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Local Government Mayors and Chief Executives
By email

Dear Local Government Mayors and Chief Executives

Thank you for making yourselves available to attend today's briefing on the changes that will take place to water reform in New Zealand.

The Government is committed to ensuring all New Zealanders have access to safe, reliable and affordable drinking water, wastewater and stormwater services. Significant challenges exist in how water services are currently delivered across the country, with an estimated \$120 billion to \$185 billion required to be invested in water infrastructure over the next 30 years. Changes are needed to the delivery of water services to meet the challenges ahead, including aging infrastructure, population growth, climate change, and natural disasters. Addressing these challenges is out-of-the-reach of many individual councils to address on their own.

I want to acknowledge the work that your council has done in providing these services to your community in the face of increasing and competing demands. You have faced the difficult task of operating water services, within a modern context, where in many cases the pipes, treatment plants and other assets are old and have been outgrown by the communities they serve. You have done so while dealing with communities' increasing need for other infrastructure and services.

The only effective way to address this need for investment is to have balance sheet separation between water services entities and local government. This enables the entities to fund the significant long-term investment required through achieving higher levels of leverage than local authorities can obtain.

As part of the reset, it has been important to me to take the time to meet with representatives from local government and a range of other partners and stakeholders to inform my thinking. I have heard and considered concerns that our plan to set up four publicly owned multi-regional water services entities will result in a loss of local influence and voice. As I have sought to refocus the reform, three key priorities have emerged;

- it is important that the link between councils and entities is strengthened
- water services entities and councils must have financial independence to invest in the things they need to

- That no district is left behind, and all New Zealanders can experience benefits of reform

As a consequence, the number of water service entities will move from 4 to 10. While it is clear fewer entities and greater scale create greater economic benefits, there is the opportunity to increase the weighting of local representation and influence in our approach. The Government believes it is critically important that the entities have clear stronger links with their communities, to ensure New Zealanders have confidence that the entities will listen and respond to their needs. Without a doubt, New Zealanders will pay less for water services with reform, than without.

Having 10 entities based more closely around existing regions, enable the entities to be better connected to the communities they serve. For consumers, this means an improved quality of service and improved affordability of water services, compared with the increase in water charges likely under a continuation of the current water service delivery model. Each entity will have the same functions, powers and accountabilities as already provided for in the Water Services Entities Act.

The entities will continue to be owned by local councils on behalf of the public, however, they remain operationally and financially independent from them. The balance sheets of water services entities are required to be sufficiently separate from local government, to allow them to achieve higher levels of leverage than local authorities can obtain.

Each water service entity will be governed by a professional board, with members appointed for their competencies and skills. Local voice has been enhanced through regional partnership via the regional representative group. Under the 10-entity model, every territorial authority owner – and therefore every community – will be represented on the entity's regional representative group. There will continue to be an equal number of mana whenua representatives.

Changing the reform model necessitates changes be made to the transition timeline. It is necessary to change the establishment date of the entities, and when the new system comes into effect. Entities will begin to be stood up from early 2025 and a staggered approach will ensure all entities will be fully operational by 1 July 2026. The Department of Internal Affairs will develop a schedule of go-live dates, in consultation with councils and other groups.

I intend to introduce and pass legislation to allow for these changes before this year's election. This will be subject to the Parliamentary timetable and processes.

I recognise this approach raises complexities for local government planning and reporting, and there is a need to provide clarity about what the new establishment date means for long-term planning. Councils are already preparing their 2024-34 long-term plans, and without legislative changes cannot make provision for water services.

To recognise the extended establishment period, councils will continue to be responsible for water services until the handover date for their entity. Council planning and reporting documents will need to reflect the continued service delivery obligations during the longer establishment period – which will include the first two years of the 2024-34 long-term planning cycle. Legislative changes will be made to reflect this, and to provide clarity around planning and reporting.

I am also conscious of the need to ensure sufficient clarity regarding accountabilities between councils and entities during this time, and for councils and auditors to have clear and detailed guidance about any transitional arrangements and what these look like in practice. My officials will work with sector representatives (Taituarā) and the Office of the Auditor-General on what the requirements will be and will provide guidance to the sector as soon as they are able.

The National Transition Unit is well positioned to make the necessary amendments to its programme based on today's reset. I have asked that officials follow up with you directly to provide you with further detailed information.

Thank you for your input through this process, I look forward to continuing working with you all.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Kieran McNulty', written in a cursive style.

Hon Kieran McNulty
Minister of Local Government