

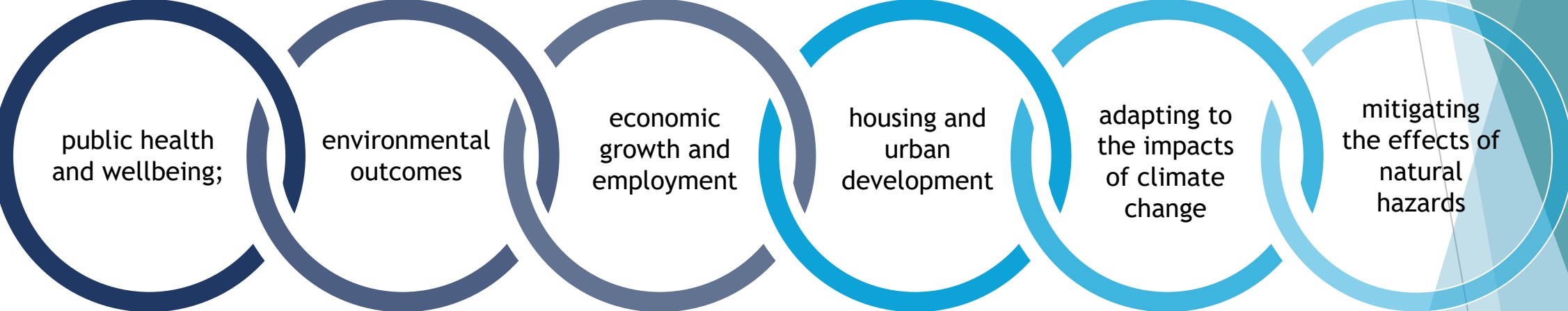
Three Waters Reform: The story so far...

Content of today's presentation

- ▶ Aim of Three Waters (3Ws) reform
- ▶ Why is reform needed in the 3Ws sector?
- ▶ What is being delivered & when?
- ▶ The 3Ws delivery programme and key risks
- ▶ Key learnings from the 3Ws reform process to date?
- ▶ RCA opportunities & challenges in relation to 3Ws
- ▶ Things to consider?

Aim of the reforms

To significantly improve safety, quality, resilience, accessibility, and performance of three waters services. This is critical for:



public health
and wellbeing;

environmental
outcomes

economic
growth and
employment

housing and
urban
development

adapting to
the impacts
of climate
change

mitigating
the effects of
natural
hazards

The Government also wants to ensure it delivers on **Treaty-related obligations**, including by improving outcomes for iwi/Māori in relation to three waters service delivery and **upholding Te Mana o Te Wai**.

Why is 3Ws reform needed?

- ▶ **Safety** risk is real (Havelock north)
- ▶ Underinvestment in 3Ws infrastructure (\$120B-\$180B)
 - ▶ Failing systems and networks
- ▶ **Enablement** is required
 - ▶ Growth constraints
 - ▶ Housing crisis
 - ▶ Councils are debt constrained
 - ▶ Affordability challenges for customers into the future
- ▶ **Regulation** focus
 - ▶ Changing customer and community expectations
- ▶ **Specialisation** versus generalisation
 - ▶ Utility focus

What is Three Waters Reform delivering?

The key pillars of Three Waters are:

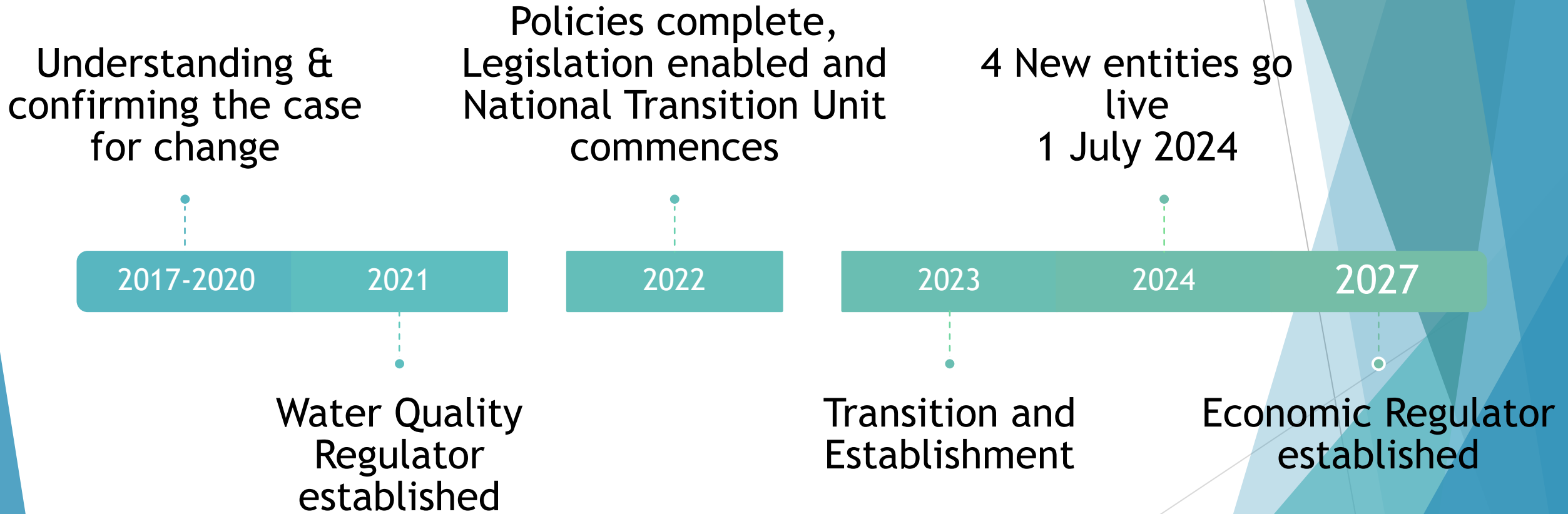
- **REGULATION**
 - Regulatory reforms outlined in the Water Services Act;
 - Establishment of a dedicated water service regulator, [Taumata Arowai](#);
 - Economic Regulation.
- **AMALGAMATION**
 - Transition over 70 entities for water, wastewater & stormwater
 - Establishment of four Water Services Entities (WSEs)

<https://www.dia.govt.nz/three-waters-reform-programme-about-the-reform-programme>

The Three Waters Reform Programme will ultimately deliver four key outcomes:

- Consistently safe, reliable drinking water
- better environmental performance of wastewater and stormwater services
- efficient, sustainable, resilient and accountable multi-regional three water services
- making it affordable for current & future generations

High-level timeline of Three Waters Reform Programme



NTU role and how transition will occur

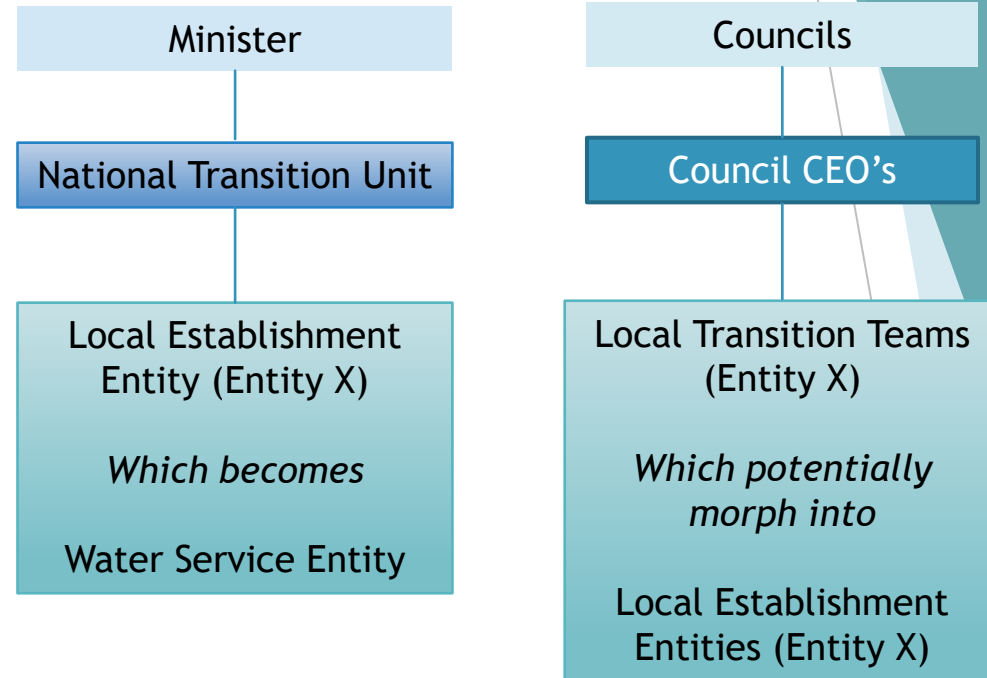
The **Minister of Local Government** is **ultimately accountable** for the reform and has put in place two parties that will be **responsible for delivery**:

- **The National Transition Unit (NTU)**
- **Four Local Establishment Entities (LEEs)**

Councils remain accountable for delivering Water Services throughout the Transition period (to 1 July 2024)

The absence of legislation was always anticipated hence the need to create LTTs before officially enacted LEEs

There is a lot of activity taking place with limited resources. We need to transition together with Councils to make sure we look after our people, assets and our communities

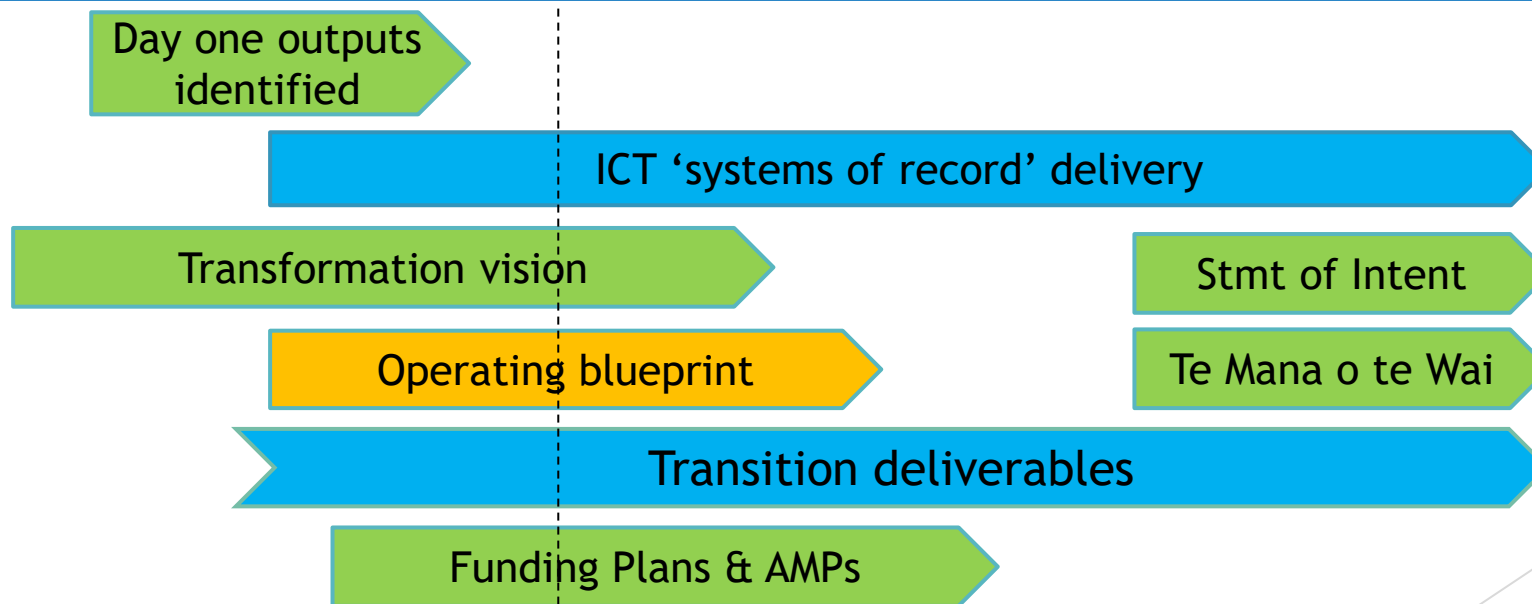


NTU approach to day one success

Ideal approach



NTU Delivery approach



RISK:
Delivering outputs before key documents finalised

NTU Delivery Programme

For the Water Service Entities (WSEs) to be operational by July 2024, the NTU has started work before the Local Establishment Entities have been formally established, and before the legislation is in force. We are collaborating and co-operating with Councils & Iwi so that the full period before July 2024 is used, avoiding disruption for staff, customers and communities.

Before June 2022

- Asset Investment Decision Framework
- Asset Information Collation
- Confirm the core ICT Systems for WSEs
- Staff transition protocols adopted and wellbeing/ engagement processes established
- Transformation strategy agreed

Before June 2023

- Initial legislation in place
- Appoint CEs & establish LEEs
- Draft AMP and Funding & Pricing Plan
- Design the WSE organisations and roles

Before June 2024

- Transfer transaction agreed
- ICT Systems up and running
- Operational cutover planned/ executable
- Staff training complete & transfer processes ready
- Customer expectations set
- Key stakeholders well informed

The scale of the challenge: 2022 deliverables

[D] Supported by
Discovery

	Q1 2022	Q2 2022	Q3 2022	Q4 2022
People & Workforce	<ul style="list-style-type: none"> • Workforce & People TRG. • Establish MOUs (or similar) with unions. 	<ul style="list-style-type: none"> • Establish digital platform for staff engagement and communications. • Organisational development principles and approach [D] • Change Management Strategy and Plan [D] 	<ul style="list-style-type: none"> • Consolidated Training plan to support transition [D] 	
Operations		<ul style="list-style-type: none"> • SCADA / Telemetry Operations Requirements (high-level) [D] • Schedule & analysis to align 'operating' contract opportunities [D] • Schedule for compliance risks (Inc. governance arrangements) [D] 	<ul style="list-style-type: none"> • Schedules: Bio-Solids [D] • Non-standard agreements (eg Trade Waste) [D] • Schedule: Laboratory and Sampling Services [D] 	<ul style="list-style-type: none"> • Schedule (non-standard) operations (e.g. rural water supplies, marae, landfills) [D] • Three-waters compliance readiness framework [D] • National Services Agreements.
Stormwater	<ul style="list-style-type: none"> • Confirmed specific legislative provisions (i.e. powers and functions) required for Stormwater transfer. 	<ul style="list-style-type: none"> • Framework & approach for Stormwater Assets/Functions/Outcomes to transfer & timeframes. • Principles for future Interface Agreements where not transferred to WSE's. [D] 	<ul style="list-style-type: none"> • Framework outlining roles and responsibilities for interface functions between regional/unitary councils for emergency management. [D] • Confirmed legislative issues for alignment - to identify water service entities as lifeline utility operators in CDEM Act. 	<ul style="list-style-type: none"> • Stormwater catchment management plan Framework [D]
Asset Management	<ul style="list-style-type: none"> • AMOS Transition Reference Group (TRG) • National and Local Working Groups. 	<ul style="list-style-type: none"> • Global best practice in AMP development • National Asset Management Plan & Infrastructure Strategy architecture and framework - draft. [D] • Climate change framework • Zero Harm framework • Energy neutrality framework • Sustainable re-use framework 	<ul style="list-style-type: none"> • National asset data standards [D] • National Levels of Service and performance framework [D] • National investment decision making (prioritisation) framework [D] • National Asset Management Plan & Infrastructure Strategy architecture and framework. [D] • National development and connection approval framework [D] 	<ul style="list-style-type: none"> • Local entity asset renewal strategy • Local capital works programme, development/connection systems and procedures [D] • National design & engineering standards [D]

The scale of the challenge: 2022 deliverables

[D] Supported by
Discovery

	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Data & Digital	<ul style="list-style-type: none"> Systems of Record - solution landscape Confirmed scope & approach for Operational Technology. National Working Groups for ICT architecture & data governance 	<ul style="list-style-type: none"> Systems of Differentiation - approach [D] Corporate Systems and Modelling & Reporting. Current state ICT assessment [D] ICT functional capability & gap assessment [D] 	<ul style="list-style-type: none"> Roadmap and implementation plan for Systems of Record and Technology [D]. Data Management Plan 	
Finance & Corporate Services	<ul style="list-style-type: none"> Finance & Corporate Services TRG. Pricing and Charging; public discovery & analysis. Agreed methodology for council financial analysis. Preliminary Insurance strategy & framework. Transition Input to: economic regulation, liquidity facility, crown support funding [D]. 	<ul style="list-style-type: none"> Confirmed template for pricing information structures & guidance [D]. Input into CEDM policy. Final capital structure and raising strategy [D] Taxation (red flag) analysis [D]. 	<ul style="list-style-type: none"> Final Council Financial Analysis report published. 	
Commercial & Legal	<ul style="list-style-type: none"> Commercial & Legal TRG. Transaction Principles/Guidelines. Legal 'red flag' issues due diligence addressed [D]. 'Better off' financial package conditions and principles drafted. 	<ul style="list-style-type: none"> Transition input to legislative drafting instructions (Bill #1), Transition input to policy process for all functions (Bill #2) 	<ul style="list-style-type: none"> Transition input for all functions) into Cabinet paper 6 (Bill #2). Transition Guidelines for alignment / extension of 3 Waters Contracts. 	<ul style="list-style-type: none"> Transition input into legislative drafting instructions (Bill #2).
Iwi	<ul style="list-style-type: none"> Iwi/Maori Engagement Strategy. Support arrangements agreed Review of Treaty settlements. 	<ul style="list-style-type: none"> Local Representative approach & engagement Pūkenga Wai Fund established 		<ul style="list-style-type: none"> Iwi Collectives established and Representative approach
Other	<ul style="list-style-type: none"> External Advisor Procurement strategy. Sector Engagement strategy. Establish Local Transition Teams. 	<ul style="list-style-type: none"> Establishment Entity Chief Executive appointments commenced Treasury funding drawdown Roadshows completed. Operating Blueprint for WSE's. Day 1 (2024) functional capabilities - target state drafted. Transformation Strategy 		<ul style="list-style-type: none"> Establishment Entity - senior management appointed

Key risks to Three Waters Programme delivery

There are a number of key risks to delivery that we will need to work with local government, iwi/Māori and industry to mitigate and manage:

- ▶ **People** (retention, improving the capability & future recruitment requirements)
- ▶ **Data and digital** (financial & operational independence before day one - 1 July 2024)
- ▶ **Billing & Tariffs** (pricing challenges)
- ▶ **Asset Management Plans & Delivery** (tight delivery timeframe for first AMP - 1 July 2023 & improving future capability to deliver increased investments required)

Key learnings from the process to date?

- ▶ Time pressures mean things can't be done sequentially
- ▶ Resourcing: Too many consultants but Council staff BAU issues
- ▶ Industry buy-in is very important but not critical to delivery success
- ▶ Focus on critical day one matters and avoid distractions
 - ▶ Identify early benefits to demonstrate success
 - ▶ Central versus Local Government challenges
 - ▶ Many different perspectives on success
- ▶ MVP is not least cost option but about path of least resistance

Key opportunities for 3Ws & RCA

Working together means “stronger together”

- ▶ **Addressing strategic leadership** - leadership in Growth enablement, reducing waste, energy neutrality, promoting sustainable work practices, reducing technical skills ‘flight risk’, addressing COVID version X, Health, safety & wellbeing etc
- ▶ Resourcing - **Building capability** together i.e. asset management, construction etc
- ▶ **Smarter procurement** - we use the same suppliers and supply chains. How do we:
 - ▶ build clarity on infrastructure pipelines?
 - ▶ we maintain localised procurement approaches? Etc
 - ▶ inspire greater productivity through innovation?
- ▶ **Innovation** will drive future success - what can we do together i.e. AI, Bots, advanced robotics, Smart networks, nanotechnology, quantum computing, drones etc
- ▶ We want to steal the **framework and approach** you have created i.e. RAMS type approach for the water industry
- ▶ What **roles to support** RCA advance with creation of WSEs?
 - ▶ Opportunities to build strong relationships - should be part of strategy & planning

Key challenges for 3Ws & RCA

3Ws Distraction

- ▶ Seeking help for transition delivery over the next few years
- ▶ Day 1 to year 3 could be chaos for WSEs

Dominant Water service entities

- ▶ WSEs will be able to respond more quickly over time
- ▶ WSEs could potentially be harder to work with
- ▶ WSEs well funded & likely to gravitate to like minded entities i.e create strong alliances, seek international over domestic
- ▶ Water has always followed the roads but this may change
- ▶ Your staff are at risk (transferable skills)

Procurement

- ▶ WSEs have increased capacity to invest
- ▶ Cannibalising of supply chains and contractors/ consultants

Iwi/ Māori will become more involved

- ▶ Lead this, don't follow

Key takeaways or things to consider?

- ▶ RCA is where we are heading (and we want to learn from you)
- ▶ Work with us or you may get left behind (Super entities)
 - ▶ Investment is happening - find opportunities
 - ▶ Staffing challenges - so let's work together
 - ▶ Work on building strong relationships
- ▶ When we are successful, who will be next?
 - ▶ Electricity? Transport/ roading? - we are all just commodities!

He Pātai Koutou? (Questions?)

Let's keep in touch

The National Transition Unit is here and keen to talk.

Web: www.dia.govt.nz/national-transition-unit-three-waters-reform-programme

Email: ThreeWatersTransition@dia.govt.nz

Any feedback welcome and appreciated. Ngā mihi.