

Three Waters Reforms Programme – Support package

Summary

The Government has developed, in close partnership with Local Government New Zealand, a package of \$2.5 billion to support the sector through the transition to the new water services delivery system, and to position the sector for the future. This package will ensure that local authorities are supported through the transition process, the financial impacts of reform are managed and importantly, all councils and communities will transition to the new system for delivering three waters services in a better position than where they are now.

There are two broad components to this support package:

- \$2 billion of funding to invest in the future of local government and community wellbeing, while also meeting priorities for government investment (the “better off” component)
- \$500 million to ensure that no local authority is financially worse off as a direct result of the reform (the “no worse off” component).

The better off component of the support package, which comprises \$1 billion Crown funding and \$1 billion from the new water services entities, is allocated to territorial authorities on the basis of a nationally consistent formula that takes into account population, relative deprivation and land area. This formula recognises the relative needs of local communities, the unique challenges facing local authorities in meeting those needs, and differences across the country in the ability to pay for those needs. Territorial authorities will be able to use this funding to support the delivery of local wellbeing outcomes associated with climate change and resilience, housing and local placemaking.

The no worse off component of the support package comprises an estimated \$500 million contribution from the new water services entities to ensure that no local authority is in a materially worse position financially to continue to provide services to its community as a direct result of the reform. This includes an up to \$250 million provision to support councils to meet the unavoidable costs of stranded overheads associated with the transfer of water assets, liabilities and revenues. The remainder of the no worse off component will be used to address adverse impacts on the financial sustainability of territorial authorities.

Initial analysis indicates that the vast majority of councils are likely to be financially better off through the reforms. Councils likely to suffer adverse financial impacts are primarily those with a low level of water debt to revenue and a high level of non-water debt to revenue. The Department will undertake further work with councils during the transition period to understand the potential financial impacts at a local level, including through undertaking the associated due diligence process.

In addition to the support package, the Government expects to meet the reasonable costs associated with the transfer of assets, liabilities and revenue to new water services entities, including staff involvement in working with the establishment entities and transition unit, and provision for reasonable legal, accounting and audit costs. There is an allocation for these costs within the \$296 million tagged contingency announced as part of the 2021 Budget Package for transition and implementation activities. This allocation is additional to the \$2.5 billion support package.

The Department of Internal Affairs is continuing to work with Local Government New Zealand to develop the process for accessing the various components of the support package outlined above, including conditions that would be attached to any funding. More information and guidance will be made available in the coming months.

Better off funding allocation

Council	Allocation
Auckland	\$ 508,567,550
Ashburton	\$ 16,759,091
Buller	\$ 14,009,497
Carterton	\$ 6,797,415
Central Hawke's Bay	\$ 11,339,488
Central Otago	\$ 12,835,059
Chatham Islands	\$ 8,821,612
Christchurch	\$ 122,422,394
Clutha	\$ 13,091,148
Dunedin	\$ 46,171,585
Far North	\$ 35,175,304
Gisborne	\$ 28,829,538
Gore	\$ 9,153,141
Grey	\$ 11,939,228
Hamilton	\$ 58,605,366
Hastings	\$ 34,885,508
Hauraki	\$ 15,124,992
Horowhenua	\$ 19,945,132
Hurunui	\$ 10,682,254
Invercargill	\$ 23,112,322
Kaikoura	\$ 6,210,668
Kaipara	\$ 16,141,395
Kapiti Coast	\$ 21,051,824
Kawerau	\$ 17,270,505
Lower Hutt	\$ 38,718,543
Mackenzie	\$ 6,195,404
Manawatu	\$ 15,054,610
Marlborough	\$ 23,038,482
Masterton	\$ 15,528,465
Matamata-Piako	\$ 17,271,819
Napier	\$ 25,823,785
Nelson	\$ 20,715,034
New Plymouth	\$ 31,586,541
Opotiki	\$ 18,715,493
Otorohanga	\$ 10,647,671
Palmerston North	\$ 32,630,589
Porirua	\$ 25,048,405
Queenstown Lakes	\$ 16,125,708
Rangitikei	\$ 13,317,834
Rotorua Lakes	\$ 32,193,519
Ruapehu	\$ 16,463,190

Selwyn	\$ 22,353,728
South Taranaki	\$ 18,196,605
South Waikato	\$ 18,564,602
South Wairarapa	\$ 7,501,228
Southland	\$ 19,212,526
Stratford	\$ 10,269,524
Tararua	\$ 15,185,454
Tasman	\$ 22,542,967
Taupo	\$ 19,736,070
Tauranga	\$ 48,405,014
Thames-Coromandel	\$ 16,196,086
Timaru	\$ 19,899,379
Upper Hutt	\$ 18,054,621
Waikato	\$ 31,531,126
Waimakariri	\$ 22,178,799
Waimate	\$ 9,680,575
Waipa	\$ 20,975,278
Wairoa	\$ 18,624,910
Waitaki	\$ 14,837,062
Waitomo	\$ 14,181,798
Wellington	\$ 66,820,722
Western Bay of Plenty	\$ 21,377,135
Westland	\$ 11,150,183
Whakatane	\$ 22,657,555
Whanganui	\$ 23,921,616
Whangarei	\$ 37,928,327
Total	\$ 2,000,000,000

Frequently Asked Questions

What are the elements of the Government's support package?

The Government's three waters reform support package comprises two broad elements to position the sector for the future, and to support the sector through the transition to the new water services delivery system. This includes:

- an investment of \$2 billion into the future for local government and community wellbeing, consistent with the priorities of both central and local government; and
- an allocation of up to around \$500 million to ensure that no local authority is in a materially worse position financially to provide services to its community as a direct result of the reform.

This support package has been developed in partnership with Local Government New Zealand.

What does the better off component of the support package include?

The better off component of the support package comprises a \$2 billion fund that territorial authorities will be able to use to support the three waters service delivery reform objectives and other local wellbeing outcomes in a manner consistent with the priorities of central and local government. It is an investment by the Crown into the future for local government and community wellbeing.

Territorial authorities will be required to demonstrate that the use of this funding supports the three waters service delivery reform objectives and other local wellbeing outcomes and aligns with the priorities of central and local government, through meeting some or all of the following criteria:

- supporting communities to transition to a sustainable and low-emissions economy, including by building resilience to climate change and natural hazards;
- delivery of infrastructure and/or services that:
 - enable housing development and growth, with a focus on brownfield and infill development opportunities where those are available,
 - support local place-making and improvements in community well-being.

What does the no worse off component of the support package include?

The no worse off component of the support package is intended to address the costs and financial impacts on territorial authorities directly as a result of the three waters reform programme and associated transfer of assets, liabilities and revenues to new water services entities.

It includes an up to \$250 million allocation to support councils to meet unavoidable costs of stranded overheads, based on:

- \$150 million allocated to councils (excluding Auckland, Christchurch and councils involved in Wellington Water) based on a per capita rate that is adjusted recognising that smaller councils face disproportionately greater potential stranded costs than larger councils;
- Up to \$50 million allocated to the Auckland, Christchurch and Wellington Water councils excluded above based on a detailed assessment of 2 years of reasonable and unavoidable stranded costs directly resulting from the Water Transfer, as the nationally-consistent formula is likely to overstate the stranded costs for these councils due to their significantly greater scale and population. Stranded costs should be lower with respect to Watercare and Wellington Water as these Council Controlled Organisations have already undertaken a transfer of water services responsibilities, albeit to varying degrees.
- Up to \$50 million able to be allocated to councils that have demonstrable, unavoidable and materially greater stranded costs than provided for by the per capita rate (the process for determining this will be developed by the Department of Internal Affairs working closely with Local Government New Zealand).

The remainder of the no worse off component will be used to address adverse impacts on the financial sustainability of territorial authorities. The Department of Internal Affairs will work with Local Government New Zealand and Taituarā to develop agreed principles for how the assessment of financial sustainability support will be undertaken, the methodology for quantifying this support requirement, and the process for undertaking the associated due diligence process with councils.

Initial analysis indicates that for most councils, the impact of reform is expected to have a positive effect on their borrowing capacity. Priority will be given to undertaking due diligence with those local authorities that are more likely to suffer adverse borrowing impacts. As an example, this will include councils that have a low level of water debt to revenue and a high level of non-water debt to revenue.

What about other costs associated with reform?

The Government also expects to meet the reasonable costs associated with the transfer of assets, liabilities and revenue to new water services entities, including staff involvement in working with the establishment entities and transition unit, and provision for legal, accounting and audit costs. Provision for these costs has been made within the \$296 million tagged contingency announced as part of the 2021 Budget Package for transition and implementation activities.

Local authorities will be encouraged to use accumulated cash reserves that have been earmarked for future water infrastructure investment (subject to reserve conditions) prior to the “go live” date of 1 July 2024.

It is intended that any material reserve balances remaining at that time will be transferred to new water services entities with a commensurate commitment to invest those funds in the communities that paid for them, consistent with the conditions under which they were raised. Councils will be allowed to retain immaterial reserve balances upon transfer. The materiality threshold will be developed by the Government in discussion with Local Government New Zealand and will be reflected in guidance to the sector.

How has the allocation of the better off funding been determined?

The better off component of the support package will be allocated to territorial authorities using a nationally consistent formula based on:

- a 75% allocation based on population size
- a 20% allocation based on the New Zealand deprivation index
- a 5% allocation based on land area (excluding national parks)

The Government and Local Government New Zealand have agreed to this formula as it recognises the relative needs of local communities, the unique challenges facing local authorities in meeting those needs and the relative differences across the country in the ability to pay for those needs.

What is the deprivation index and why has it been introduced as part of this formula?

The New Zealand index of deprivation is an area-based measure of socioeconomic deprivation in New Zealand that combines nine variables from the Census, including income levels, educational qualifications, home ownership, employment, family structure, housing and access to transport and communications.

It has been introduced in the formula for allocating the better off component of the support package to recognise the relative distribution of need across the country. It enables a balanced distribution of funding across territorial authorities that complements the remaining two criteria that recognise needs associated with a larger population base and land area.

The New Zealand index of deprivation is used in other areas of local planning and investment, including in relation to health, transport and regional development. Notably, it is used by Waka Kōtahi as part of its funding assistance rate framework to determine the appropriate share of costs that territorial authorities should meet when investing in local land transport networks.

Is this funding contingent on reforms going ahead?

The Government's support package provides certainty for local authorities that, should the reforms proceed, they will be supported through the transition process, the financial impacts of reform will be managed and importantly, all councils and communities would transition to the new system for delivering three waters services in a better position than where they are now.

Territorial authorities should consider the support package alongside the case for change the Government has presented, and the substantial amount of evidence and data that has been released, which shows that reform will deliver significant benefits both nationally and locally. The Government is confident that as elected members, iwi/Māori, and council officers consider the reform proposals and support package, they will understand the compelling need for reform to improve health, environmental and affordability outcomes for local communities and we can move forward with greater confidence.

When will funding from the support package be made available?

The timing for when funding will be made available will depend on the purpose for which it is sought:

- Up to \$500 million of funding from the better off component of the support package will be made available for use by councils from 1 July 2022, with the remainder available from 1 July 2024 when the new water services entities are anticipated to be established. The process for release of this amount is being worked through and further details will be provided in the coming months.
- Funding to meet stranded costs and address adverse impacts on financial sustainability will be met at the time of or shortly after transfer of assets, liabilities and revenue to the new water services entities.

How will territorial authorities be able to access the funding?

The Department of Internal Affairs will work with Local Government New Zealand to finalise the process for accessing this funding, including any conditions that would be attached to the funding, and will provide further information on this in the coming months.

Who will provide the funding?

The support package will be met by both the Crown and the new water services entities.

The Crown will provide \$1 billion of funding towards the better off component of the package, as an investment into the future of local government and community wellbeing.

The Water Services entities will provide \$1.5 billion of funding, comprising:

- An estimated \$500 million towards the no worse off component of the package
- \$1 billion towards the better off component of the package.

It is appropriate for water services entities to bear some of the costs associated with the support package given that future water customers stand to benefit most from reform. From the perspective of future water customers, the size of this benefit is significantly greater than the cost associated with providing some of the funding for the support package. Moreover, given most future water customers are also ratepayers, they stand to benefit from the additional investment into community well-being.

We also note that the proposed support arrangements provided by the Crown to the water service entities (such as a liquidity support), are expected to reduce the borrowing costs. The net present value of the reduced borrowing capacity is expected to be greater than the \$1.5 billion of funding provided by water service entities through the support package.

What is the Crown doing to support local government through the reforms?

The Crown is providing support to local government in a number of tangible and practical ways.

Out of \$3.5 billion in total funding to support the three waters reform, around \$2 billion (just under 60%) represents a direct cash contribution by the Crown, which includes:

- provision of \$1 billion towards the better off component of the support package
- provision of \$296 million as part of the 2021 Budget Package to meet the reasonable costs associated with the transfer of assets, liabilities and revenue to new water services entities
- the \$700 million stimulus funding package the Crown made available for local authorities and rural supplies in August 2020.

The remaining \$1.5 billion to be contributed by the Water Services Entities is at effectively no net cost to customers, due to the proposed Crown support arrangements (such as a liquidity support) which reduce the borrowing costs of the water service entities.”

For most councils, reform will free up additional borrowing capacity to invest in other infrastructure and services.

Reform also provides the opportunity for Councils to transfer to the new water services entities the responsibility for meeting significant future investment requirements that will arise from the new water services regulatory regime and rising community expectations. For many councils and communities, these investment requirements are likely to be unaffordable without reform.

Finally, the Government is committed to undertaking further discussions with the sector (including through the Joint Steering Committee) on how the proposed model and design can best accommodate areas of priority at a local level, including:

- how local authorities can continue to have influence on service outcomes and other issues of importance to their communities (e.g. aspiration for chlorine-free water);
- ensuring there is appropriate integration between the needs, planning and priorities of local authorities (representing their local communities) and the planning and priorities of the Water Service Entities; and
- how to strengthen the accountability of the WSEs to the communities that they serve, for example through a water ombudsman.