

Office of the Minister of Local Government

Chair

Cabinet Economic Growth and Infrastructure Committee

Government review of three waters services

Proposal

1. I propose a review of three waters services¹ (Three Waters Review) to assess whether current local government practices and the system oversight are 'fit for purpose'. I also seek approval to draw down funding of \$1.5 million from the Three Waters tagged contingency fund for the Department of Internal Affairs (DIA) to lead the review in collaboration with key government agencies.

Executive summary

2. As one of the core infrastructure sectors, New Zealand significantly invests in three waters infrastructure (\$54.7 billion replacement value, with \$12.8 billion planned expenditure from 2016 to 2025). Three waters services are lifeline utilities, critical to New Zealand's economic security and prosperity, health, safety and environmental protection.
3. Since October 2016, Housing and Infrastructure Ministers have considered whether to investigate the performance of the three waters system and have agreed in principle to the proposed terms of reference for the review. I now seek Cabinet's agreement to these terms.
4. Indicators of system-wide performance issues (e.g. poor planning, management and risk exposure) and system vulnerabilities identified by experts highlight possible risks to this critical service that need to be addressed.
5. Central government has made some change to regulatory settings, reformed service delivery to enable innovation and collaboration, is making infrastructure funding and financing available for high growth areas and now provides direction to local authorities experiencing growth to improve co-ordination of water services. Some other parties have also taken important steps to improve these services (e.g. Water New Zealand benchmarks and Wellington Water service and governance integration).
6. However, minimal and diffuse oversight for the three waters sector may render these solutions insufficient due to fragmentation, inconsistency or a lack of incentives.
7. As agreed by Housing and Infrastructure Ministers on 15 May 2017, I propose that central government conduct a review of three waters services. The review will develop solutions to enable better service delivery that is cost-effective, resilient, supports growth, allows timely delivery of housing supply and supports environmental and health outcomes. These objectives align with the Business Growth Agenda's aim to deliver higher living standards for New Zealanders.

¹ The 'three waters' refers to infrastructure services that supply drinking water (potable water), and manage wastewater and stormwater (but not irrigation or stock water), and are primarily the responsibility of local government.

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8. As prioritised by Housing and Infrastructure Ministers, I propose the Three Waters Review focus on three areas: *financial incentives*; *asset management practices*; and *compliance and monitoring*. This scope will provide the opportunity to identify ways to optimise the existing system, support greater collaboration between local and central government and, where necessary, provide a basis for more ambitious reform.

s9(2)(f)(iv)

10. As part of Budget 2017, a tagged contingency was established for the next phase of the Three Waters work programme. I seek Cabinet's approval to draw down \$1.5 million of the Three Waters Contingency Fund to enable DIA to lead the Three Waters Review, which will assess whether current local government practices and the system oversight are 'fit for purpose'.
11. If Cabinet Ministers agree to proposals in this paper, I intend to make an announcement that central government will work together with local authorities and stakeholders on the Three Waters Review. The Local Government New Zealand conference starting 24 July 2017 may be a good opportunity to do so.

Background

12. The three waters sector is one of the core infrastructure sectors (other sectors are energy, transport, telecommunications, productive water, irrigation and stock water and social) that are important for effectively functioning communities, development and businesses. Three waters services are lifeline utilities under the Civil Defence Emergency Management Act 2002, and as such, local authorities must ensure that the services are able to function to the fullest possible extent during and after an emergency.
13. Since 2010, DIA has, in response to Government priorities, increased its focus on local authority infrastructure performance. As a result of this work, we now know:
- in June 2016, the estimated replacement value for three waters infrastructure was \$54.7 billion;²
 - local authorities invested \$3.2 billion in three waters infrastructure between 2014 and 2016. A further \$0.5 billion of three waters assets was transferred to local authority ownership as a result of land subdivision and development over that period;³ and
 - local authorities' planned three waters infrastructure investment between 2016 and 2025 is \$12.8 billion.⁴
14. Since October 2016, Housing and Infrastructure Ministers have considered whether to take a closer look at the performance of the three waters system, which is primarily the responsibility of local authorities in New Zealand. In April 2017, we agreed in principle to the proposed terms of reference for the review and now seek Cabinet's agreement to the terms.

² DIA analysis of local authority 2016 annual reports.

³ DIA analysis of local authority 2014 to 2016 annual reports.

⁴ DIA analysis of local authority 2015 long-term plans.

The case for review

15. The provision of three waters services is critical for New Zealand's ongoing economic security and prosperity, health, safety and environmental protection.

There are indicators of system-wide performance challenges

16. In contrast to other infrastructure sectors, the three waters sector has minimal central oversight to provide transparency, address challenges and actively encourage service improvements. Even in the areas of public health and environmental management, oversight is provided at a regional rather than central level.
17. The current compliance and monitoring settings make it difficult for some communities and government to readily understand whether services are delivering the expected outcomes until there is a service failure. Recent cases that may indicate wider underlying issues include:
 - Kaipara District Council, where a wastewater scheme intended to cost the community \$18.5 million actually cost \$63.3 million, and required the Crown to appoint Commissioners to replace the elected council;
 - Wellington's urban councils have known for several decades about the risks to its water supplies in the event of a major earthquake, but have only focused attention to mitigate those risks very recently;
 - Whanganui District Council, where a wastewater scheme costing \$27 million failed to meet intended performance levels and a new scheme costing approximately \$41.2 million is proposed;
 - several parties (Hastings District Council, Hawke's Bay Regional Council and the Drinking Water Assessors) failed to adhere to the high levels of care and diligence necessary to protect public health for the Havelock North drinking water supply; and
 - rising house prices could be driven in part by the slow pace of expansion for three waters networks.
18. Political imperatives to keep rates low while funding higher profile expenditure on civic amenities may act as barriers to local authorities adequately funding the expansion and replacement of core three waters assets. The balanced budget requirement in the Local Government Act 2002 may not produce the funding it could for asset renewals or new investment, and depreciation funds may be allocated for other purposes. Other Local Government Funding Agency fiscal covenants restrict some local authorities' ability to borrow to invest in three waters infrastructure.
19. There is little consistent, reliable information on the state and performance of three waters assets and service delivery, which potentially creates unforeseen risks that there will be sudden infrastructure failures and/or declines in infrastructure service performance over time.
20. Smaller local authorities may lack the specialist capability and capacity to deliver modern water services and to address emerging issues such as resilience, climate change and growth. Decision-makers may also unwittingly agree to levels of risk that expose people, communities and New Zealand to unforeseen future risks of service failure.

Expert advice continues to highlight the need for review of three waters services to build a strong basis for any future reform

21. In 2011, the *National Infrastructure Plan* identified that the management, regulatory settings and governance for New Zealand's water sector infrastructure would require the most attention in comparison to all other infrastructure sectors.
22. The Productivity Commission's report *Using Land for Housing (2015)* concluded: "The regulatory and institutional framework around the water sector can be improved. Discipline and transparency around the pricing of water services, and better performance monitoring, would improve the ability of the water sector to support urban growth."⁵
23. The Productivity Commission's *Better Urban Planning (2017)* report also found that the current planning system is failing to deliver on critical goals and specifically made recommendations to enable: higher-quality, more comprehensive and responsive plans that are better linked to infrastructure supply; more use of market-based tools and infrastructure pricing; and longer-term infrastructure planning based on adaptive management and real-options analysis⁶.
24. The Office of the Auditor-General's (OAG) report *Water and Roads: Funding and Management Challenges (2014)* considered that:
 - many local authorities' asset management practices fall short of asset management guidance;
 - local authorities need to do more to manage infrastructure and financial strategies for the long term;
 - although local authorities tend to have a lot of data, they do not necessarily use it well or use the best data to support decision-making;
 - some local authorities might not have the capacity for the increased sophistication of information needed to deliver affordable everyday services to communities; and
 - infrastructure development waves create investment echoes. A significant renewal cycle of the three waters assets is likely to occur during 2040 to 2060⁷.
25. The OAG recently stated in *Local Government: Results of the 2015/16 Audits* that local authorities continue to report a low level of capital expenditure on renewals compared to depreciation expenditure, and carry out significantly less capital work than budgeted⁸.

Current efforts to improve three waters services are not sufficient to address issues due to the dispersal of responsibilities in the sector

26. In recent years, consensus across government has grown about a number of key challenges (e.g. aging infrastructure networks, affordability constraints, lack of local authorities' capacity and capability, climate change and population changes) in the future that New Zealand must overcome to enable services that are resilient, co-ordinated and contribute to a growing country.

⁵ Productivity Commission, (2015), *Using Land for Housing*, p232.

⁶ Productivity Commission. (2017). *Better Urban Planning*. p12.

⁷ Office of the Auditor-General, (2014), *Water and Roads: Funding and Management Challenges*, p3-9.

⁸ Office of the Auditor-General, (2017), *Local Government: Results of the 2015/16 Audits*, p3.

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27. Central government has taken several steps to address these challenges:
- the Local Government Act 2002 now requires local authorities to set targets for standard performance measures and to prepare and adopt infrastructure strategies for a period of 30 consecutive years;
 - the *Better Local Services* package aims to enable innovation and collaboration in the delivery of better local services and infrastructure, but there is little evidence that local authorities will be sufficiently incentivised to make the newly available improvements; and
 - the \$1 billion *Housing and Infrastructure Fund* seeks to accelerate the supply of infrastructure to enable new housing in high growth areas and *the National Policy Statement on Urban Development Capacity* requires local authorities and infrastructure providers to better co-ordinate the provision of water services necessary to support housing and business growth.
28. Some other parties in the three waters sector have taken important steps to improve three waters services, but change is slow and minimal:
- in 2014, Wellington Water was formed to take a more integrated and strategic investment approach to water infrastructure across Wellington's urban councils. I note that it took over ten years to agree and evolve this model in Wellington.
 - Hamilton City Council worked with the Waikato and Waipa District Councils to develop a proposal to form Waikato Water to deliver water services for the three local authorities, but there is still reluctance to progress the proposal over concerns of political accountability, control and the willingness of those communities to accept changes to service delivery structures.
 - Water New Zealand provides a benchmarking tool for local authorities and other organisations that provide public drinking water, wastewater and stormwater services, but it is unknown how many local authorities consistently make use of the tool.

Review objectives

29. Housing and Infrastructure Ministers agree that the Three Waters Review aims to develop key longer-term improvements to the three waters system. I propose that the review seek to develop solutions to enable the sector to deliver services for local communities and to meet the broader national interests that:
- are efficiently delivered at a quality that reflects cost, community demands and regulatory requirements;
 - have appropriate resilience to hazard events;
 - support businesses and economic growth (including regional economic growth and tourism);
 - allow timely delivery of housing supply; and
 - improve environmental and public health outcomes.
30. These objectives align with the Business Growth Agenda's focus on infrastructure as a key input to building a more productive and competitive economy that will deliver higher living standards for New Zealanders.

Scope

31. I propose three focus areas for review of the three waters sector: *financial incentives*; *asset management practices*; and *compliance and monitoring*.
32. From the work areas shown below, Housing and Infrastructure Ministers prioritised these three areas since they will enable the Three Waters Review to explore how to optimise the current system before pursuit of more ambitious reform. New Zealand’s challenges with managing growth, aging infrastructure and managing declining populations also make these areas the most appropriate for review:

<p>Non-financial incentives</p> <p>Identify how to improve information and performance</p>	<p>Capability and capacity constraints</p> <p>Identify constraints and facilitate information and knowledge sharing</p>	<p>Compliance and monitoring ✓</p> <p>Identify how to improve system-wide mechanisms</p>	<p>Financial incentives ✓</p> <p>Identify practices and incentives that may detract from appropriate financial management</p>
<p>Functions at the national level</p> <p>Identify national functions that could help address issues</p>	<p>Asset management practices ✓</p> <p>Identify how to improve practices, including information disclosure and capability</p>	<p>High growth infrastructure s9(2)(f)(iv)</p>	<p>Funding renewals (for example in areas with declining populations or tourism pressures)</p>

33. Other areas of focus were either not prioritised at this point in time or will be progressed through other work (high growth infrastructure). Current work on funding infrastructure in high growth areas, while not intended to be duplicated in the Three Waters Review, does not preclude three waters issues faced by local authorities experiencing growth from consideration as part of the review.
34. I propose the detailed scope for these workstreams are as outlined in **Appendix A**, with the review concluding in June 2018 (see **Appendix B** for a map of the review timeframe).
35. The **‘financial incentives’ workstream** seeks to identify practices and incentives which may detract from appropriate funding, financing and pricing of three waters services by local authorities, and to identify recommended solutions (regulatory and/or non-regulatory). The review will consider the regulatory framework for financial management, the role of the Crown and sector bodies in relation to local authorities’ financial management practices s9(2)(g)(i)
36. The **‘asset management practices’ workstream** seeks to identify the range and distribution of practices across three waters; the particular challenges and/or deficits in practices; the incentives, interventions or other initiatives that may contribute to an overall improvement in practices; and the extent to which regulation could assist to improve practices. The review will take a broad view of asset management practices (e.g. engineering, asset planning, strategy, policy and finance) to investigate issues and develop recommended solutions.

IN-CONFIDENCE

37. The **'compliance and monitoring' workstream** seeks to identify a 'fit for purpose' compliance and monitoring framework that supports national and local community outcomes. The review will consider all aspects of governance related to compliance and monitoring (e.g. gaps in information, performance monitoring, evaluation and direction) for the three waters services to understand what activities across the regulatory spectrum could be valuable.

What will we get from this review?

38. The review provides the opportunity to:
- develop a solid evidence base on the nature and significance of challenges and opportunities in the three waters sector;
 - identify options for intervention to optimise the current three waters system;
 - provide the necessary basis for more ambitious reform; and
 - coherently articulate issues and challenges for ongoing collaboration between local and central government.

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Other related work areas and proposals

39. The Three Waters Review is one of a range of initiatives currently underway as part of the central government’s broader work programme to support the built and urban system. The review will need to inform and be informed by these other key initiatives.

Initiative/Proposal	Description	Potential relation
s9(2)(f)(iv)		
Better Local Services Reform	Creates options for new structures for service delivery and local-led reorganisation processes giving more flexibility for improving local government	Enables efficiencies that enhance the distribution of specialist expertise, the delivery of water infrastructure and the value of water services to end-users
s9(2)(f)(iv)		
Metadata Standards for Water	Develops shared standards and practices for water infrastructure data	Aims to improve the amount, quality and use of data collected on water infrastructure, which will overlap with the Three Waters Review asset management workstream
Havelock North Inquiry	Investigates contamination of the Havelock North drinking water supplies in August 2016 with a view to recommend broader changes to reduce the likelihood of a similar future event	Reports in December 2017 on systemic issues with drinking water safety. The Three Waters Review is likely to better position government to respond to the Inquiry’s findings

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Local Government New Zealand's proposal

40. LGNZ proposed that the three waters sector implement a co-regulatory approach modelled on the gas industry, which would require the Crown to establish an industry body governed by independent and elected industry representatives and an independent chair.
41. At this stage I consider it more important to determine what, if any, form of regulation is needed and what outcomes are desired from that regulation. Once that is determined, the desirable form of a regulatory body could be considered.

Stakeholder engagement

42. I intend that there be substantial engagement with local government, both through LGNZ and at a more grass roots level, as the review progresses. Other stakeholders will also be provided significant opportunities to provide input. I recognise a wide range of other interests which the review will consult, including but not limited to: Māori, infrastructure, business and environmental groups (e.g. Infrastructure New Zealand, National Infrastructure Advisory Board, Property Council New Zealand and Environmental Defence Society).
43. In the period through to the formation of a new government, the work will be confined to information gathering. Options development and decisions about change will occur after the election.

Consultation

44. This paper was prepared by DIA. The following agencies were consulted: Ministry for the Environment (MfE), Ministry of Business Innovation and Employment (MBIE), Treasury, Ministry of Civil Defence and Emergency Management, Ministry of Health and Te Puni Kōkiri.
45. The Department of the Prime Minister and Cabinet has been informed.
46. Officials from the Ministry of Business Innovation and Employment and Treasury consider the proposed review targeting *financial incentives*, *asset management practices* and *compliance and monitoring* has the potential to lead to positive incremental changes to the outcomes provided by the three waters sector over time. A focus on these three areas may also assist in identifying other potential further areas of work where more fundamental change to system incentives could result in even greater, sustainable long-term benefits in areas such as the overall governance and regulatory arrangements of the three waters sector, capability and capacity constraints, infrastructure financing and the quality of service delivery.

Financial implications

47. As part of Budget 2017, a tagged contingency fund, Three Waters, was established. The Three Waters Contingency Fund is designed to provide funding for the next phase of the Three Waters work programme. Housing and Infrastructure Ministers (Minister of Finance, Minister for Infrastructure, Minister for Economic Development, Minister of Transport, Minister of Local Government, Minister for the Environment and Minister for Building and Construction) have jointly agreed the scope of the future work programme and that DIA will lead this work.

IN-CONFIDENCE

48. I seek Cabinet's approval to draw down \$1.5 million of the Three Waters tagged contingency to enable DIA to lead a review of three waters services to assess whether current local government practices and the system oversight are 'fit for purpose'.
49. Some of this funding may go to other agencies to resource the review. DIA is responsible for the *financial incentives* and *asset management practices* workstreams, and MBIE and MfE have joint responsibility for the *compliance and monitoring* workstream.

Human Rights, Gender, Disability and Legislative implications

50. There are no human rights, gender, disability or legislative implications that arise from the proposals in this paper.

Treaty of Waitangi implications

51. The Three Waters Review will primarily focus on infrastructure provision for three waters services, which is not likely to have implications for the Crown's Treaty relationship. However, it will be important to engage with Māori to ensure their interests are considered as the review work develops.

Publicity

52. If Cabinet Ministers agree to proposals in this paper, I intend to make an announcement that central government will work together with local authorities and stakeholders in the course of the review. I intend, after appropriate redactions, to proactively release this Cabinet paper to the public.
53. Initial communications for the Three Waters Review will focus on four key messages:
 - LGNZ's co-regulatory proposal has initiated discussion of the future outcomes for the three waters sector;
 - the central government will work closely with local authorities across the three waters sector to investigate issues around *financial incentives*, *asset management practices* and *compliance and monitoring*;
 - the central government will only be gathering and analysing information at this stage; and
 - work to develop options and to obtain decisions will occur after the election period.

Recommendations

54. The Minister of Local Government recommends that the Economic Growth and Infrastructure Committee:
 1. **note** that three waters services are lifeline utilities and compose one of the core infrastructure sectors of national significance;
 2. **note** that there are indicators of system-wide performance challenges in the three waters sector;
 3. **agree** that central government conduct a review of the three waters services to develop solutions to enable the sector to deliver services for local communities and to meet the broader national interests that:
 - 3.1 are efficiently delivered at a quality that reflects cost, community demands and regulatory requirements;

IN-CONFIDENCE

- 3.2 have appropriate resilience to hazard events;
 - 3.3 support businesses and economic growth (including regional economic growth and tourism);
 - 3.4 allow timely delivery of housing supply; and
 - 3.5 improve environmental and public health outcomes.
4. **note** that Housing and Infrastructure Ministers have agreed that the Department of Internal Affairs will lead the Three Waters Review with substantive input from the Ministry of Business Innovation and Employment, Ministry for the Environment and The Treasury, which will assess whether current local government practices and the system oversight are 'fit for purpose', and that I seek Cabinet agreement to these proposals;
 5. **agree** that the Three Waters Review focus on three areas for the review as agreed by Housing and Infrastructure Ministers: *financial incentives; asset management practices; and compliance and monitoring;*
 6. **agree** to the terms of references for the Three Waters Review in Appendix A, which includes the scope, process, timeframe and sector engagement approach;
 7. **agree** that Housing and Infrastructure Ministers will continue to provide governance for the Three Waters Review, however, decisions will be sought through Cabinet as necessary;
 8. **agree** there will be substantial engagement with local government and other interest groups to provide input as the review progresses;
 9. **note** options development and decisions about change will occur after the election;
 10. **note** that as part of Budget 2017, Cabinet agreed to establish a Three Waters tagged contingency;
 11. **approve** the following change to appropriations to meet the Department of Internal Affairs costs to lead a review of three waters services to assess whether current local government practices and the system oversight are 'fit for purpose', with a corresponding impact on the operating balance:

Vote Internal Affairs Minister of Internal Affairs	\$million – increase/(decrease)				
	2016/17	2017/18	2018/19	2019/20	2020/21 & Outyears
Multi-Category Expenses and Capital Expenditure:					
Policy Advice MCA					
Departmental Output Expense:					
Policy Advice – Local Government (funded by revenue Crown)	-	1.500	-	-	-

12. **agree** that the proposed change to appropriations for 2017/18 above be included in the 2017/18 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
13. **agree** that the expenses incurred under recommendation 11 above be a charge against the Three Waters tagged contingency, established as part of Budget 2017; and

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14. **agree** that the Minister of Local Government proactively release the *Government review of three waters services* Cabinet paper.

Authorised for lodgement

Hon Anne Tolley

Minister of Local Government

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Appendix A: Terms of references for review of three waters services

Objectives

1. The Three Waters Review aims to develop solutions to enable the three waters sector to deliver services for local communities and to meet the broader national interests that:
 - are efficiently delivered at a quality that reflects cost, community demands and regulatory requirements;
 - have appropriate resilience to hazard events;
 - support businesses and economic growth (including regional economic growth and tourism);
 - allow timely delivery of housing supply; and
 - improve environmental and public health outcomes.

Scope

2. The three focus areas detailed below are: *financial incentives*; *asset management practices*; and *compliance and monitoring*.

Financial incentives

Purpose

3. To identify financial management practices and incentives which may detract from appropriate funding, financing and pricing of three waters services by local government; and
4. To identify options and recommend changes (which may be both regulatory and non-regulatory);
 - 4.1 to incentivise local authorities to make optimal use of the tools currently available to them to fund and finance three waters services;
 - 4.2 to provide or enable a wider range of funding and financing approaches appropriate to facilitate better performance in the three waters sector; and
 - 4.3 to appropriately modify existing three waters funding and financing tools.

Context

5. The local authority financial system may not be producing the funding it could or should for asset renewals. The current financial system allows depreciation funding to be diverted for other purposes relatively easily. In practice, the fundamental financial management settings for local government are largely unchanged since 1996. Recent changes aimed to:
 - encourage local authorities to be more strategic, by requiring local authorities to include ten year financial strategies and 30 year infrastructure strategies in their planning documents; and
 - improve transparency, by requiring standardised disclosure around infrastructure expenditure and financing.

IN-CONFIDENCE

6. The improved transparency permits clearer identification of the problems with the current system.

In scope

7. All aspects of the financial management regulatory framework set out in the Local Government Act 2002, the Local Government (Rating) Act 2002 and subordinate regulation made under those Acts.

8. This includes, but is not limited to:

s9(2)(g)(i)

9. The role of the Crown and sector bodies to recommend, promote and monitor good financial management practice by local authorities.

10. This includes, but is not limited to:

s9(2)(g)(i)

Out of scope

11. Disaster recovery funding arrangements.
12. New taxes (such as bed taxes).
13. Funding for infrastructure specifically to meet high growth needs.
14. The role of the Auditor-General under the Public Audit Act 2001.
15. The role of the External Reporting Board under the Financial Reporting Act 2013.

Asset management practices

Purpose

16. To identify:

- 16.1 the range and distribution of asset management practices across three waters network service providers, including exemplars of good/best practice;

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- 16.2 the particular challenges and/or deficits in asset management practice that contribute to poor outcomes;
- 16.3 the incentives, interventions, or other initiatives that may contribute to an overall improvement in asset management practices and outcomes across the three waters sector; and
- 16.4 the extent to which regulation could assist to improve asset management practices and outcomes.

Context

17. A lack of consistent and reliable information on the state and performance of three waters assets and service delivery currently exists. This exposes people, communities, and the government to unforeseen risks related to both sudden infrastructure failures and a decline in infrastructure service performance over time.

In scope

18. The broadest view of asset management, including:
 - technical areas of engineering and asset planning;
 - how technical elements interact with strategy, policy and finance;
 - how these aspects incorporate the informed preferences of the community, and in turn inform decision-making of elected members (or appointed board members).
19. This includes, but is not limited to:

s9(2)(g)(i)

Compliance and monitoring

Purpose

20. To identify a 'fit for purpose' compliance and monitoring framework that supports national and local community outcomes, which includes identifying:

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- 20.1 gaps in the control, direction and management of the three waters services to achieve national and local community outcomes; and
- 20.2 options to improve the control, direction and management of the three waters services to better support national and local community outcomes.

Context

21. In general, policy functions across government to enable water service improvements and outcomes could be better. Information is not collected or reported consistently or reliably, and it can be difficult for communities and government to understand how well the three waters sector is delivering expected outcomes.
22. Work is underway to review and revitalise the implementation of compliance, monitoring and enforcement across the Resource Management Act 1991 (RMA) responsibilities.
23. Water New Zealand carries out the National Performance Review for the three waters sector from an asset performance view, but less resourced local authorities may not participate due to cost barriers and the voluntary status of the review.
24. Drinking water supplies are monitored in accordance with the Health Act 1956. The Ministry of Health and District Health Boards possess related regulatory responsibilities, and the Director-General of Health publishes an annual report on drinking water quality.

In scope

25. All aspects of governance related to compliance and monitoring for the three waters services to develop an understanding of how to improve the overall performance of the system, more specifically to understand what activities across the compliance and monitoring spectrum could be valuable: s9(2)(g)(i)

s9(2)(g)(i)

26. Focus areas for other chosen workstreams in order to link together and develop solutions.
27. Some consideration of the institutional settings, capability and capacity of the agency that delivers the compliance and monitoring framework in the three waters sector to the extent this influences or impacts sector incentives and current and future outcomes.

Timeframe

28. The Three Waters Review adopts a three-stage process with formal discussion and decision points for Housing and Infrastructure Ministers at the end of each stage:
 - Stage One: detailed analysis of issues and opportunities;
 - Stage Two: development of options to address priority issues and opportunities; and

IN-CONFIDENCE

- Stage Three: recommendations for Ministers and Cabinet.

Stage One – July 2017 to November 2017

29. **Report on the detailed problem analysis** – to address key questions:
- What is the evidence that problems or opportunities for improvement exist?
 - What is the nature and significance of the problems?
 - What are the barriers that prevent the sector from achieving objectives?
 - What is the role for central or local government (or related sector entities) in resolving the problems?
30. This work will build on the more general problem analysis work that was previously carried out.
31. Stage One will require the most time and resources to clearly identify issues and opportunities, which will form a strong basis for identifying options and any subsequent recommendations for Ministers.

Stage Two – December 2017 to March 2018

32. **Report on the development and evaluation of options** to address agreed problems, and to consider methods for implementation. The Stage Two report will include information about which, if any, of the options could require a Budget 2018 initiative and seek Ministerial direction on preferred options.

Stage Three – March 2018 to Reporting June 2018

33. **Seek Ministers to agree to recommendations**, which may require Cabinet and/or other decision-making processes depending on the nature of decisions. For example, options to change legislation may require public release of a discussion document.

Sector engagement

34. The Three Waters Review will involve a high level of engagement with the sector given: the impact on its members; the likely benefits from the depth of sector knowledge and experience; and the potential for early engagement to assist the implementation of options. The sector engagement process will be essential to the success of any change or reform of three waters services.
35. At the April 2017 Central Government/Local Government Forum, Ministers expressed their intentions to work more closely with local authorities across the three waters sector. External advice and input for the next phase of the project offers the opportunity to:
- add value to the policy advice Ministers receive;
 - strengthen the credibility and accuracy of analysis and options;
 - maintain and build strong relationships to manage risk, set expectations and lead the public conversation; and
 - provide a stronger basis for successful implementation of any changes that arise from Ministerial decisions.
36. A dual approach to engagement will allow the flexibility necessary to investigate areas in detail while also enabling sector representatives the opportunity to express their views. The review will have the ability to engage with:

IN-CONFIDENCE

- *iwi*;
- *stakeholder groups* – to represent the views of people, groups or organisations that are affected by the work; and
- *targeted members of stakeholder groups* – to make sure we receive and exchange sufficient key information, critically examine the issues and develop an informed understanding of the area.

37. Table 1 shows the overall pool of stakeholder groups. Each workstream may target specific stakeholder groups for expert or specialist advice (e.g. Property Council New Zealand members may be targeted for review of financial management practices).

Table 1: Stakeholder engagement pool

Three Waters Review Stakeholder Groups	
<ul style="list-style-type: none">• Local Government New Zealand (LGNZ)• New Zealand Society of Local Government Managers (SOLGM)• Business New Zealand (BusinessNZ)• Infrastructure New Zealand (Infrastructure NZ)• Property Council New Zealand (PCNZ)• Water New Zealand (WaterNZ)• Iwi Leaders• Institute of Public Works Engineering Australasia (IPWEA)	<ul style="list-style-type: none">• Local Government Funding Agency (LGFA)• National Infrastructure Advisory Board (NIAB)• New Zealand Lifelines Council (NZLC)• New Zealand Asset Management Support (NAMS)• Environmental Defence Society (EDS)• Institute of Professional Engineers New Zealand (IPENZ)

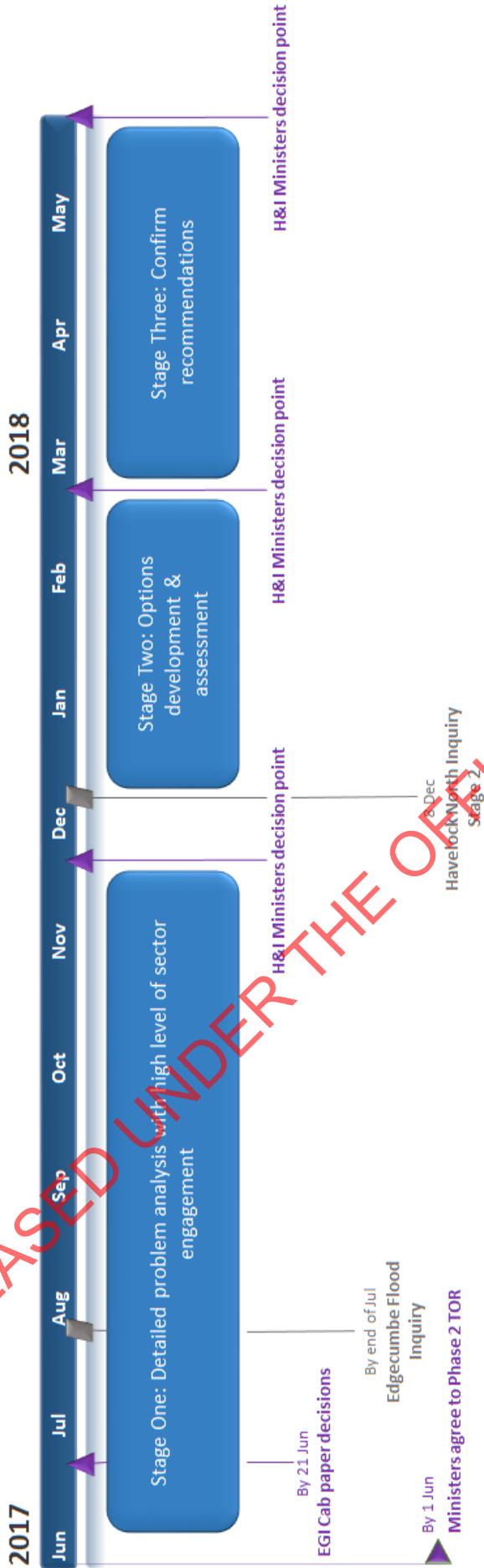
Governance

38. Housing and Infrastructure Ministers continue to provide Ministerial governance for the Three Waters Review, supported by agency leadership groups involved with the programme for built and urban systems. As necessary, decisions will be sought at key points through Cabinet.
39. Given the proposed scope of the review and potential for legislative changes in the longer-term, oversight is necessary by Housing and Infrastructure Ministers, and on occasion Cabinet.

Agency roles

40. As agreed by Housing and Infrastructure Ministers, DIA will be the lead agency for the next phase of the project given the nature of the three workstreams prioritised by Ministers. The Ministry for the Environment, Ministry of Business Innovation and Employment and Treasury will continue to participate in the working group as important contributors. The Department of the Prime Minister and Cabinet, Ministry of Civil Defence and Emergency Management and Ministry of Health will also contribute to the Three Waters Review as necessary.

Appendix B: Timeframe for the proposed review of three waters services



Other work in progress to be considered:

s9(2)(f)(iv)

- Edgecumbe Flood Inquiry
- Water New Zealand National Water Survey and National Performance Review
- Local Government New Zealand Water 2050
- Annual Drinking Water Survey
- Office of the Auditor General 2017/2018 work programme with water theme

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