The turning point
Choices ahead for water reform

Three Waters 2021
Three Waters Reform is the first step in the biggest change to local government arrangements in a generation. This change is not just about how water services are delivered, it will set the tone for a more fundamental reshaping of local government in the years ahead.

In July 2020 the Government launched the Three Waters Programme, a three-year plan set to reform local government water services delivery arrangements along with tightening water regulations and the way water services are managed.

The changes announced by the Government are far-reaching, and when combined with change plans for resource management, local government, vocational education and training, and health services including public health, the overall economic and social impacts on our local communities are huge.

At Deloitte we recognise the challenge the Government faces. It needs delivery structures that will be effective in applying the financial support it provides to secure safe delivery of three waters to New Zealanders. And it needs arrangements to ensure these services can be sustainably delivered to new, higher standards in the long term. On the other hand, local communities and those who safeguard their interests need to be comfortable they are being treated fairly, and the benefits from the reform justify the change and disruption.

We think this balancing act can be managed, but it will need a high-quality process with open and consistent stakeholder communication to be successful. Deloitte has supported central and local government through many sector reforms, and we understand how major change programmes need to be executed to ensure planned benefits are realised. We also know there will always be unintended consequences and it is crucial these are identified as they arise, and processes are put in place to ensure equitable outcomes.

What is important is getting the establishment process right so the new arrangements are set up to succeed.
Key choices ahead

Governance
Governance arrangements need to consider both the need for performance and the importance of representation. Clarity around where decision rights sit between the governance board, directors of the new entities, executive teams, and asset owners will be essential to achieve the dual aims of equity and superior performance.

Stakeholder engagement
In the consultation and change process can only be done with an understanding of the full set of stakeholders and their interests. In other sector changes we have seen new stakeholder groups emerge, bringing perspectives that were not anticipated through the design and planning stages of the reform process.

Infrastructure delivery
The sector is already facing significant delivery pressures and constraints which will only get worse as the reform moves ahead and demand for specialist water sector expertise grows. The key to delivering successful capital and operational programmes is capability and capacity growth, innovative new ways of working, and better use of materials, equipment, and new technology.

Role of the Establishment Board
Includes enabling the new water entities to be successful and setting their strategic direction. One early challenge will be to secure the right leadership talent, with this talent being both scarce and expensive.

Regulation
Is driving higher standards of environmental compliance across the industry. Water entities must be able to respond to the changing regulatory environment through their ability to access relevant data, invest in training and systems, and to develop, capture, and assess performance data that makes sense for a broad range of stakeholders. There is also the likelihood of economic regulation to make things more challenging.

Transition
Processes should be planned in detail and guided by principles that help maintain equity across all stakeholders – ratepayers, employees, contractors, and other suppliers.

Asset condition & transfer
One of the first steps in moving towards a new water entity is understanding the Three Waters assets that will transfer and data related to them. This is a critical input into the overall planning process as it will determine what assets move across, how these assets are accounted for by the new entity, and what risk the council bears for assets which no longer have value.

Entity form and function
Will need to consider the mandate, core functions, management structure, operating model, funding and revenue model, organisational structure, systems and processes and cost structure of each entity.

Workforce
Councillors are already facing significant changes in a sector can be highly disruptive with a high risk of losing key people who will be hard to replace.

Increased investment
In water is an opportunity to improve the state of water assets for local communities but is also a challenge to deliver. A detailed process supported by open and consistent communication across stakeholders will be needed to work out where and what new investments should be made. It is also important to make sure there is no slow-down of investment during the transition to new entities.

Revenue & Debt Allocation
Needs to be balanced in a way that ensures both the new water entity and contributing councils are not compromised from a financial capacity perspective, and that equity is preserved between contributing councils.

Valuation
Valuation of what each council contributes to new entities is a major challenge, particularly given the differences in how information related to age and condition of assets is compiled across councils. We expect too that any value transfer will not just be in the form of the current assets but will also include claims on the future ratepayer revenue base and the current council staff who are expected to move to the new entity.

Timing of decisions
Many of the issues which need to be dealt with as part of the transition to new Three Waters arrangements will take years to solve to a high degree of confidence. It will be important to prioritise any establishment decisions that need to be made to keep things moving forward.

Climate change
Will bring additional challenges including the way water is sourced, allocated, and provided for urban, rural, and environmental users. It will also threaten infrastructure that must be rebuilt or maintained.
Our team

The Deloitte team brings extensive experience with the implementation of government reforms across multiple sectors.

We have been involved with all aspects of the establishment process including the design of transitional arrangements, valuation and capital structure advice, organisation design, systems integration, revenue and cost modelling, and debt advisory services.

The Deloitte team assembled to support Councils through the Three Waters reform process hold a combination of the technical skills required to deal with the needs presented by that process combined with the experience learned from earlier processes. They have a deep understanding of the Three Waters Programme including the strengths and challenges of the different delivery models that apply across New Zealand and in overseas jurisdictions.

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