critical to keeping prices affordable to consumers as investment increases.

6. Since the original reform decisions were made, extreme weather events have further highlighted the criticality of water services, especially stormwater, for community adaptation and resilience. They have shown the fragility of critical water infrastructure in some areas that will require further investment to address, reinforcing that reform is needed urgently.

Reform objectives and the original model

7. The Government's primary policy objective is to significantly improve the safety, quality, resilience, accessibility, and performance of drinking water, wastewater and stormwater, in a way that is efficient and affordable for New Zealanders.[2]

8. As per the 2021 Regulatory Impact Assessment (the 2021 RIA), the objectives of the reform are to:

   - Address the quality of our water services, so all New Zealanders have access to safe and reliable drinking water, wastewater and stormwater;
   - Increase investment in critical water infrastructure while ensuring water services remain affordable for New Zealanders;
   - Create a sustainable system that is well positioned for the future; and

[2] Three Waters Regulatory Impact Assessment (May 2021), *Decision on the reform of three waters service delivery arrangements,* page 54

- Ensure the water services system gives effect to the Crown's Treaty obligations and iwi/Māori rights and interests of water services.

9. To deliver on these objectives, it was agreed in 2021 that there would be significant transformation of the water services system, which would have two components:

- *Water services delivery reform*, which involves establishing water services entities, transferring the delivery of water services and maintenance of water infrastructure from local government organisations to the entities; and
- *Regulatory reform*, which resulted in the establishment of Taumata Arowai, the water services regulator and the Water Services Act 2021, which affects all drinking water suppliers. Requirements on local authorities to comply with drinking water standards are further contributing to the need for additional investment in infrastructure and operational capability.

10. In December 2022, the Water Services Entities Act 2022 (the Act) was passed and legally established four water services entities, which would assume responsibility for delivering the three waters services beginning 1 July 2024. The Act specified the purpose and objectives of the entities, their governance and accountability arrangements, ownership model and legal form, along with Te Tiriti obligations and Te Mana o te Wai.

11. In summary, the core features of the four-entity model are:

- The entities are financially and operationally independent of local authorities, and are governed by independent, competency-based boards. The boards must include members who collectively have knowledge and expertise in relation to the principles of te Tiriti o Waitangi and perspectives of mana whenua, mātauranga, tikanga, and te ao Māori.
- The entities remain in public ownership, where territorial authorities in an entity's catchment area own the entity on behalf of their communities, via a shareholding arrangement.
- Regional representative groups will comprise a subset of territorial authority owner representatives and a matched number of mana whenua representatives. Regional representative groups will appoint an entity's board, provide regional and local level direction to the board, monitor the board's performance, and are appointed via a constitution.
- Entities are required to give effect to Te Mana o te Wai when performing their duties, functions and powers. Mana whenua can provide a Te Mana o te Wai statement to a water services entity that identifies their interest in a water body and expresses their view on how a water services entity should give effect to Te Mana o te Wai. A water services entity must respond to a Te Mana o te Wai statement and in its response set out it intends to give effect to Te Mana o te Wai, to the extent that it applies to the entity's duties, functions, and powers
- Entities must partner and engage early and meaningfully with Māori; and uphold the integrity, intent and effect of Treaty settlement obligations to the extent that the obligations apply to the duties, functions, or powers of the entity.
- Entities will be supported by a strengthened regulatory regime, that includes both quality (Taumata Arowai) and price (economic regulation; the Commerce Commission).

12. The 2021 RIA provided several justifications for initially choosing a four-entity model[3]:

- *Organisational size and scale:* the size of the entities would enable greater operational and capital efficiencies, as they can spread fixed costs over a greater population base, which leads to lowered cost of water services for consumers;
- *Consistency of size:* the four entities would be reasonably similar in the size of their asset base and population coverage, which would enable easier performance benchmarking across the entities and lead to less variation in household costs across the country;
- *Increased borrowing capacity:* large entities reduce business risk profile and lead to stronger balance sheets, which improves access to finance; and
- *Improved resilience:* larger entities are more able to respond to and absorb the impacts of external shocks, such as seismic and extreme weather events, and have improved access to insurance.

What feedback has been received to date on the four-entity model?

13. The Department and Ministers have noted the strong community interest in the reforms, and the interest of councils and industry experts.

14. Development of the original reform proposals, including considerations of the number and boundaries of entities and their organisational form and governance arrangements, has involved significant engagement and consultation with local authorities, Māori and iwi representatives, and the public. This engagement is detailed in the 2021 RIA.[4] It included:

- A joint Central/Local Government Three Waters Steering Committee that oversaw and advised the Department throughout the development of proposals and options for service delivery reform
- Various technical working groups including experts from local authorities to advise on particular aspects of the reforms including the following:
    i. Water Infrastructure Technical Working Group;
    ii. System Design Reference Group;
    iii. Stormwater Technical Working Group;
    iv. Te Ao Māori Technical Working Group.
- Regional Engagement and Sector Workshops across New Zealand.

15. Since the publication of the 2021 RIA, further engagement has occurred. This has included:

- An eight-week consultation period in late 2021 for local authorities to provide feedback on the Government's proposal to establish four water services entities. This was an opportunity for the local government sector to engage with the model and provide feedback, at both the national level and as it related to their community. Local Government New Zealand led this engagement with the local government sector, with support from the Department and Taituarā. Submissions from local authorities included

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[3] Three Waters Regulatory Impact Assessment (May 2021), *Decision on the reform of three waters service delivery arrangements,* page 194.

[4] Three Waters Regulatory Impact Assessment (May 2021), *Decision on the reform of three waters service delivery arrangements,* Appendix 8, page 133.

concerns regarding the influence that councils, especially smaller and rural councils would have on the water services entities.

- A Ministerially appointed Working Group on Representation, Governance and Accountability was tasked with reviewing the governance arrangements in the four-entity proposal and making recommendations to address local authority concerns about the lack of local representation. This group was composed of equal numbers of local authority and mana whenua representatives. The Working Group made a number of recommendations to strengthen community and local authority connection to, and influence over entities, including providing for community advisory groups to regional representative groups, many of which were accepted by Government.
- A Rural Supplies Technical Working Group was established to advise the Department on rural interests and issues in water services reform. The Group's work focussed on the importance of mixed-use rural water supply schemes to farmers. It made recommendations on how to recognise farmers' interest in rural water supply schemes, which were accepted by the Government and incorporated into the Water Services Legislation Bill.
- A Planning Technical Working Group, that advised the Department on local authority roles in spatial and land use planning and made recommendations to improve connections and interfaces between planning processes and entities. The deliberations and recommendations of this group informed the Department's advice to Ministers and Parliament on legislative mechanisms to provide for effective connections and interfaces between water services entities and local authorities.

16. The Associate Minister of Local Government (now Minister of Local Government; Hon Kieran McAnulty) in mid to late 2022 visited 55 rural and provincial local authorities (including the Chatham Islands Council). A consistent issue raised by local authorities was concern for loss of local connection and ability to influence the priorities and operations of four water services entities. Small local authorities were universal in their concern that the priorities of larger urban centres would dominate and crowd out their needs.

17. Concerns by local authorities for community connection and influence over four large water services entities were echoed in public submissions on the Water Services Entities Act 2022 and the Water Services Legislation Bill.

18. Substantial community-based feedback was received during the legislative process for the Water Services Entities Act 2022 and the Water Services Legislation Bill. In total, the Select Committee received over 88,000 submissions on the Act (with 81,794 form submissions and approximately 6,500 individual submissions). In addition, the Select Committee has received over 450 submissions on the Water Services Legislation Bill (currently at Select Committee).

19. Many of the submissions noted that the four entities felt too distant from the communities they would serve, and that the boundaries of the entities did not always reflect recognisable regional groupings. There were also concerns regarding representation on the regional representative groups.

The Minister of Local Government was asked to consider options for a refocus of the reforms

20. Following strong feedback received on the reforms from local government, iwi, and communities, the Minister of Local Government (the Minister) was asked in February

2023 to report back to Cabinet in March 2023 with options to refocus the water services reforms.

21. The Minister was directed by Cabinet to consider three areas:

- The number of entities and their boundaries;
- How Māori rights and interests are reflected in the new system; and
- The timing and sequencing of implementation.

22. When considering options for a refocus, the following matters were taken into account:

- The desired scale of policy change, and key areas to prioritise for redesign;
- The importance of providing certainty to the local government sector, water sector workforce, and wider industry;
- Related Crown support that will be provided to the local government sector for cyclone damage and flood relief, and implications of recovery efforts for the timing of implementation;
- The degree of change from an implementation programme already in progress, and minimising disruption and sunk costs; and
- Opportunities for the shared provision of services.

Recent Ministerial engagement

23. As a basis for the development of his Cabinet advice, the Minister met with representatives from the local government sector and iwi leaders to discuss options to strengthen the connection between entities and their communities. During these discussions, the Minister posed a number of questions that sought to identify arrangements that would ensure all regions would share the benefits of reform, while maintaining their unique character and local voice. The Minister also asked a small number of smaller regions, for example, Northland, the top of the South Island and the Chatham Islands, to provide him with their preferred arrangements for their region in a revised model.

24. The Minister's discussions built on the prior extensive engagement that occurred with the local government sector and iwi/Māori throughout the reforms, and the full range of working groups and steering committee that helped to shape many of the reform proposals. Themes raised in these discussions, specifically that there needed to be a clearer link between entities and the communities they will serve, reinforced themes in submissions on the Water Services Entities Act 2022 and the Water Services Legislation Bill.

25. During the Minister's process of engagement, the following key themes were identified:

- Strengthen the level of community-based input;
- Increase levels of connectedness to councils and communities within the regions; and
- Provide for locally led responses e.g., responses to emergency events and natural disasters.

26. In response to the above feedback the Minister concluded that a revised model is required, that will retain the original reform objectives, while also increasing levels of community-based connectedness and local presence.

Summary of Cabinet decisions

27. On 11 April 2023, Cabinet noted that the current reform model needs a better balance between delivering economic benefits and providing for local representation and interest, and that this could be achieved by providing for more entities than the four that have been established in legislation [CAB 23-MIN-0143 refers].

28. Cabinet agreed to move to a new model with a greater number of entities, that are based on the existing regional council boundaries. There were two exceptions to this rule:

- Unitary authorities who would not have sufficient scale on their own to form a standalone entity (e.g., Gisborne, and the three unitary authorities at the top of the South Island) were combined with neighbouring entities; and
- In the case of an Auckland-based entity, balance sheet separation (financial independence) from the council would be difficult to achieve, given Auckland Council would be the sole territorial authority owner. For this reason, along with significantly improved costs for Northlanders, Cabinet agreed to continue with an Auckland and Northland combined entity (current Entity A).

29. The resulting model was 10 entities, each with their own board and regional representative group. The 10 entities are:

- A: Northland and Auckland;
- B: Waikato;
- C: Bay of Plenty;
- D: Taranaki;
- E: Manawatū-Whanganui;
- F: Gisborne and Hawke's Bay;
- G: Wellington;
- H: Nelson, Tasman, and Marlborough (with a boundary that reflects the takiwā of Ngāi Tahu, as is currently provided for under the Act);
- I: Canterbury and the West Coast; and
- J: Otago and Southland.

30. The overall entity composition does not include the Chatham Islands. Unlike any other region, the Chatham Islands depends significantly on central government for infrastructure funding, and its residents face substantially higher utility and other household costs than other New Zealanders. Because of this, the Chatham Islands will be directly funded, rather than included in an entity. This will help to provide a more holistic approach to supporting infrastructure and costs of services for residents.

31. Table 2 in Appendix A outlines the local authority owners and population served by each entity.

32. Under this model it was agreed that, unlike the four-entity model, every territorial authority owner would be represented on the entity's regional representative group, which would continue to be matched with an equal number of mana whenua representatives.

33. With the exception of Entity A, entities under the 10-entity model will be smaller than under the four-entity model. The 2021 RIA highlighted that a regional model of service delivery could result in large variation of household costs for water services across the

entities. Smaller entities, particularly where they have a low population base spread over large land areas, are most likely to have the highest costs per household in providing reticulated water services.

34. In considering the 10-entity model, Cabinet noted that, over time, councils and communities in these higher cost regions may see the benefits of further amalgamation and wish to merge with another entity (or entities). It was agreed that the legislation would be amended to provide for voluntary merging of the entities. It is envisioned this would be a locally-led process, and would proceed if agreed by 75 percent of the regional representative group of the relevant entities.

35. Cabinet also agreed to introduce a new instrument, provisionally called 'Community Priority Statements', to sit alongside Te Mana o te Wai statements. This new instrument has been designed to give community groups who have an interest in a water body, an opportunity to make statements to their entity about their priorities for that water body. Community priority statements are another mechanism to support greater local voice.

36. All other features of the four-entity model, including Te Mana o te Wai statements, te Tiriti obligations and partnerships, the purpose and objectives of the water services entities, their ownership structure, interface with councils and governance arrangements, remain intact.

37. In recognition that it would take more time to establish a greater number of entities and amend legislation, Cabinet agreed to defer the establishment date of the entities, with all entities to be established by 1 July 2026 [CAB-23-MIN-0143 refers].

38. When Cabinet agreed to the 10-entity model, it was noted that the potential impacts of the proposed refocus are still being examined, and that a Regulatory Impact Statement would accompany further detailed advice to Cabinet in May 2023 [CAB-23-MIN-0143 refers].

39. In order to fulfil this requirement, the Department identified a package of options that would seek to retain as much of the economic benefits of reform as possible, while also aiming to more closely align the entities to the communities they will serve.

Section 2: Assessment Framework

40. Throughout the reform process, the objectives of the water services reform have always required that the entities will need to be financially viable, connect with local planning processes and have a tangible link to communities. Specifically, the following considerations were taken into account when assessing options in the 2021 RIA and in this assessment:

- Have a sufficient asset and customer base to be financially sustainable and operate efficiently. International evidence shows that to operate with the greatest efficiency, entities require a connected population of between 600,000 to 800,000 people.

- Contain entire catchments within their boundaries to realise environmental outcomes, by enabling effective catchment planning and management of associated infrastructure.
- Be aligned to relevant political boundaries and local communities of interest, such that entities relate to the customers and communities they serve.

41. There is a natural tension between these factors:

- *Fewer entities* present greater potential to achieve efficiencies and resulting economic benefits via organisational scale, given the broader customer and asset base. Larger entities tend to have greater purchasing power, more access to cost-effective borrowing (debt), can spread fixed costs over a larger population base and have a greater ability to use their resources and staff more efficiently.
- *More entities* have stronger relationships with relevant regulatory boundaries and more direct connections with communities of interest, and with hapū and iwi.

42. To date, economic benefits have been prioritised given the level of infrastructure deficit across the sector, and the need for future entities to be able to borrow at a capacity far beyond that of councils to address it.

What criteria were used?

Assessment criteria

43. Six assessment criteria were originally developed to assess options for change and consider which option(s) were most likely to achieve the objectives of reform.[5]

44. These criteria are still relevant, although the Department has concluded that in light of the volume of feedback on the four-entity model, and to reflect Ministerial priorities, the emphasis and weighting of the criteria should change. The Department has amended the criteria to better reflect the importance of local representation and influence in the operations and oversight of the entities. The criteria are:

- **Improves economic efficiency** – the extent to which the option leads to greater dynamic efficiency, allocative efficiency, and administrative efficiency, and cost replications are avoided.
- **Supports a financially stable system** – the extent to which the option addresses the ability of water services providers to fund and finance new investment and its future financial self-sufficiency.
- **Supports a sustainable system for the future** – the extent to which the option enables better investment and regulation to enable a future-focused system that is sustainable, adaptable, and resilient.
- **Upholds the rights and interests of iwi/Māori** – the extent to which the option upholds the rights and interests of iwi/Māori and mana whenua.
- **Upholds local representation and influence** – the extent to which the option enables local communities to be represented and have input and influence.

[5] Three Waters Regulatory Impact Assessment (May 2021), *Decision on the reform of three waters service delivery arrangements,* page 80.

- **Alignment to regulatory boundaries and catchments** – the extent to which the option takes into account existing regulatory boundaries and natural catchments with implications for spatial planning and regulatory efficiency.

45. With the refocus, the above criterion *Upholding local representation and influence* has been more heavily weighted as a result of recent consultation and engagement against other criteria in this assessment. This reflects the themes arising from recent Ministerial engagements with local authorities and mana whenua, and submissions to select committee on water services entities legislation. The criterion was also modified to encompass consideration of how well an option enables direct, visible connection to local communities and their ability to influence the entity, connection to local planning environments and representation of owner interests. The other criteria remained the same, as per the 2021 RIA.

Consideration of geographic boundaries

46. Submissions received on the Water Services Entities Act 2022 by iwi and hapū did not generally raise issues with geographic boundaries of the entities. However, the boundary between what was Entity C and D (top of the South Island) has been the subject of discussion and written correspondence (including Ministerial correspondence) from the iwi whose takiwā are in this area, and the affected councils. In general, the South Island has been heavily contested, via settlement processes and legal action. The area and relevant interests were the subject of a Waitangi Tribunal claim (Wai 785) and subsequent report in 2008. Ngāi Tahu has been actively engaged in the reform process and has consistently expressed a very strong desire that the entity boundaries in the South Island reflect its settlement takiwā.

47. As per the 2021 RIA, the geographic boundaries of entities, in both the original four-entity model and the options considered in this assessment, were informed by consideration of iwi/hapū interests. The assessment criterion *Upholds the rights and interests of iwi/Māori* takes into consideration the alignment of the entities' geographic boundaries with iwi/hapū interests and takiwā. In particular, the criterion considers how a given option enables mana whenua to have greater strategic oversight and direction setting for the entities that reflects their place.

Planning and other council interfaces

48. It will be critical for the entities to establish and maintain productive strategic and operational relationships with local authorities at both district and regional levels. If local authorities and entities are not integrated in their planning, the benefits of reform would not be realised. The result would likely be communities not properly serviced by water infrastructure and other impacts such as inadequate flood protection measures.

49. The day-to-day strategic and operational relationships between local authorities and entities are related to:

    - *Spatial and land use planning:* entities will need to be involved in local authority led planning processes. This is critical to ensuring that plans are informed by advice from entities on the practicalities, costs and other implications of spatial and land use plans for water services infrastructure provision. Under the Government's Resource Management Reforms, it is proposed the spatial planning will be led and coordinated at a regional rather than district level.

- *Provision of new network infrastructure (and maintenance of existing infrastructure):* this will require entities to work with local authorities and other roading and infrastructure providers to ensure a coordinated and efficient approach to infrastructure provision.
- *Stormwater management:* Effective management of stormwater and flood risk will require a high degree of collaboration between entities and local authorities. The entities will own and operate stormwater network infrastructure (pipes). This infrastructure will connect to other infrastructure and services that will continue to be owned and operated by local authorities and transport corridor operators, including stormwater runoff from roads, urban streams and rural drains. Local authority approaches to urban design, flood management and rural drainage will all have implications for the volume of water for stormwater infrastructure.

50. The Water Services Entities Act 2022 and the Water Services Legislation Bill provide mechanisms to support collaborative strategic and operational arrangements between local authorities and water services entities. These include:

- *Relationship agreements:* these are intended to support collaborative strategic and operational arrangements. Relationship agreements provide for entities and local authorities to agree on relative roles and how they will work together on particular issues. Relationship agreements provide an ability for entities to have bespoke agreements from council to council, which will provide the flexibility to recognise and work within each council's unique circumstances.
- *Service-level agreements:* which provide for local authorities and entities to agree how services will be provided to one another in support of collaborative strategic and operational arrangements.
- *Stormwater management plans:* which are intended to provide for a collaborative approach to stormwater management and allow for more systematic management of stormwater across the country.
- *Obligation on entities* to input into local authority planning processes, and give effect to spatial and land use plans.

51. Ease of working with future entities on spatial and land use planning has been a consistent theme raised by councils in submissions on the Water Services Entities Act 2022 and Water Services Legislation Bill. The assessment criterion *Alignment to regulatory boundaries and catchment areas* takes into account the ease of entities and local authorities to work together on integrated planning.

What options were considered?

Number of entities and boundaries

52. The number of entities has been thoroughly examined throughout the life of the water services reform. In the analysis underpinning the 2021 RIA and Cabinet decisions that led to the four-entity model, around 30 scenarios of different numbers and configurations of entities were examined.

53. This assessment examines four options on the number of entities and their boundaries. Based on Ministerial direction and the feedback received about increasing local representation and influence, the Department considered that any options with fewer entities than the current model (four) would not be viable. The options are:

- **Previously considered option: Four water services entities.** As per the Water Services Entities Act 2022, under this option there are three entities in the North Island and one entity in the South Island (with the top of the South Island included in the service area of the third North Island entity to reflect the Ngāi Tahu takiwā). In this option there is a minimum of around 800,000 people served per entity.
- **Option 1: Eight water services entities.** Under this option, there would be six entities in the North Island and two entities in the South Island. In this option there is a minimum of around 170,000 people served per entity, with the Auckland entity serving the largest population of around 1.7 million people.
- **Option 2a: 10 water services entities.** Under this option there would be seven entities in the North Island and three in the South Island. Northland and Auckland are grouped together into a single entity, and the West Coast is grouped with Canterbury. In this option the smallest entity serves around 100,000 people, with the Auckland entity serving the largest population of around 1.7 million people.
- **Option 2b: 11 water services entities.** This option is similar to Option 2a, except that Northland and Auckland would be separate entities. In this option the smallest entity serves around 100,000 people, with the Auckland entity serving the largest population of around 1.6 million people.
- **Option 3: 15 water services entities** closely aligned to regional council boundaries. In this option the smallest entity would serve around 30,000 people, with the Auckland entity serving the largest population of around 1.6 million people.

54. Tables listing the entity service areas and populations under each option are included as Appendix A.

Shared services

55. Central to the original case for reform was the need to achieve efficiency gains in the operation of water services infrastructure. This was to be achieved through increased organisational scale.

56. Increased organisational scale would have enabled entities to realise savings through:

- Greater purchasing power and strategic supply chain management;
- Greater opportunity to invest in strategic asset management capabilities and technologies to improve efficiency of network performance;
- Improved access to debt markets and to access debt at more affordable rates;
- The ability to adopt more mutualised approaches to risk management;
- Realising the benefits of state-of-the-art digital technologies that will be beyond the reach of smaller entities; and
- More strategic, consistent and deliberate approaches to workforce planning and development.

57. Under the previously agreed four-entity model, many of these functions would have been consolidated within each entity. When Cabinet agreed to increase the number of entities from four to 10, there was acknowledgement that some of the economic benefits that arise from scale efficiencies could be lost. With a higher number of entities, shared services arrangements can provide a means for improving scale efficiencies.

58. In New Zealand, there are several examples of using shared services to help realise scale efficiencies. Examples of shared services in other sectors include:

- The local government sector, where government has legislated to provide for a shared approach to local authority debt raising and management through the Local Government Funding Authority; [6]
- The road transport sector, where Waka Kotahi has established alliances with local authorities to achieve efficiencies in the operation and management of roads and related infrastructure; and
- The central government sector, where the Government has implemented centralised support for procurement by government organisations and centralised property management and other functions including debt management. This has demonstrated the benefits of having a single public organisation lead improvements in government procurement. It has included the benefits of central co-ordination and leadership, and how work performed centrally can lead to efficiencies.[7]

59. To retain scale efficiency under a higher number of entities, Cabinet has agreed to consider proposals for shared services, where critically important functions, including strategic asset management and procurement, could be delivered at either a national or regional level, and service several entities.

60. The provision of shared services will be enabled by amendments to the Water Services Entities Act 2022, similar to those that enabled the establishment of the Local Government Funding Agency.[8] In addition, entities will be able to enter collaborative arrangements and intra entity service arrangements when it's in their mutual benefit to do so.

61. A shared services model is expected to provide for the following functions:

- *Debt raising and management* – taking a centralised and portfolio-based approach to raising and managing debt will enable more debt to be accessed at lower cost, improve access to debt markets for smaller entities and reduce total debt across all entities by pooling risk;
- *Major risk management and insurance* – water and water services are at the front line of managing challenges from natural hazard events (some exacerbated by climate change);
- *Procurement and strategic asset management* – a strategic and coordinated approach to procurement and strategic asset management will enable entities' collective buying power to be leveraged, and enable more sophisticated and coordinated approaches to procurement and major infrastructure investments across entities;
- *IT and digital support* – centralised support for a 'System of Record' (and a national data platform) and for specialised functions such as cyber security to improve resilience and efficiency; and

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6 The New Zealand Local Government Funding Agency (LGFA) is a Council-Controlled Organisation (CCO) operating under the Local Government Borrowing Act 2011. LGFA specialises in financing the New Zealand local government sector, to provide more efficient costs and diversified financing sources for New Zealand local authorities and council-controlled organisations. LGFA was established to raise debt on behalf of local authorities on terms that are more favourable to them than if they raised the debt directly.

7 Controller and Auditor General, *Using "functional leadership" to improve government procurement*, November 2019

8 The relevant provisions are contained within the Local Government Borrowing Act 2011.

- *Strategic support and coordination for workforce strategy and development* – which would include strategic workforce planning and workforce capability development.

62. Further work is being undertaken to determine the detail of functions and the appropriate organisational form for each service, and whether any of the services could be co-located.

63. For this assessment, two sub-options were included to assess the impact of shared services on Cabinet's agreed option (10 entities):

    - Entities with the provision of shared services as a means to provide improved economies of scale across the entities; and
    - Entities without the provision of shared services.

Overview of each option and qualitative assessment

Previously considered option: four water services entities

64. There is a strong correlation between entity size, economic performance and community connection and influence.

65. The four-entity model sought to strike a balance between the realisation of substantial efficiency gains while providing for community representation, influence and accountability, but with an emphasis on the realisation of efficiency gains to enable increased investments in infrastructure while keeping costs affordable to consumers.

66. Larger organisational scale under the four-entity model enables the spreading of financial and other risks across geographic areas and populations. This in turn results in improved capacity to raise debt at favourable terms, to mutualise risk, and improve cost-effective access to insurance. It also allows for differences in operating costs across small areas to be spread across larger areas and populations of consumers. Under the four-entity model average household bills in 2054 were estimated to range from $1,460 per annum to $2,340 per annum (compared to a low of $880 per annum to a high of $9,520 per annum under the 15-entity model).

67. Increased size, however, makes it more difficult and more administratively complex to provide for community connection and influence under the four-entity model. Smaller rural and provincial communities have expressed concern that their local issues and needs would not be adequately heard or prioritised relative to those of larger urban centres.

68. Large entities under the four-entity model would also face complexity in interfacing with multiple councils in their management of stormwater systems, connecting to multiple spatial and district planning processes, and maintaining relationships with multiple councils and transport operators.

69. Relative to the status quo, the institutional structure and size of the four-entity model enables increased borrowing capacity and enables risks to be spread across larger populations. Most entities will have a sufficiently diverse customer population and asset base to achieve balance sheet strength.

Option 1: Eight entities

70. The eight-entity model enables the realisation of efficiency gains compared to the status quo, though less than under the four-entity model. Relative to the status quo, the institutional structure and size of the entities still enables increases in borrowing capacity and risks to be spread across larger populations.

71. Scale benefits do, however, decrease relative to the four-entity model, but are larger than the 10, 11 and 15 entity models. The smaller size of entities enables improved community connections and influence, especially for the mid-central and southern entities.

72. Compared to the four-entity model, average household costs to consumers would vary more widely, with consumers in Otago and Southland facing average costs as high as $4,430 by 2054, compared to $2,340 by 2054 under the four-entity model.

73. The adoption of shared services for procurement, debt raising and other functions for which scale is critical may bridge some of the efficiency gap between the eight-entity scenario and the four-entity scenario.

Option 2a: 10 entities

74. The 10-entity model enables the realisation of some efficiency gains compared to the status quo, though less than under the four or eight entity models. Relative to the status quo, the institutional structure and size of the entities enables increases in borrowing capacity and enables risks to be spread across larger populations. The size of the entities mean that most would have a sufficiently diverse customer population and asset base to achieve balance sheet strength necessary for increased debt financing, but improvements will not be as significant as compared to the four or eight entity models.

75. Scale benefits are decreased relative to the four and eight entity models but are larger than the 11 and 15 entity models. The smaller size of entities enables improved community connections and influence, especially for the mid-central and southern entities.

76. Smaller entities are better aligned to regional planning boundaries, which results in simplified establishment, management and operationalisation of relationships, and water services entities' participation and connection to future regional spatial planning process once enacted.

77. Compared to the four-entity model, average household costs to consumers are similar to costs under the eight-entity model. However, consumers in Hawke's Bay, Gisborne, Otago and Southland would face average costs as high as $4,430 by 2054 compared to $2,030 and 2,340 by 2054 under the four-entity model.

78. The adoption of shared services for procurement, debt raising and other functions for which scale is critical may bridge some of the efficiency gap between the 10-entity scenario and the four-entity scenario.

Option 2b: 11 entities

79. The 11-entity model enables the realisation of some efficiency gains compared to the status quo, though less than under the four, eight and 10 entity models. Relative to the status quo, the institutional structure and size of the entities enables increases in borrowing capacity and enables risks to be spread across larger populations. The size of the entities mean that some entities would have a sufficiently diverse customer population and asset base to achieve balance sheet strength necessary for increased debt financing, but improvements will not be as significant as compared to the four, eight or 10 entity models.

80. The smaller size of entities enables improved community connections and influence, especially for the mid-central and southern entities. This, however, is at the cost of scale benefits, which are decreased relative to the four, eight and 10 entity models, especially for Northland which is now separate to Auckland.

81. Smaller entities are better aligned to regional planning boundaries, which results in simplified establishment, management and operationalisation of relationships, and water services entities' participation and connection to future regional spatial planning process once enacted.

82. Compared to the four-entity model, average household costs to consumers vary more widely, with costs as low as $1,410 by 2054 for Auckland, because it no longer includes Northland in its service area, and as high as $4,650 by 2054 compared to $2,340 by 2054 under the four-entity model.

83. The adoption of shared services for procurement, debt raising and other functions for which scale is critical may bridge some of the efficiency gap between the 11-entity scenario and the four-entity scenario.

Option 3: 15 entities

84. The 15-entity model results in smaller entities which facilitates community connection and influence, especially for the smaller rural communities in Northland, mid-central and southern parts of the country.

85. This improved connection is however at the cost of scale efficiencies, which decrease relative to the four, eight 10, and 11 entity models, especially for Northland, parts of mid-central and southern New Zealand.

86. The small size of some entities coupled with greater community and council influence, has negative implications for borrowing capacity and reduces the capacity of entities to mutualise and spread risks and costs across larger populations. The small size of some entities mean that some may struggle to achieve the balance sheet separation from council owners necessary for increased debt financing, as in some cases there will be only one council represented on an entity's regional representative group.

87. The smaller service areas of entities mean they are better aligned to regional planning boundaries, which results in simplified establishment, management and operationalisation of relationships, and water services entities' participation and connection to future regional spatial planning process once enacted.

88. Compared to the four-entity model, average household costs to consumers vary widely, with costs as low as $880 per annum by 2054 and as high as $9,520 for the West Coast by 2054 (compared to $2,340 by 2054 under the four-entity model).

89. The adoption of shared services for procurement, debt raising and other functions for which scale is critical may bridge some of the efficiency gap between the 15-entity scenario and the four-entity scenario.

Economic analysis for each option compared to status quo

Methodology and assumptions underpinning economic analysis

90. The Water Industry Commission for Scotland (WICS – the economic regulator for Scotland's water services) conducted the economic analysis for the 2021 RIA, which included a vast range of scenarios depicting different numbers and configurations of entities (as noted above). The analysis projected household costs for water services over a 30-year period, and compared different entity scenarios to the status quo, where water services remain under council management.

91. WICS has revisited their modelling from the 2021 RIA to support the analysis of the options in this assessment, and to inform Cabinet advice regarding the refocus.

92. Their modelling has been updated to reflect:

- Up to date information for modelling assumptions and inputs (e.g., updated inflation adjustors based on real trends and opening financials for the 10 entities); and
- A new modelling timeframe, to provide for a 30-year time window from the first financial year with newly established entities. In this analysis, the first year of the modelling period is 2024/25 and the last year of the period is 2053/54 (compared with 2021/22 and 2050/51 respectively, in the 2021 RIA).

93. Across all four options, WICS has assumed that a single shared services agency will be established alongside the entities, to retain economies of scale for critically important functions, such as strategic procurement, financing, and debt raising support.

Analysis of projected household costs under different options

94. The following tables show a comparison between the projected average household costs in 2054 for all four options (assuming base case assumptions and assuming a single shared services agency).

Table 1: Average household costs for water services in 2054 (2022 prices) – original model (four entities) compared with the status quo (water services remain under council management)

Entity	Status quo (councils)	Four entities
A: Northland and Auckland	$4,230	$1,460
B: Waikato and Bay of Plenty	$7,710	$2,130
C: Taranaki, Manawatu-Whanganui, Gisborne, Hawkes Bay, and Wellington	$6,690	$2,030
D: South Island	$7,990	$2,340

Table 2: Average household costs for water services in 2054 (2022 prices) – option 1 (eight entities) compared with the status quo (water services remain under council management)

Entity	Status quo (councils)	Eight entities
A: Northland and Auckland	$4,230	$1,460
B: Hamilton, Waikato and Coromandel	$7,660	$2,760
C: Bay of Plenty	$6,960	$2,780
D: Hawke's Bay and Gisborne	$9,410	$4,010
E: Horowhenua, Manawatu and Taranaki	$7,970	$2,990
F: Wellington and Wairarapa	$5,700	$2,280
G: Nelson, Marlborough, Canterbury and West Coast	$7,200	$2,340
H: Otago and Southland	$9,730	$4,430

Table 3: Average household costs for water services in 2054 (2022 prices) – option 2a (10 entities) compared with the status quo (water services remain under council management)

Entity	Status quo (councils)	10 entities
A: Northland and Auckland	$4,230	$1,460
B: Hamilton, Waikato and Coromandel	$7,660	$2,760
C: Bay of Plenty	$6,960	$2,780
D: Taranaki	$9,410	$4,010
E: Horowhenua and Manawatu	$7,540	$3,020
F: Hawke's Bay and Gisborne	$9,030	$4,430
G: Wellington and Wairarapa	$5,700	$2,280
H: Nelson, Marlborough and Tasman	$6,910	$3,460
I: Canterbury and West Coast	$7,250	$2,470
J: Otago and Southland	$9,730	$4,430

Table 4: Average household costs for water services in 2054 (2022 prices) – option 2b (11 entities) compared with the status quo (water services remain under council management)

Entity	Status quo (councils)	11 entities
A: Northland	$9,530	$4,650
B: Auckland	$3,910	$1,410
C: Hamilton, Waikato and Coromandel	$7,660	$2,750
D: Bay of Plenty	$6,960	$2,770
E: Hawke's Bay and Gisborne	$9,410	$4,050
F: Taranaki	$7,540	$2,970
G: Horowhenua and Manawatu	$9,030	$4,470
H: Wellington and Wairarapa	$5,700	$2,270
I: Nelson, Marlborough and Tasman	$6,910	$3,460
J: Canterbury and West Coast	$7,250	$2,470
K: Otago and Southland	$9,730	$4,400

Table 5: Average household costs for water services in 2054 (2022 prices) – option 3 (15 entities) compared with the status quo (water services remain under council management)

Entity	Status quo (councils)	15 entities
A: Northland	$6,500	$4,280
B: Auckland	$1,910	$880
C: Hamilton, Waikato and Coromandel	$4,260	$1,880
D: Bay of Plenty	$3,660	$1,910
E: Gisborne	$5,090	$3,690
F: Taranaki	$4,850	$2,380
G: Horowhenua and Manawatu	$10,460	$8,250
H: Hawke's Bay	$4,600	$2,720
I: Wellington and Wairarapa	$2,690	$1,380
J: Nelson and Tasman	$4,000	$3,110
K: Marlborough	$6,560	$5,330
L: West Coast	$11,530	$9,520
M: Canterbury	$3,930	$1,570
N: Otago	$6,740	$3,750
O: Southland	$3,480	$4,050

95. The above tables show that for all options, projected household bills in 2054 are much lower compared to when water services continue to be delivered by territorial authorities. This is because even with 15 entities there is significant amalgamation and greater scale than the status quo – 67 councils.

96. However, the higher the number of entities, the smaller many of these entities will be. Smaller entities must spread fixed costs across a smaller population base and, based on international empirical evidence, will have less scope for achieving operational and capital efficiencies. Smaller entities, especially those without a large metropolitan centre, have less scope to share costs through geographically averaged prices. Consequently, net present costs are higher under options with higher numbers of entities, and the variation between the entities in terms of costs and service standards is expected to increase.

97. Under the 15-entity model, the difference between the region with the lowest household costs (Entity B: Auckland; $880) and the region with the highest costs (Entity L: West Coast; $9,520) is significantly greater than the difference between the lowest and highest regions under the eight-entity model (Entity A: Northland and Auckland; $1,460 and Entity H: Otago and Southland, $4,430).

Comparison of the options to status quo against the assessment criteria

Table 6: Qualitative assessment of the revised options against the status quo (water services remain under council management)

Criteria	Status quo Water services remain with councils	Previously considered option Four entities	Option 1 Eight entities	Option 2a 10 entities (Northland with Auckland)	Option 2b 11 entities (Northland and Auckland separate)	Option 3 15 entities (Regional council boundaries)
Improves economic efficiency	**Rating: (--)** • Weighted average household bill in 2054 ranges from $4,230 per annum to $9,730 per annum • No scale benefits	**Rating: (++)** • Best • Households in all regions pay less for water services • Average household bills for 2054 range from $1,460 per annum to $2,340 per annum • Economies of scale maximised	**Rating: (++)** • Households pay less than under the status quo • Average household bills increase in range to $4,430 per annum • The adoption of shared services enables some scale efficiencies	**Rating: (++)** • Average household bills similar to option 1 • Shared services enable some scale efficiencies	**Rating: (++)** • Households pay less than under the status quo but range increases over option 2a to $4,650 per annum • Efficiency losses partly offset by gains from shared services	**Rating: (+)** • Worst • Average household bills range up to $9,520 per annum • Significant efficiency losses for smaller entities, partly offset by gains from shared services.
Supports a financially stable system	**Rating: (--)** • Weaker balance sheets and investment capacity limit investment options	**Rating: (++)** • Best • Relative to status quo, the institutional structure and size of the entities increases	**Rating: (+)** • While still better than the status quo, the smaller size of some entities results in lesser borrowing capacity, and more concentration of	**Rating: (+)** • Improvements to borrowing capacity for most regions compared to status quo, though not as significant compared to the	**Rating: (+)** • Like option 2a, though balance sheet strength and borrowing capacity for Northland deteriorates	**Rating: (-)** • Worst • Likely greater medium to long term challenges to reach economic and financial sustainability for

Criteria	Status quo Water services remain with councils	**Previously considered option** **Four entities**	**Option 1** **Eight entities**	**Option 2a** **10 entities** (Northland with Auckland)	**Option 2b** **11 entities** (Northland and Auckland separate)	**Option 3** **15 entities** (Regional council boundaries)
		borrowing capacity, and enables risks to be spread across larger populations • Scale benefits, particularly capital and operational efficiencies are able to be fully realised. • Entities have sufficiently diverse customer population and asset base to achieve balance sheet strength	risk than the four-entity model. • Shared services important to retaining scale benefits which are decreased relative to the four-entity model, but larger than the 10, 11 and 15 entity models.	four and eight entity options. • Shared services critical to retaining scale efficiencies		some entities, relative to the eight, 10 and 11 entity models scenarios. These challenges are expected to be greatest in regions with smaller populations.
Supports a sustainable system for the future	**Rating: (--)** • High levels of exposure to seismic events and climate risk • Fragmented and constrained	**Rating: (+)** • Best • More economically efficient than the status quo because of increased scale.	**Rating: (+)** • Largely the same as four-entity model in terms of benefits • Lower levels of duplication and	**Rating: (+)** • Duplication and competition increase in impact on the workforce. • Some regulatory efficiency lost	**Rating: (+)** • Similar to the 10-entity model with Northland worse off	**Rating: (-)** • Worst • While better than the status quo, significant duplication and workforce

Criteria	Status quo Water services remain with councils	**Previously considered option** **Four entities**	**Option 1** **Eight entities**	**Option 2a** **10 entities** (Northland with Auckland)	**Option 2b** **11 entities** (Northland and Auckland separate)	**Option 3** **15 entities** (Regional council boundaries)
	workforce creates capacity and capability issues • Regulatory effectiveness and administrative efficiency are diminished with 67 councils providing the same services.	• Lowest levels of duplication and competition for skilled workforce, experienced leaders and governors across entities relative to the other options considered. • Regulatory effectiveness and administrative efficiency are stronger under this model.	competition for skilled workforce, experienced leaders and governors across entities. • Regulatory effectiveness and administrative efficiency decrease relative to the four-entity model	moving from eight to 10 entities. • Shared service critical to retaining benefits		competition compared to the four-entity model • Regulatory effectiveness and administrative efficiency decrease.
Upholds the rights and interests of Iwi / Māori	**Rating: (-)** • No formalised representation of iwi/Māori interests in the oversight and	**Rating: (+)** • Strengthened mana whenua representation and influence compared to the status quo	**Rating: (++)** • Improves on the four-entity model.	**Rating: (++)** • Improves on the four and eight entity models.	**Rating: (++)** • Broadly similar to the 10-entity model.	**Rating: (++)** • Best • Presents the largest number of entities, for mana whenua alignment

Criteria	Status quo Water services remain with councils	**Previously considered option** **Four entities**	**Option 1** **Eight entities**	**Option 2a** **10 entities** (Northland with Auckland)	**Option 2b** **11 entities** (Northland and Auckland separate)	**Option 3** **15 entities** (Regional council boundaries)
	management of water services.					relative to the 4, 8, 10 and 11 entity models.
Upholds local representation and influence	**Rating: (++)** • Maintains representation of stakeholder interests in localised decision making	**Rating: (-)** • Representation is the most constrained, with fewer regional entities and RRGs. This option presents the largest constraints on local representation and influence, relative to the 8, 10, 11 an d15 entity models.	**Rating: (+)** • This approach is marginally better than the four-entity approach.	**Rating: (++)** • This approach strikes a better balance on community interest between too few, and 67 (too many) entities.	**Rating: (++)** • This approach strikes a better balance on community interest between too few, and 67 (too many) entities.	**Rating: (++)** • Best • This approach strikes a better balance on community interest between too few, and 67 (too many) entitites
Alignment to regulatory boundaries and catchments	**Rating: (++)** • Represents current local authority boundaries.	**Rating: (-)** • Worst • To a limited degree, this looks to follow existing regions, administrative areas, and align	**Rating: (+)** • This model looks to follow existing regions, administrative areas, and provides for some alignment with	**Rating: (++)** • This model looks to follow existing regions, administrative areas, and align with proposed spatial planning	**Rating: (++)** • Similar to option 2a with improvement for Northland and Auckland.	**Rating: (++)** • Best • This model looks to follow existing regions, administrative areas, and align

Criteria	Status quo Water services remain with councils	Previously considered option Four entities	Option 1 Eight entities	Option 2a 10 entities (Northland with Auckland)	Option 2b 11 entities (Northland and Auckland separate)	Option 3 15 entities (Regional council boundaries)
		with proposed spatial planning boundaries. • Some alignment with local planning catchment areas to provide a more cohesive spatial planning environment.	proposed spatial planning boundaries. An Improvement relative to the four-entity model.	boundaries. Better alignment relative to the four and eight entity models.		with proposed spatial planning boundaries This is the best option regarding greater alignment with local planning catchment areas relative to the other models.
Overall assessment	Based on the amended and reweighted assessment criteria, **option 2a** presents the best balance between economic benefits and local representation and influence. The Government has made clear its preference for the 10-entity option. At a broad reform level, the differences between the 10-entity model relative to the eight, 11 and 15 entity models are not significant. However, regional differences for the relevant regions are more evident. For example, under the 10-entity model, Taranaki (Entity E), and the top of the South Island (Entity H) are separated from larger regional entities when compared to the eight-entity model. This separation will come with the benefits of stronger local representation and alignment with existing regulatory and natural boundaries for those regions, but will come at the expense of economic efficiency for the regional entity through weaker access to finance and credit quality, and smaller household cost savings. 9(2)(j) [redacted] To address this issue and the loss of efficiency, a small number of important functions for the efficient operation of water services entities will be provided as 'shared services' by organisations that the entities would own and control. Other options to strengthen the fiscal position of regional entities include utilising the existing Local Government Funding Agency ("LGFA"), establishing a new centralised borrowing entity ("Water Services Funding Agency" or "WSFA"), which would operate on a similar basis to LGFA; and lending by the Crown.					

<table>
<tr><th>Criteria</th><th>Status quo

Water services remain with councils</th><th>Previously considered option

Four entities</th><th>Option 1

Eight entities</th><th>Option 2a

10 entities (Northland with Auckland)</th><th>Option 2b

11 entities (Northland and Auckland separate)</th><th>Option 3

15 entities (Regional council boundaries)</th></tr>
<tr><td></td><td colspan="6">When taken with the shared services assumptions, this option offers improvements in economic efficiency compared to if water services had continued under council management (status quo), and still has clear alignment to regional council boundaries for most entities. Under the 10-entity option, households in all regions will pay less for water services compared to the status quo. Importantly, the variation in price across the entities is the same under the 10-entity model as the eight-entity model, indicating that the incremental efficiencies between eight and 10 entities has a relatively marginal impact on the prices consumers will pay.</td></tr>
</table>

Further analysis of Cabinet's agreed model (10 entities)

98. Prior to this assessment, Cabinet had agreed to progress a new model with 10 entities (option 2a). As noted in the above table, this option achieves a good balance between economic benefits and local representation and influence.

99. Given Cabinet has already agreed to proceed with 10 entities, the Department conducted further analysis on this option (option 2a), to determine:

- How economic benefits of reform are impacted by the increase from four to 10 entities;
- The extent to which efficiencies and economic benefits for 10 entities are reliant on a model with some shared services; and
- 9(2)(j) [redacted]

Economic benefits

100. Much of the rationale for the original four-entity model was based on lowered costs for consumers, and greater equity in costs across the four entities. The table below provides a comparison of the projected household costs in 2054 for four versus 10 entities.

Table 7: Comparison of the household bill impact in 2054 of the four-entity model and the 10-entity model (2022 prices)

	Average annual household bill in 2054 (2022 prices) – 10 entity model			Average annual household bill in 2054 (2022 prices) – four entity model		
Region (10 entity model)	**Status quo** (councils)	**Option 2a: 10 entity model**	**Difference**	**Status quo** (councils)	**Previously considered option – four entity model**	**Difference**
A: Northland and Auckland	$4,230	$1,460	-$2,770	$4,230	$1,460	-$2,770
B: Hamilton, Waikato and Coromandel	$7,660	$2,760	-$4,900	$7,710	$2,130	-$5,580
C: Bay of Plenty	$6,960	$2,780	-$4,180			
D: Taranaki	$9,030	$4,430	-$4,600	$6,690	$2,030	-$4,660
E: Horowhenua and Manawatu	$7,540	$3,020	-$4,520			
F: Hawke's Bay and Gisborne	$9,410	$4,010	-$5,400			
G: Wellington and Wairarapa	$5,700	$2,280	-$3,420			
H: Nelson, Marlborough and Tasman	$6,910	$3,460	-$3,450	$7,990	$2,340	-$5,650
I: Canterbury and West Coast	$7,250	$2,470	-$4,780			
J: Otago and Southland	$9,730	$4,430	-$5,300			

The colours of the rows depict the four entities in the four-entity model: Green rows = Entity A; Yellow rows = Entity B; Grey rows = Entity C; Orange rows = Entity D.

101. Table 7 shows that households in all regions will face lower bills than the status quo under the four- and 10-entity models. However, in the four-entity model, household bills will be generally lower across New Zealand than in the 10-entity model, and more comparable across entities. This is due to the efficiency benefits related to having four larger entities with diversified assets and customer-bases.

102. Central to the case for the four-entity model was the potential to realise large efficiency gains in the operation of water services infrastructure through increased organisational scale over what would be achievable under a more distributed eight or 15 entity model. These efficiency gains were considered critical for keeping water services affordable to consumers as water services entities take on additional debt needed to better provide water services. The geographic communities most at risk of cost increases, if scale efficiencies cannot be realised, will be those in rural and provincial areas with relatively small and geographically dispersed populations.

103. Shared services, provided centrally to all entities by entity owned and controlled organisations provide a practical means to capture scale efficiencies in the 10-entity model. The economic analysis in this RIA has assumed that the 10 entities will be supported by some shared services, which will increase efficiency and reduce operating and capital costs to each.

104. Functions for which scale is important to achieving efficiencies in the operation of water services entities include:

- *Debt raising and management* because scale enables more debt to be accessed at lower costs, through:
    - improved access to debt markets;
    - reduced total cost of debt, by pooling risk and being able to raise larger levels of debt from a wider range of lenders at lower rates;
    - efficiencies in debt management;
    - supporting balance sheet separation between individual water services entities and their council owners.
- *Management and insurance of natural hazard and other major risks* because water services infrastructure will be particularly exposed to natural hazard events (some exacerbated by climate change) and scale will be important to the effective management and mitigation of such risks. Critical to the four-entity proposal was the ability to pool or mutualise risk to improve insurability.
- *Procurement and strategic asset management* because scale provides the potential to realise efficiency gains in the procurement of services, plant and equipment through leveraging of buying power and more control over the management and coordination of purchase and investment decisions to minimise the negative cost and other impacts of supply side constraints.
- *IT and digital support* by reducing establishment complexity, costs and risks associated with multiple entities each establishing their own IT systems, and providing for economies of scale in the purchase, design and delivery of IT and digital operating systems.
- *Workforce strategy and development* because scale enables a more efficient and effective approach to workforce attraction, development, and retention.

Evidence in support of efficiency gains from shared services

Shared services and procurement

105. A shared approach to procurement is important to maintaining scale efficiencies in a 10-entity model. The Auditor-General has evaluated such approaches in the government and health sectors, and concluded that the benefits include cost reductions and improved value for government organisations.

106. For example, since 2012, New Zealand Government Procurement (NZGP), a business unit in the Ministry of Business, Innovation and Employment, has provided procurement functional leadership – that is, responsibility for leading improvements in government procurement. NZGP has introduced rules, guidance, and activities that have helped public organisations improve their procurement practices and take a more consistent approach to procurement than previously.[9]

107. The Auditor-General also did a report looking at how a panel of suppliers can be used to increase efficiency gains in procurement. A panel of suppliers is a list of suppliers that an organisation has selected as being able to deliver the goods or services that the organisation needs, and with whom the organisation has agreed terms and conditions of supply. A panel of suppliers can be a good procurement option when an organisation knows it will have an ongoing demand for a specific type of goods or service. With a panel of suppliers, an organisation has to go through a full competitive procurement process only once – to select which suppliers will be on the panel and agree the general terms and conditions of supply. After the panel has been set up, the organisation can select a supplier for each item of work using a secondary procurement method. This can help streamline and speed up the process, while still ensuring effective suppliers.[10]

108. Across the entities, we expect that a shared procurement function would develop and provide support for best practice approaches to procurement. It would also provide a centralised approach to understanding and strengthening capacity and capability in supply chains important to water services, coordination of major procurement across entities to achieve efficiencies and would potentially provide direct procurement support to some entities (e.g. the smaller entities).

Shared services and information technology (IT)

109. Up to January 2023, the National Transition Unit (NTU) had been developing information and communication technology (ICT) services for the new entities assuming, for the most part, four 'instances' of each service and technology set. Following Cabinet's decision to move to 10 entities, the NTU has assessed the suite of ICT services and technology to determine where there are significant benefits to a shared ICT services arrangement across the entities, versus where an autonomous approach may be beneficial.

110. The NTU has determined that it is preferable to provide shared service arrangements for some aspects of ICT, for four key reasons. Shared ICT services result in:

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[9] Controller and Auditor-General, *Using "functional leadership" to improve government procurement*, November 2019.

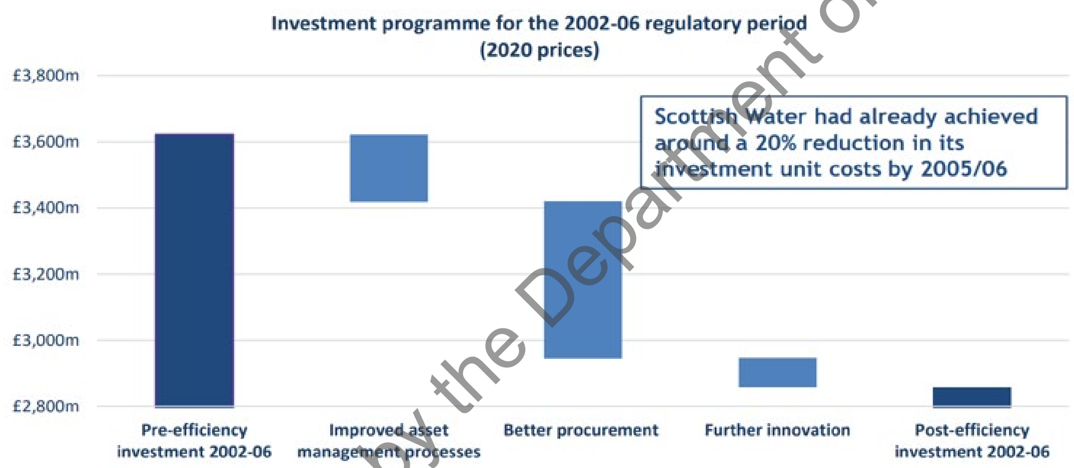
[10] Controller and Auditor-General, *Getting the best from panel suppliers,* Getting the best from panels of suppliers — Office of the Auditor-General New Zealand (oag.parliament.nz), 2020.

- Cost savings both in the initial build phase, and ongoing maintenance.
- Reduced inequities between small and large entities, for example, if left on their own the smaller entities would be more likely to have difficulty attracting vendors to respond to procurement requests, and would struggle to compete for ICT specialists.
- More ability to collaborate with each other if platforms, data standards and services are the same.
- Increased ability to innovate and tailor systems to specific requirements. Without shared services the smaller entities would be more likely to install minimum requirements for affordability and capability reasons.

Evidence from other water reforms

111. The Water Industry Commission for Scotland (WICS) has found that many of the efficiency gains from a similar reform of Scotland's water services were realised through better procurement, improved asset management processes, and by further innovation (Figure 1 refers).

Figure 1: Scale efficiency benefits experienced in Scotland reforms[11]



112. In this economic analysis, WICS modelled the impact of adopting shared services for asset management, procurement, innovation and some corporate functions (legal, IT and financial systems support). The assumption was based on these functions being delivered by a single nationwide agency (comparable to the Local Government Funding Agency).

113. WICS has assumed that this arrangement would result in higher capital and operating expenditure efficiency, but slightly lower regulatory efficiency.

Projected impact of shared services on household costs

114. The following charts show Cabinet's agreed option (Option 2a, 10 entities) with and without the shared services assumptions included in the economic analysis. It compares the cost of providing services to customers in today's dollars (taking account of all costs of provision) with and without the gains from shared services.

[11] The bar on the left shows the investment required pre-efficiency, and the bar on the far right shows the gains post-efficiency. The reduction in required investment has been managed through efficiencies realised via improved asset management processes, better procurement and further innovation.

Figure 2: Option 2a (10 entities) net present cost (NPC) [12] per connected citizen per year with and without shared services

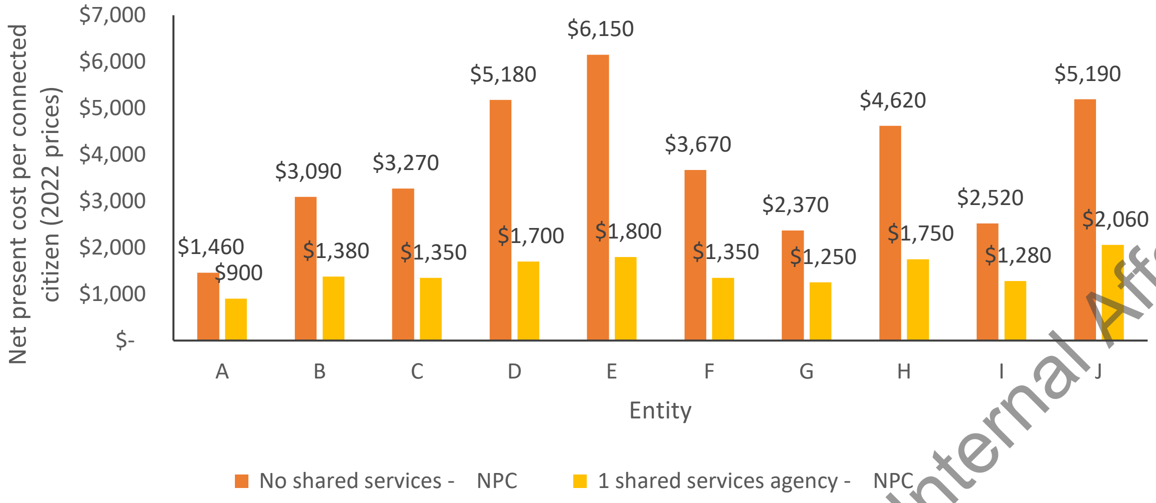
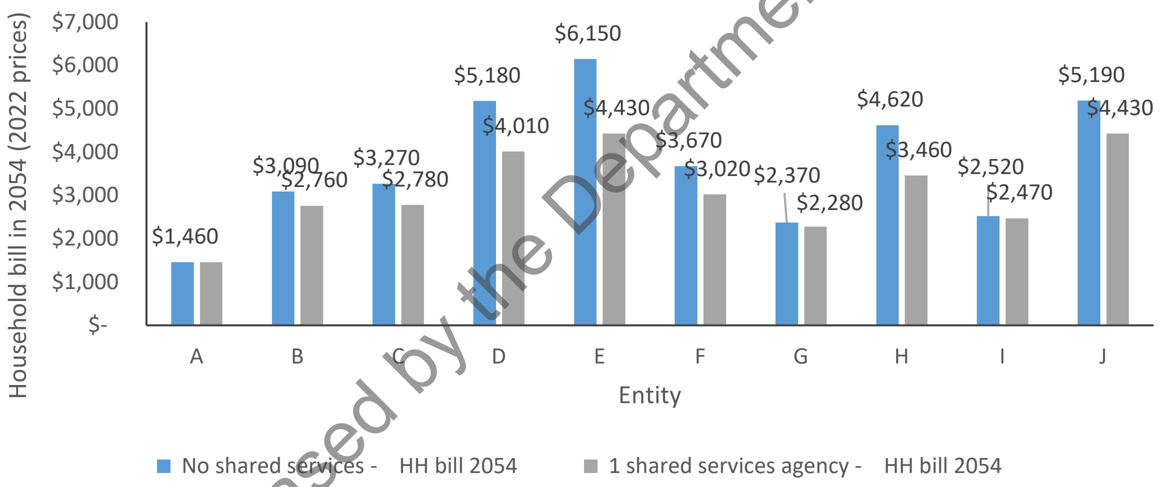


Figure 3: Option 2a (10 entities) Household bill in 2054 per year with and without shared services



115. While the adoption of shared services for some regions results in only small gains on these metrics (for example, Entity A, Auckland and Northland), less populous regions with a higher proportion of rural areas see considerable savings through shared services (for example: Entity E: Manawatu/Whanganui; Entity D: Taranaki; Entity H: Top of the South Island; and Entity J: Otago/Southland). The other options (options 1, 2b and 3) showed similar trends.

12 Net Present Cost (NPC) includes the 30-year present value of: operating expenditure (including new expenditure arising from levels of service and growth investment); asset refurbishment and replacement (economic depreciation) on existing and new assets; and levels of service improvement and growth investment. It does not include the financing structure of the service provider; the costs of legacy debt; or the cost of financing the new investment. Further details on NPC are included in WICS Supporting Material 3 - costs and benefits of reform (dia.govt.nz).

Financial and commercial viability of the 10 entities

116. The Department commissioned Mafic to assess the financial and commercial viability of 10 water entities.[13]

117. 9(2)(j) [redacted]

118. 9(2)(j) [redacted]

Financing options

119. Given the above analysis, Mafic also provided advice on a range of financing options for the entities,[15] these included:

- Direct market access, whereby entities would source debt from lenders directly;
- Accessing finance through the existing Local Government Funding Agency (LGFA);
- Establishing a new centralised borrowing entity, nominally called the Water Services Finance Agency (WSFA); and
- Government funding/financing.

120. Mafic considered the four financing options for both:

- *Initial financing*: Assessment of the entities' financing options on establishment and up to ~2030-2033. 9(2)(g)(i) [redacted]
- *Permanent financing*: Assessment of entities' financing options beyond the initial financing period. 9(2)(g)(i) [redacted] All four options were considered in the assessment of permanent financing options.

121. 9(2)(g)(i) [redacted]

122. Mafic concluded that, based on their preliminary analysis:

- A centralised financing entity is the preferred initial financing solution. Further analysis is required to determine whether there is any distinction between using the

13 Mafic, April 2023. Affordable Water Reform: Financial and commercial viability assessment. Report prepared for the Department of Internal Affairs.

14 Same source as footnote 13. Page 24 refers.

15 Mafic, April 2023. Affordable Water Reform: Financing options. Report prepared for the Department of Internal Affairs.

LGFA (which would require unanimous approval from all borrowing councils), or a new Water Services Finance Agency.

- Direct market access is an attractive permanent financing option, as it enforces entity discipline to deliver a sustainable financial structure, greater transparency and creates independence from government oversight and centralised services.
- A permanent centralised financing agency (either LGFA or a newly established agency), is also an attractive permanent financing option, as it ensures ongoing sustainability for smaller entities.
- There is potential for Entity A to access debt directly from the market on establishment. A hybrid model may be more suitable for Entity A, where Entity A raises some capital directly upfront but is also incentivised to participate in any central financing entity over time, to support the central financing entity credit story.

123. 9(2)(g)(i) [redacted]

9(2)(g)(i) [redacted]

[16] Mafic, April 2023. Affordable Water Reform: Financial and commercial viability assessment. Report prepared for the Department of Internal Affairs.

WSFA1: refers to a Water Services Financing Agency established similar to LGFA (but with WSEs as the guarantor group). The WSFA would have flexibility to manage its operations separate to LGFA (but may either initially or permanently outsource management to LGFA).

WSFA2: refers to a Water Services Financing Agency established with operations permanently undertaken by LGFA to be efficient.

9(2)(g)(i)

[redacted]

Access to insurance

124. Presently, the management of natural hazard risk for water services and associated infrastructure sits with local authorities and is legislated for under the Local Government Act (2002), and supporting regulations such as the Disaster Recovery Plan. Following a disaster event, water infrastructure is subject to the 60/40 arrangement outlined in the Disaster Recovery Plan, which states that "beyond a threshold, central government will only pay up to 60 percent of restoration costs. Local government is responsible for the remaining 40 percent, thus effectively moving part of the onus from the taxpayer to the ratepayer". As essential services, it is critical that post a disaster event, water services are restored quickly to reduce public health risks, including risk to life.

125. In 2021, Aon provided advice to the Department on the impact of entity boundaries on the insurability of the future entities. Aon's analysis concluded that four large entities would be able to access insurance, and do so at an attractive rate, due to the geographic spread of their accumulated assets, and the spread of inherent earthquake exposure over a larger area.

126. The Department commissioned Aon to update their earlier work to advise on the implications of a 10-entity model for risk management and insurance. The Department wished to understand the extent of the risks (e.g. earthquakes, natural disasters or other catastrophic events), and the implications of these risks for entities to manage, mitigate and insure against loss from them.

127. The updated 2023 report by Aon advises that, since the original report (provided in 2021), the material damage insurance market has continued to harden globally (reduced capacity and increased premiums). Aon considered the implications for water services entities under the 10-entity model. It concluded that:

- From 2024, some standalone entities will find it relatively harder to access insurance, especially entities near Hikurangi Trench (e.g. Wellington, Manawatu/Whanganui, Hawke’s Bay, and Gisborne); and
- Insurance will likely continue to increase beyond 2024.

128. To address these issues under a 10-entity model, Aon made recommendations on the desirability of a centralised approach to providing risk management and risk transfer services to the new entities, in order to improve risk management and access to insurance.

129. Aon’s conclusions are summarised in Figure 4 below, including the desirability of a shared/centralised approach to risk management and insurance.

Figure 4: Heat map showing insurance option feasibility over the next 5 years

The following table provides a timeline of external influences that would impact the potential risk transfer options available for the new water entities. The heat map represents the expectation of when these influences will have a material impact on the sustainability of each of the options.

	2023	2024			2025-2027			2028 onwards
	Market hardens but capacity remains available	Insurance/ Reinsurance placed for 1 or more entities	Market hardening expected to continue. Capacity availability may reduce	NSHM impacts realised Reduced capacity / increased cost. Insurance expected to be available for most areas	Increased limits needed (values increase), increased deductibles to offset costs	60/40 cost sharing arrangement ends. Increased retentions as a result.	Increased limits needed, or higher retentions, ventilated programmes inevitable.	Hard insurance market remains, large Natural Disaster losses globally are likely. Insurers will be looking for good risks with decent spread of risk, high retentions, and good risk management.
Option 1 (Separate entity placements)	Easiest to establish, higher retention levels.			Potential issues for entities near Hikurangi Trench (e.g., Wellington, MW, HB, and Gisborne) Increase in perceived risk across NZ. Capacity may reduce for standalone entities	Likely issues for lower North Island entities. Changes to retention levels likely needed to mitigate cost and/or reflect reduction in capacity.	Issues for all entities, insufficient capacity to replace the 60% portion. Even more risk retained by entities Increasing values exacerbate issues.		Insurance arrangements likely unsustainable for all entities. Large retention levels required (low limits and high deductibles). Alternative risk transfer could be an option but expensive. Capacity availability/cost is likely prohibitive for all entities (because they are standalone).
Option 2 (mutual + separate placements above)	Harder to establish, higher retention levels.							
Option 3 Centralised Entity	Harder to establish, higher retention levels.			Mutualised approach helps mitigate NSHM impacts.	Capital set aside per annum, targeted physical risk mitigation to harden assets and reduce losses. Share pain / share gain approach ensures attritional losses are kept away from insurance markets. Entity remains attractive to insurers. Hard insurance conditions will still make placements difficult but the ability to ventilate programmes (where cost effective) and the ability to mutualise risk nationally helps mitigate against the market condition.			Ongoing capitalisation of mutual, good risk management and low attritional losses (insurance only there for disaster) helps retain the maximum market participation and stabilise pricing. Potential issues in the immediate term around replacing all capacity (removed by the end of the 60/40 arrangement). However, increasing capital and risk management is expected to mitigate impact o

What are the marginal costs and benefits of the 10-entity model with shared services

130. Appendix B outlines the marginal costs and benefits (quantitative and qualitative) of Cabinet's agreed option, a 10-entity water services model, with shared services, compared to the status quo.

131. These marginal costs and benefits may be grouped into impacts on the following:

- The regulators, with these being the Commerce Commission and Taumata Arowai;
- The regulated groups, with these being the 10 new entities;
- Iwi/Māori;
- Consumers and local communities;
- Local government; and
- Central government.

Regulators

132. As per the four-entity model, the 10 entities will be regulated for quality (by Taumata Arowai) and price quality (by the Commerce Commission).

133. Water services are not currently regulated by the Commerce Commission. They will need to establish a new economic regulation and consumer protection regime based on provisions in the Water Services Economic Efficiency and Consumer Protection Bill. Under the four-entity model, price-quality regulation was due to commence from 1 July 2027, three years after the commencement of the four entities.

134. The estimated costs for the 10-entity model regime are currently in the order of $17-20 million per year for establishing and operationalising price-quality regulation. These cost estimates are conservative, and costs are expected to rise as work progresses.

135. Taumata Arowai will be funded by a levy imposed on the 10 new entities. The projected levy funds required are estimated at approximately $30 million between 2024-2026. Regulating 10 entities is still expected to be cheaper than regulating 67 territorial authorities.

Regulated groups

136. There will be increased establishment costs associated with moving from four to 10 entities. Initially estimated at $1-2 billion, the Water Industry Commission for Scotland now estimates these costs to be in the order of $2-3 billion.

Iwi/Māori

137. There will be additional marginal costs to iwi/Māori incurred from higher levels of participation in 10 regional representative groups, rather than four. These costs are expected to be offset by the ongoing benefits incurred from maintaining and further enhancing mana whenua representation on groups that are now more closely aligned to iwi boundaries.

Local communities

138. There will be marginal changes to the ways in which local communities can engage with 10 entities via the preparation and submission of community priorities statements. While there will be some time-related costs associated with the preparation of these

statements, these costs are offset by providing additional opportunities for local communities to participate in the day-to-day decision making of 10 entities rather than four.

Consumers

139. Consumers will still benefit from higher levels of service. Average household prices for water services will still be cheaper compared to the status quo although marginally more expensive than what was projected under the four-entity model. There will also be the avoided costs associated with fewer water borne diseases and fewer economic impacts from the damage to New Zealand's reputation from contaminated water in tourist areas.

Local government

140. There may be cost implications for credit rating downgrades for some local authorities when water services assets are transferred to the new water services entities. Some local authorities are forecast to have reduced borrowing capacity as part of the proposed debt-based asset transfer.

Wider Government

141. Section 3 of this statement discusses the wider financial implications for the Crown.

Overall net impacts

142. Compared to the status quo, the overall monetised benefits of reform will lead to higher levels of GDP growth, higher levels of tax revenue and stimulate new employment in a new water services industry. The total Present Value of monetised benefits of a 10-entity model are estimated to be $14-23 billion.

143. These benefits are far in excess of the $2-3 billion in total monetised costs that will be required from the Crown in order to complete the reform programme, provide some support to local authorities and ensure the transition to balance sheet separation under the new entities is completed.

144. Non-monetised impacts, alongside some monetised ones, are described in Appendix B.

Section 3: Delivering an option

How will the new arrangements be implemented?

145. The 2021 RIA provided detailed implementation information on the implementation of a four-entity model. This amendment to the RIA does not propose an entirely new approach to the implementation of entities under a 10-entity model, but is limited to detailing those aspects of implementation that must change given the move to 10 entities.

146. Under the Water Services Entities Act 2022, the four entities were expected to commence on 1 July 2024. On this day, the four entities were expected to 'go live' with their full range of operational duties, functions and powers.

147. In order to give effect to the 10-entity model, amendments must be made to the Water Services Entities Act 2022. The time to amend legislation and stand up a greater number of entities necessitates a longer establishment period. This means it will no longer be feasible to have all entities 'go live' on 1 July 2024.

148. This updated RIA addendum responds to Cabinet decisions, which make clear Cabinet's agreed option of 10-regional entities for the water services reform. This addendum also presents the opportunity to refine and improve the overall assessment with updated data, as well as to respond to feedback and findings resulting from the select committee process.

149. The implementation of 10 new entities requires changes to the approach to provide certainty to stakeholders, spread administrative effort while also delivering benefits from the reform as quickly as possible. Cabinet was provided advice in April 2023 on the implications on the establishment date, as part of the refocus decisions. The other options considered by the Minister, on which the Department provided advice, were the options covered in the options analysis section.

Establishment date and staggering of entities

150. There are several matters that were taken into account when determining a new establishment date for the entities:

- Alignment with local government planning, reporting, budgetary and rates-setting cycles, and associated requirements in local government legislation;
- The scale and scope of the changes to the Water Services Entities Act 2022 that will result in changes to the current implementation work programme;
- The time between the enactment of any amendment legislation and the new establishment date to enable the transition to occur; and
- Whether the entities should all 'go live' on the same date (as would occur under current arrangements), or whether a staggered approach might be desirable.

151. When Cabinet agreed to adopt a 10-entity model, it agreed to a new approach to establishing the entities, in which [CAB-23-MIN-0143 refers]:

- All entities would 'go live' and become operational by 1 July 2026, at the latest (with this being the legislative 'backstop' date); and
- The legislation would enable a staggered approach to when entities would 'go live', with all completed by 1 July 2026.

152. The schedule of when each entity ‘goes live’ will be developed in consultation with councils and iwi, and then agreed by Cabinet. From a practical delivery perspective, it is desirable to have a relatively even staggering of entity commencement over the establishment period. This would help to reduce establishment costs and maintain momentum of the reforms, while ensuring the delivery programme is achievable.

153. Given the new configuration of entities, the Department anticipates that the entities will ‘go live’ in tranches, commencing in early 2025.

154. However, there is a case to continue to progress with a 1 July 2024 establishment date for Entity A:

- Entity A has the same geographic boundary as already provided for in the Water Services Entities Act 2022.
- It involves only four councils, and Auckland has already consolidated much of its water services provision in Watercare Services Limited – providing a strong foundation upon which to build the new water services entity.
- Through the NTU, significant work has already been undertaken in preparation for Entity A to ‘go live’ from 1 July 2024. A chief executive has been appointed and the processes for board appointments, preparation of asset management plans and funding and pricing plans, and the development of a constitution are underway.
- Entity A affords the greatest opportunity to demonstrate the early benefits of reform. Work undertaken to date on Entity A’s draft initial asset management plan and funding and pricing plan indicates that there is an opportunity to keep prices in Auckland at close to their current level in real terms (avoiding the near doubling of charges currently projected in Auckland Council’s 2021-31 long-term plan), bring average household charges in Northland down to near Auckland levels, while also increasing investment relative to the four councils’ current long-term plans. This would deliver tangible and immediate benefits for Auckland and Northland customers and communities.
- The 1 July 2024 establishment date for Entity A would mean Auckland and Northland councils would transfer responsibility and accountability for delivery of water services and water infrastructure management at the beginning of their next long-term planning cycle. For these councils, it would simplify their next long-term planning cycle and ensure clear accountabilities for planning for and delivering water services over the next financial year.

Options for the sequence of establishment for the remaining nine entities

155. To demonstrate a more localised approach, the staggered roll out of the remaining nine entities could be aligned to the membership of Local Government New Zealand, which is divided into seven zone groups (including an Auckland Zone).

156. Adopting this approach means that the establishment of the remaining nine entities can be undertaken on a geographic basis and provide for more streamlined communication within these areas, enhanced networking and information sharing, and can provide opportunities for a flexible approach to entity establishment if required.

157. Implementation will be prioritised according to size and complexity. This means that, in the first instance, the Department expects that the establishment of the new entities will be prioritised according to:

- Size of the entities;

- Sector readiness;
- Administrative complexity; and
- Alignment with quarterly planning in the financial year.

158. The implications of this approach are that the larger entities in Zone Two (Entity B: Waitako) and Zone Four (Entity G: Wellington) may go live from March 2025 in order to demonstrate the benefits of the reform programme quickly. Entity F: Gisborne and Hawke's Bay will have a longer 'go live' pathway given the impacts of Cyclone Gabrielle, and is expected to be established in the last tranche, occurring between March and June 2026.

159. Each of the entities will be provided with a 12 to 15 month 'runway' prior to go live in order to provide time for the full sequence of transition activities to occur, such as staff transfers and planning for human resources, asset transfers, contractual agreements and the deployment of technology.

Implications for the 2024-27 local government long-term planning cycle

160. Council long-term planning operates on a three-year cycle, with each long-term plan covering a period of 10 consecutive financial years. Certain information – such as the funding impact statement for groups of activities, and the statement of service provision – must be described in detail for each of the first three financial years (and in outline thereafter). This information is critical for public accountability – by setting out the intended levels of service provision and how services will be funded.

161. The first year of each long-term plan is also the proposed annual budget. In each of the two subsequent years, a separate annual plan – containing the proposed budget and funding impact statement for the relevant year – is prepared and adopted. Under the Local Government (Rating) Act 2002, council rates must be set in accordance with the relevant provisions of the long-term plan and funding impact statement for that financial year.

162. Under the four-entity model, council obligations and accountabilities for water services were due to transfer to one of the new entities at the beginning of the next long-term planning cycle. With the revised approach, for most entities and councils the transfer will now occur part-way through the 2024-27 planning cycle (most likely during 2025 or early 2026). This will mean that councils continue to have responsibilities for water service delivery beyond 1 July 2024, and up to the first two years of their 2024-34 long-term planning and reporting cycle.

163. The date where responsibility and accountability for water services and infrastructure transfers from councils to entities will vary across entities. Until a schedule of entity establishment dates is agreed by Cabinet, councils will not be able to determine the exact period that their 2024-34 long-term plans will need to cover water services.

164. The Department is working with the sector to develop transitional arrangements for local government legislation to provide for the longer establishment period. These arrangements are being designed to achieve the following outcomes:

- Planning and reporting obligations in local government legislation, relating to water services, reflect that council responsibilities for these services will only continue for part of the period covered by the 2024-34 long-term plan;

- Transparency and accountability to the public is maintained while councils are responsible for water services – particularly in relation to each council's performance, intended and actual levels of service, and funding and financial matters (such as funding impact statements, annual budgets, rates setting, and audit);
- Councils continue to have a clear basis for setting their budgets, rates, and any other fees and charges relating to water services, for the relevant financial years (or parts thereof) – and there is transparency about the rates, charges and anticipated revenues for these services;
- It is clear what is expected in situations where water services entities 'go live' mid-way through a financial year, including what will happen to council charges and decisions after a transfer has occurred, and what information to, or consultation with, the public may be required; and
- There is alignment between what is proposed in the planning documents and what is reported on in the annual report for the relevant financial year.

165. As noted in the constraints and limitation section above, officials are continuing to work with Ministers and the sector to establish the impact of a 10-entity model on councils and ratepayers.

166. Ministers have indicated that a flexible approach to the timing of the stand-up of the new entities is preferable. This will allow individual council circumstances to be considered as transitional arrangements are put in place. The proposed legislative backstop date of 1 July 2026 provides some certainty around timing but still allows for the process to be largely council led.

167. To ease administrative burden, the Department is working with sector representatives and the Office of the Auditor-General to prepare guidance material for councils, and to support councils through the rating implications and impacts on the preparation of their 2024-2034 long-term plans.

168. In all other respects, the transfer of assets and liabilities and other interests relating to water services from local authorities to entities will continue as already provided for in legislation.

Implications for the regulators

169. The future entities will be supported by a strengthened regulatory system, which includes quality regulation by Taumata Arowai, and price-quality regulation by the Commerce Commission.

170. Taumata Arowai was established under the Water Services Regulator Act 2020 and became fully operational in 2021 following the commencement of the Water Services Act 2021. Cabinet agreed in 2022 that the Commerce Commission, an existing regulator, would carry out economic regulation of the entities.[17] That same year, Cabinet agreed

[17] The Commerce Commission will be the economic regulator for the entities. It will be responsible for ensuring prudential financial management of the entities and consumer protections, such as efficient expenditure and pricing practices, and greater transparency about the performance of the entities. The need for economic regulation is due to the monopoly characteristics of the three waters sector.

that both regulators would be part funded by levies from 1 July 2024, when the four entities commenced.

171. The Department has worked with Taumata Arowai to determine the impacts of an increased number of entities on quality regulation. As Taumata Arowai regulates on a supplier basis (rather than council basis), the increased number of entities has marginal impact on its regulatory load.

172. The Ministry of Business, Innovation and Employment has considered whether the current legislative framework for economic regulation, as set out in the Water Services Economic Efficiency and Consumer Protection Bill (the Bill), is suitable for a greater number of entities that vary in their size, scale and risk profile. Ultimately, the Commerce Commission has advised that the provisions in the Bill are sufficiently flexible to enable a proportionate approach across the entities, where they may apply higher levels of scrutiny for larger entities.

173. Under the current legislative framework, the economic regulation regime would commence on 1 July 2027, three years after the four entities were established. Now, with a staggered approach to entity establishment that will span two years, the Ministry of Business, Innovation and Employment has recommended that the implementation date of economic regulation is split so that Entity A is subject to scrutiny earlier than the other entities. This approach would enable earlier benefits from economic regulation and allow Entity A to be used as a benchmark for the other entities once they are established.

174. With the entities no longer 'going live' concurrently on 1 July 2024, the regulators will not be able to levy the entities as early as planned. The financial implications of the delayed levy will be considered in upcoming Cabinet advice, where Cabinet will be asked to approve additional funding support for the regulators over the establishment period.

Financial implications

175. The extended establishment period and greater number of entities will necessitate additional funding of the implementation and transition programme. Further Cabinet advice, to be provided in June 2023, will present the estimated costs of the new implementation and establishment programme, and provide advice on the level of Crown support required. The Cabinet advice will include ICT costs, and funding requirements for the regulators in light of the longer establishment period.

176. As a part of the original four-entity model, the Government agreed to a funding package which would support councils to participate in the reforms. This package comprised two components:

- *'Better off' funding* ($2 billion), which would be delivered over two tranches and be a mixture of Crown funding, and funding from the future entities (debt funded). The intent of 'better off' funding was to progress initiatives that improve services for the community.
- *'No worse off' funding* ($500 million), which was provided to ensure no council is left worse off as a result of the costs and financial impacts of the transition process.

177. The first tranche of 'better off' funding ($500 million, Crown funded), has been contractually committed to councils, whereas the second tranche ($1.5 billion) has not.

As part of their refocus decisions, Cabinet decided not to progress the second tranche of 'better off' funding [CAB-23-MIN-0143 refers].

178. Of the remaining $1.5 billion 'better off' funding, $1 billion was due to be funded by entities via borrowing, and the remaining $500 million to be provided by the Crown. The decision not to progress the second tranche of 'better off' funding was taken for several reasons:

- With smaller entities, it is important to ensure their balance sheets are not overburdened initially, including by encumbering them with any more debt than necessary;
- Increasing the number of entities and extending the establishment period will increase establishment costs, which may need to be met by the entities (subject to future Cabinet decisions);
- Throughout the policy process, there have been mixed views on the proposed 'better off' funding package, including a strong view from some local authorities that this funding should be made available for investment into water infrastructure rather than for council investment more generally; and
- The remaining $500 million of Crown funding could be reprioritised to fund the additional costs of the implementation and transition programme associated with a longer establishment period and establishing more entities. This may also include support for councils, iwi collectives and regulators during the establishment period.

179. Cabinet agreed that the 'no worse off' package will remain in place, and entities will continue to be liable for making these payments to local authorities [CAB-23-MIN-0143 refers]. This funding will ensure no council is left worse off as a result of bearing stranded costs, or because of the net impacts that the combination of losing revenue and debt could have on their credit ratings.

Staffing considerations

180. Staff in councils and council-controlled organisations who will be affected by the change proposals are seeking certainty about their future place of employment and likely transfer dates.

181. There is little change in the approach to staff transfer between the four-entity and 10-entity models. The workforce related transition and transfer arrangements as provided for in Schedule 1 of the Water Services Entities Act 2022 will continue:

- The process to identify staff to transfer, which entity they transfer to, and the pathways for staff transfer (e.g., legislated job guarantee);
- Collective bargaining arrangements during the establishment period.

182. The NTU (within the Department of Internal Affairs) is preparing transition guidelines, and is currently planning to communicate which staff will be covered by the legislated job guarantee, or another pathway, in June 2023.

183. Of the decisions made by Cabinet, the change to establishment date and approach will have the most impact on staff transfers. The staggered approach to entity commencement means there will be a prolonged period of uncertainty regarding the date when staff transfer to their new employer, as there is not one confirmed date on which all staff across the country will transfer to the entities. Instead, staff will transfer when

their entity 'goes live', which will be determined by a schedule developed by the Department in discussion with councils.

184. The prolonged period of uncertainty heightens risks of losing people from the sector. To mitigate this risk, the Department is seeking to develop and communicate the schedule of entity establishment dates as quickly as possible.

How will the new arrangements be monitored, evaluated, and reviewed

185. The regulatory and monitoring mechanisms to determine and support the outcomes of the water services reforms have not changed with the move to a 10-entity model. As previously agreed by Cabinet (and provided for in legislation), there will be both an economic and drinking water quality regulator. The Department of Internal Affairs (the Department) is currently the monitor for the drinking water regulator (Taumata Arowai), and the Ministry of Business, Innovation, and Employment is the monitor for the economic regulator (the Commerce Commission).

186. In moving to a 10-entity model with increased representation of territorial authorities on regional representative groups, the democratic accountability of the entities will be strengthened.

187. Both regulators have a role in monitoring the functions of the water services entities and providing regular advice to their responsible Minister on the performance of the entities and sector. The Water Services Act 2021 provides a framework for Taumata Arowai to set drinking water standards and expectations for the sector, which it regulates suppliers against. The Water Services Economic Efficiency and Consumer Protection Bill, which is currently before select committee, provides for the Commerce Commission to set and enforce minimum service level codes, apply price-quality requirements for the entities, set reporting requirements, and establish a consumer protection regime.

188. Both regulators are Crown entities and are subject to requirements under the Crown Entities Act 2004 (noting that Taumata Arowai is a Crown agent, and the Commerce Commission is an Independent Crown entity). These include requirements for creating a Statement of Performance Expectations in response to the Minister's Letter of Expectations, and reporting on the success of these performance measures through annual reports. Taumata Arowai will also be required to establish a Compliance Monitoring and Enforcement strategy (under the Water Services Act), which sets expectations with the sector about the role of the regulator and its approach to the use of its enforcement tools.

189. The monitoring agencies will ensure that the regulators fulfil their legislative functions. The monitors will have the authority to request information, as needed, to provide oversight of the water services system and will also have a direct relationship with the responsible Minister. The Department is currently developing its monitoring framework to underpin its relationship with Taumata Arowai.

190. In the case of Taumata Arowai, the Department has a regulatory stewardship role, which will require it to develop an ongoing relationship with both Taumata Arowai and the sector. Work is also ongoing to establish arrangements for a system-wide stewardship role, including determining the most appropriate organisational arrangements for a water services system steward, and the system monitoring regime.

191. In addition to the two regulators and monitors, Schedule 1 of the Water Services Entities Act 2022 also outlines the objectives of the entities during the establishment period. These objectives are to:

- Deliver water services and related infrastructure in an efficient and financially sustainable manner;
- Deliver water services in a sustainable and resilient manner that seeks to mitigate the effects of climate change and natural hazards; and
- Ensure sufficient capacity and capability to provide safe, reliable, and efficient water services in its area.

192. Each of the 10 entities will have an establishment water services plan prepared and approved by the Department's Chief Executive. Among other things, these plans will set out the performance expectations of the entities and the reporting requirements that must be provided during the establishment period. Time has been a key constraint on developing these plans, and officials are continuing to work with the sector to develop these.

193. These expectations will be set out in a performance framework that will, among other things:

- Provide transparency and visibility to the public;
- Specify the performance of the entity; and
- Outline quarterly performance requirements and progress against measures such as customer experience, financial performance versus budget, recruitment, and risks and/or issues under active management with appropriate mitigation plans.

194. To achieve a practical and cohesive performance system, the roles and responsibilities of each of the system performance participants need to be clear. Individual participants will be able to set their own performance expectations and/or set required performance measures.

195. Table 9 shows how the water services system participants will contribute to the performance expectation of the entities. The entities will have overall responsibility for the management and delivery of services in line with these expectations to provide for an appropriate customer experience and confidence for stakeholders.

Table 9: How system wide participants will contribute to the performance expectations of the entities

System participant	Instrument
Mana whenua	Te Mana o te Wai statements
Stakeholders and consumers	Community Priority Statements and consumer engagement stocktakes
Regional representative group	Statement of Performance Expectations
Entity management	Planning and reporting reports under the Act
Taumata Arowai, regional councils and the Commerce Commission	Reporting, standards and disclosures, assurance roles, and consents
Central Government agencies	Government policy statements (if made)
Office of the Auditor-General	Audit key planning performance documents e.g., annual report, Statement of Intent and Infrastructure strategy.

Audit and review

196. The Department has discussed with the Office of the Auditor-General a number of performance measures for the establishment period.

197. The Office of the Auditor-General confirms that the following measures are appropriate for forming an opinion when performing their first audit:

- Chief Executive and Board are hired with appropriate capability;
- Establishment plans are adopted;
- A constitutions development process has been initiated that will provide an appropriate operating environment (corporate governance); and
- The Board has agreed to an operational work programme that is reasonably anticipated to equip the entity to be operational at the establishment date.

Appendix A: Mapping of Territorial Authorities to Water Services Entities under each option

Table 1 - Option 1 – 8 entities (6 North Island and 2 South Island)

Entity	Territorial authorities included	Population served
A	Auckland; Far North; Kaipara; Whangarei	1,725,853
B	Hamilton; Hauraki; Matamata-Piako; Otorohanga; South Waikato; Taupō; Thames-Coromandel; Waikato; Waipa; Waitomo	364,799
C	Kawarau; Opotiki; Rotorua Lakes; Tauranga; Western Bay of Plenty; Whakatane	276,769
D	Central Hawke's Bay; Gisborne; Hastings; Napier; Wairoa	173,606
E	Horowhenua; Manawatu; New Plymouth; Palmerston North; Rangitikei; Ruapehu; South Taranaki; Stratford; Tararua; Whanganui	306,922
F	Carterton; Chatham Islands; Kapiti Coast; Lower Hutt; Masterton; Porirua; South Wairarapa; Upper Hutt; Wellington City	516,518
G	Ashburton; Buller; Christchurch; Grey; Hurunui; Kaikoura; Mackenzie; Marlborough; Nelson; Selwyn; Tasman; Timaru; Waimakariri; Waimate; Waitaki; Westland	723,682
H	Central Otago; Clutha; Dunedin; Gore; Invercargill; Queenstown Lakes; Southland	256,817

Table 2 - Option 2a – 10 entities (7 North Island and 3 South Island)

Entity	Territorial authorities included	Population served
A	Auckland; Far North; Kaipara; Whangarei	1,725,853
B	Hamilton; Hauraki; Matamata-Piako; Otorohanga; South Waikato; Taupō; Thames-Coromandel; Waikato; Waipa; Waitomo	364,799
C	Kawarau; Opotiki; Rotorua Lakes; Tauranga; Western Bay of Plenty; Whakatane	276,769
D	New Plymouth; South Taranaki; Stratford	90,140

E	Horowhenua; Manawatu; Palmerston North; Rangitikei; Ruapehu; Tararua; Whanganui	216,782
F	Central Hawke's Bay; Gisborne; Hastings; Napier; Wairoa	173,606
G	Carterton; Chatham Islands; Kapiti Coast; Lower Hutt; Masterton; Porirua; South Wairarapa; Upper Hutt; Wellington City	516,518
H	Marlborough; Nelson; Tasman	116,148
I	Ashburton; Buller; Christchurch; Grey; Hurunui; Kaikoura; Mackenzie; Selwyn; Timaru; Waimakariri; Waimate; Waitaki; Westland	607,534
J	Central Otago; Clutha; Dunedin; Gore; Invercargill; Queenstown Lakes; Southland	256,817

Table 3 - Option 2b – 11 entities (8 North Island and 3 South Island)

Entity	Territorial authorities included	Population served
A	Far North; Kaipara; Whangarei	96,583
B	Auckland	1,629,000
C	Hamilton; Hauraki; Matamata-Piako; Otorohanga; South Waikato; Taupō; Thames-Coromandel; Waikato; Waipa; Waitomo	364,799
D	Kawarau; Opotiki; Rotorua Lakes; Tauranga; Western Bay of Plenty; Whakatane	276,769
E	Central Hawke's Bay; Gisborne; Hastings; Napier; Wairoa	173,606
F	New Plymouth; South Taranaki; Stratford	90,140
G	Horowhenua; Manawatu; Palmerston North; Rangitikei; Ruapehu; Tararua; Whanganui	216,782
H	Carterton; Chatham Islands; Kapiti Coast; Lower Hutt; Masterton; Porirua; South Wairarapa; Upper Hutt; Wellington City	516,518
I	Marlborough; Nelson; Tasman	116,148
J	Ashburton; Buller; Christchurch; Grey; Hurunui; Kaikoura; Mackenzie; Selwyn; Timaru; Waimakariri; Waimate; Waitaki; Westland	607,534
K	Central Otago; Clutha; Dunedin; Gore; Invercargill; Queenstown Lakes; Southland	256,817

Table 4 - Option 3 – 15 entities (regional council boundaries)

Entity	Territorial authorities included	Population served
A	Far North; Kaipara; Whangarei	96,583
B	Auckland	1,629,000
C	Hamilton; Hauraki; Matamata-Piako; Otorohanga; South Waikato; Taupō; Thames-Coromandel; Waikato; Waipa; Waitomo	364,799
D	Kawarau; Opotiki; Rotorua Lakes; Tauranga; Western Bay of Plenty; Whakatane	276,769
E	Gisborne	38,000
F	New Plymouth; South Taranaki; Stratford	90,140
G	Horowhenua; Manawatu; Palmerston North; Rangitikei; Ruapehu; Tararua; Whanganui	216,782
H	Central Hawke's Bay; Hastings; Napier; Wairoa	178,782
I	Carterton; Chatham Islands; Kapiti Coast; Lower Hutt; Masterton; Porirua; South Wairarapa; Upper Hutt; Wellington City	516,518
J	Nelson; Tasman	84,308
K	Marlborough	31,840
L	Buller; Grey; Westland	22,612
M	Ashburton; Christchurch; Hurunui; Kaikoura; Mackenzie; Selwyn; Timaru; Waimakariri; Waimate; Waitaki	584,922
N	Central Otago; Clutha; Dunedin; Queenstown Lakes	188,209
O	Gore; Invercargill; Southland	68,608

Appendix B: Marginal costs and benefits of Cabinet's agreed option compared to status quo

Affected groups *(identify)*	**Comment** *nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.*	**Impact** *$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.*	**Evidence Certainty** *High, medium, or low, and explain reasoning in comment column.*
Additional costs of Cabinet's agreed option compared to taking no action			
Regulated groups	Increased establishment costs – establishment costs for the four-entity model were $1–2 billion, WICS assumed that additional set up costs for establishing the 10 entities (relative to four entities) was $1 billion[18] Higher fixed costs than the four-entity model due to the number of boards/management teams (not a cost relative to the status quo)	$2-3 billion establishment costs Higher fixed costs than in the four-entity model.	Medium - High
Regulators	Water services are not currently regulated by the Commerce Commission – they will need to establish a new price-quality regulation regime. Extending the establishment date for water services entities (WSEs) to 1 July 2026 delays the ability of Taumata Arowai to levy	$17–20 million per year for establishing and operating a price-quality economic regulation regime[19] Approximately $30 million – two years of deferred levy funding for Taumata Arowai[20] 5% lower benefit (WICS modelling assumption	Medium - High

18 WICS, 2023. Alternative entity scenarios. Slide 19 refers.

19 Total monetised costs of the preferred option, page 33 refers: https://www.mbie.govt.nz/dmsdocument/25809-regulatory-impact-statement-economic-regulation-and-consumer-protection-in-the-three-waters-sector-proactiverelease-pdf. The Commerce Commission and MBIE are currently refining these estimates and this number will be subject to change.

20 MartinJenkins, December 2022. Funding Taumata Arowai from 2023/24 into outyears. Report prepared for Department of Internal Affairs. The projected levy funds to be collected, approximately $30 million between 2024-2026 will not eventuate as a result of the delay in implementation. This will have implications for the operational costs of the reform among other factors which are being worked through at this time.

	funding from WSEs. The projected levy funds to be collected, approximately $30 million between 2024-2026 will not eventuate as a result of the delay in implementation. This will have implications for the operational costs of the reform among other factors which are being worked through at this time.	10 entity compared with four entity).[21]	
Iwi/Māori	Costs incurred through greater participation (e.g., governance opportunities and developing and updating Te Mana o te Wai statements).	Low	Medium
Local communities	The way in which local communities engage in three waters investment decisions will change, but it is unclear whether this will represent a cost or no change, or an improvement on the status quo.	Low	Low
Local government	Costs associated with a reduction in the three waters investment function – with implications for expenditure, revenue collection, and employment. There may be cost implications for credit rating downgrades for some local authorities when three waters assets are transferred to the new water services entities. A greater regulatory, monitoring, and oversight function given the increase in investment and activity around three waters.	Medium – some local authorities are forecast to have reduced borrowing capacity as part of the proposed debt-based asset transfer. There are also stranded overheads - costs that the provider, the local authority, has incurred which are unlikely to be recovered due to situations such as the introduction of competition or some other (unanticipated) policy change.	Medium
Wider government	Under the Better Off Funding, there was a planned $1 billion	$200 million (additional Crown costs due to a later establishment date)	Medium

21 WICS modelling, slide 14 refers.

	payment from the water services entities to local councils for funding community programmes. This would have been funded through the starting debt for the water services entities. As a result of Government choosing the 10 regional entities option, the entities will no longer make this payment, nor incur the debt which should lead to cheaper prices for consumers. In addition, $500 million was also meant to be Crown funded, this money under the 10 entities option, will be returned to the Crown. There will likely be additional Crown costs due to the longer establishment period.	$150 million (set up of shared services agency, with one agency, base case) although these costs may be recoverable through prices.[22]	
Total monetised costs	Likely to be $2-3 billion directly from the Crown and other funding sources, through the transition process, including the setting up of the new regional water services entities and their running, until the stage where they become financially self-sufficient.	Medium	Medium
Non-monetised costs	Loss of economic and regulatory efficiency can impact time spent on engagement from stakeholders such as iwi/māori and local communities.	Medium	Medium
Additional benefits of Cabinet's agreed option compared to taking no action			
Consumers	Prices for water services will be cheaper (lower Net Present Cost per connected citizen compared with the status quo)	$240–$10,080 lower NPC per connected citizen compared with the status quo and household bills on average in 2054 are	

22 Same source as footnote **Error! Bookmark not defined.**.

	Ongoing avoided costs of water-borne disease and illnesses.	likely to be cheaper by $130 - $2,300 per annum (2022 prices) under the 10-entity model.[23] Avoiding the costs of water-borne disease and illnesses, for example: • cases of water-borne gastrointestinal illnesses cost New Zealanders $496.1 million over 40 years • water-borne disease costs New Zealand $25 million per annum • the Havelock North outbreak cost New Zealand $21 million. Furthermore, contamination in tourist centres could potentially damage New Zealand's global reputation.	
Iwi/Māori	Ongoing benefits incurred through greater participation (e.g., governance opportunities and Te Mana o te Wai statements), and support by water services entities to do this. Improved access to clean, safe, and healthy drinking water, and improved environmental outcomes (e.g., for disposal of wastewater) consistent with Te Mana o te Wai.	High	Medium
Local communities	Improved levels of service, and improved health and environmental outcomes. Improved engagement of local communities with decisions about their water services.	High	Medium

[23] WICS modelling, 2023.

Regulators	Taumata Arowai costs for regulation of water services should be similar or slightly decrease relative to the status quo – Taumata Arowai regulate drinking water suppliers (currently 67 territorial authorities and around 10,000 private suppliers) – regulating 10 water services entities should be cheaper than regulating 67 territorial authorities	Not estimated	Medium
National economic benefits	National economic benefits – higher GDP growth, employment in the water services industry, and increased tax revenue compared with the status quo	$14–23 billion present value increase in GDP. 5,849–9,269 average increase in FTEs over 30 years compared with the status quo.[24] $4–6 billion present value increase in tax revenue over 30 years.	
Total monetised benefits	Estimated national economic benefits include $14–23 billion present value increase in GDP, and increase in FTEs. In addition, there likely will be significant monetary benefits dispersed to different interest groups such as through household costs savings and savings for local councils. The Crown will also save more money in future through this upfront investment.	High ($14–23 billion present value increase in GDP, plus other benefits). $240–$10,080 lower NPC per connected citizen compared with the status quo and household bills on average in 2054 are likely to be cheaper by $130 - $2,300 per annum (2022 prices) under the 10-entity model.	High
Non-monetised benefits	A significant increase in local, regional and Iwi/Māori representation, as well as alignment with existing regulatory boundaries and natural catchment areas.	High	High

24 DIA, May 2021. DIA Three Waters Regulatory Impact Assessment – Strategic RIA – May 2021. Page 115 refers.