



The choice
3 Waters

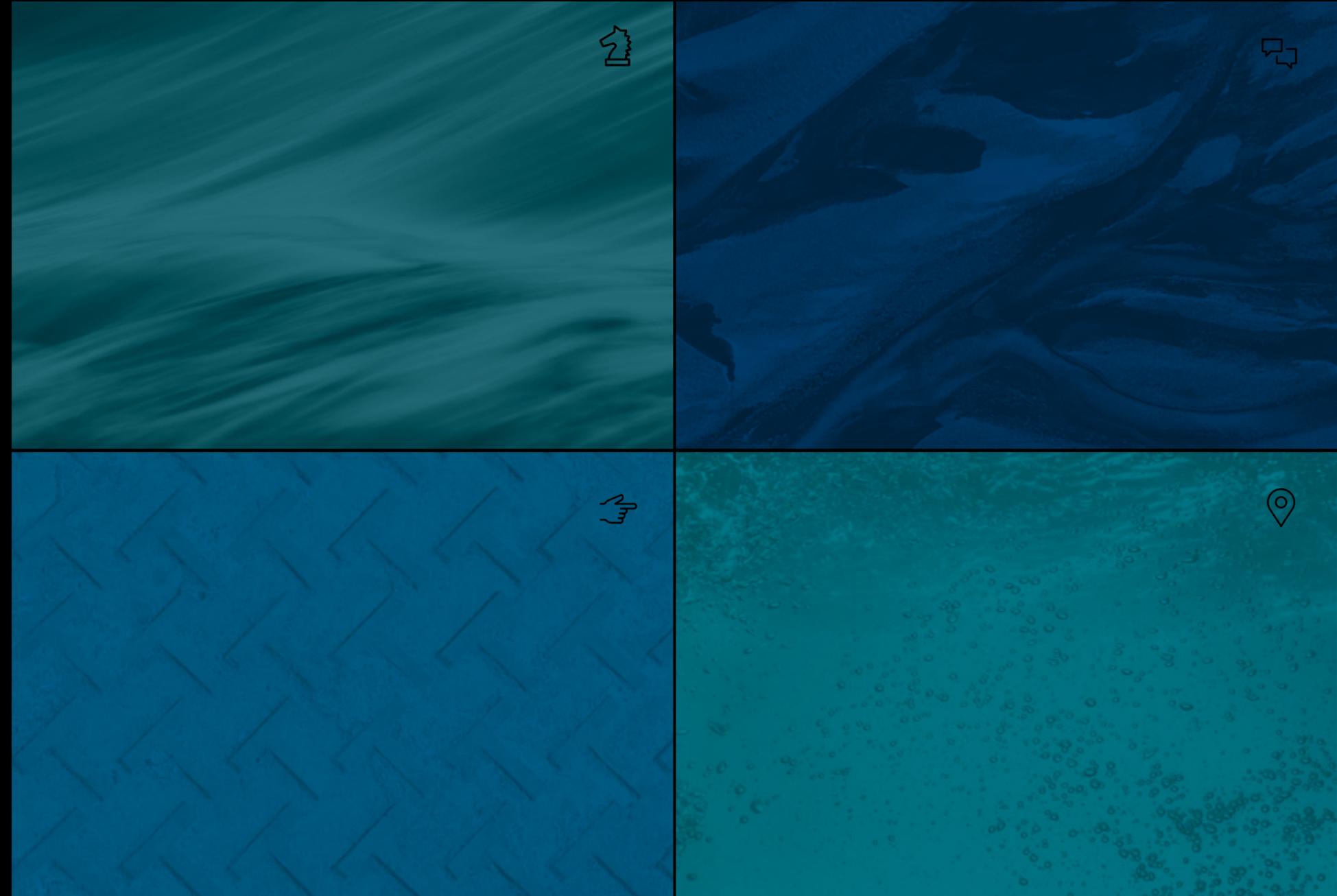
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Introduction



In recent days councils have been making a decision that will have profound implications for their ongoing relationship with their community. The “strategic” choice is the decision whether or not to participate in the Government’s proposed Three Waters reforms. Regardless of what decision is made, the reality is that the world of local government in New Zealand will fundamentally change.

We believe there are four related issues that councils need to work through as they reflect on the implications of their decision:



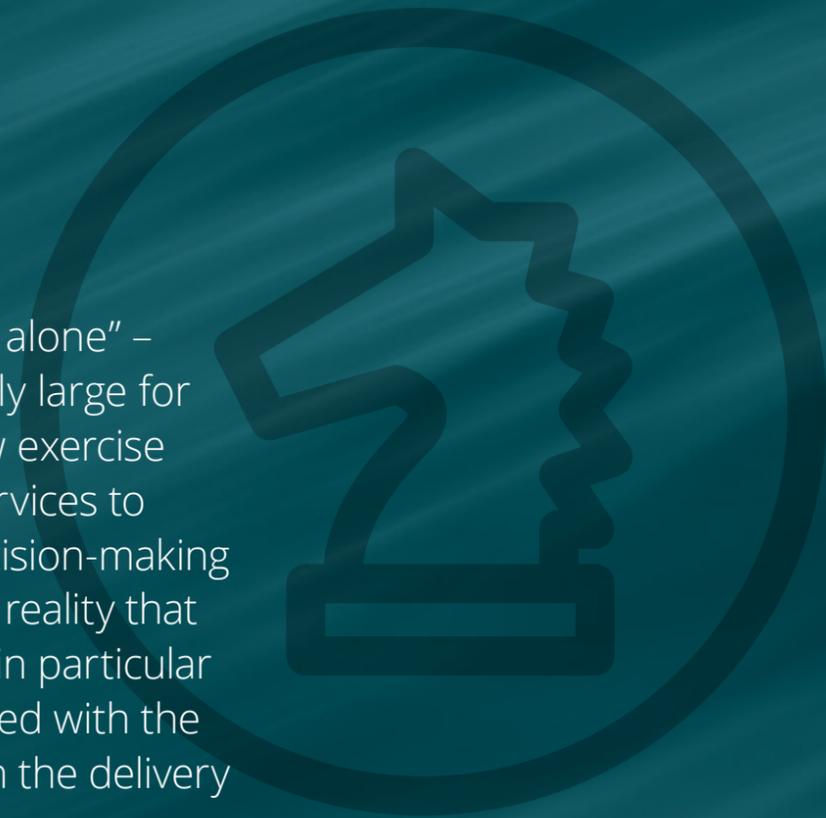
01 — The Strategic Choice

Councils have been provided with significant analysis and guidance from Te Tari Taiwhenua (Internal Affairs), Taituara and Te Kahui Kaunihera a Aotearoa (Local Government NZ) in relation to the Government's Three Waters proposals. All councils have been provided with the financial analysis undertaken by Water Industry Commission for Scotland (WICS) setting out the benefits of the proposal for their proposed region and their council specifically. Government has announced a major financial support programme to ensure that no council is "worse off" as a consequence of choosing to opt into the reform process.

The immediate choice that councils have been making is whether they are convinced that their communities will be better off as a consequence of participating in the process. Fundamentally, this has required councils to satisfy themselves that the organisational and governance arrangements proposed can deliver the benefits

assumed relative to councils "going it alone" – and that those benefits are sufficiently large for councils to cede the control they now exercise over the provision of Three Waters services to their communities. As part of that decision-making process councils need to factor in the reality that the status quo is not an option – and in particular recognise the costs and risks associated with the new regulatory regime that will govern the delivery of water services going forward.

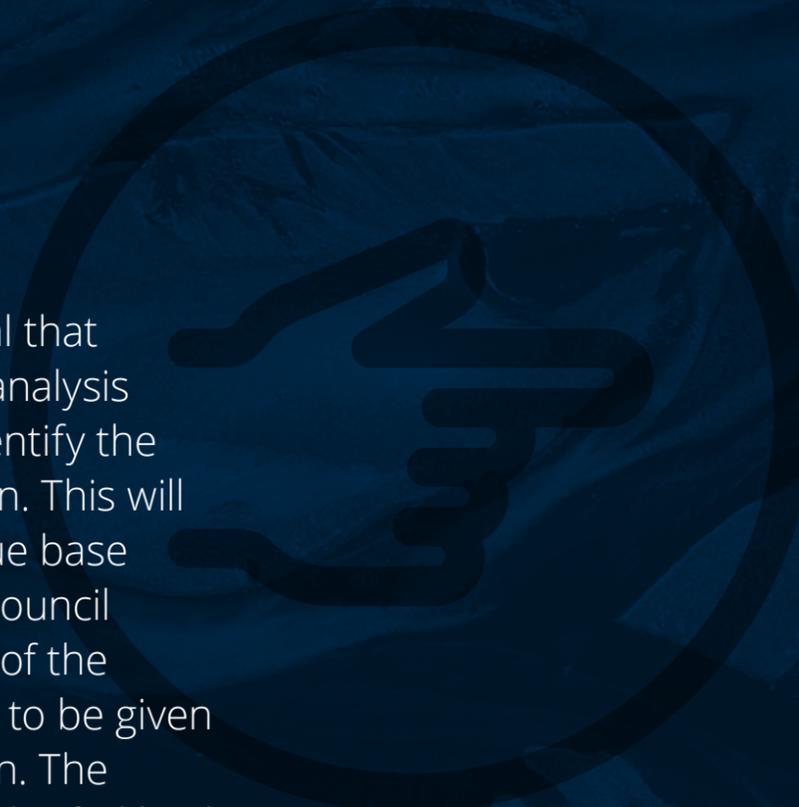
The longer-term strategic question that councils have had to consider is how participation in the reform process redefines the role of local government and specifically what risks and opportunities are created as a consequence. The short-term decision and the long-term implication are connected, and they may not lead to the same decision.



02 — Negotiating the Deal

Participation in the Three Waters process involves councils entering into a material transaction. Regardless of the strategic rationale for the choice the councils make, as with any transaction the “devil is in the detail”. The detail in this case will have fundamental implications for councils future capability and capacity and will involve addressing matters such as what assets to transfer, what rates/revenues are designated as water-related, which staff transfer, how shared services are unravelled, how are stranded assets and overheads identified and dealt with, what contractual obligations need to be identified and shifted or cancelled and what organisational restructure will be needed.

As part of this process it will be critical that councils perform a detailed financial analysis – including financial modelling – to identify the financial implications of any separation. This will involve modelling the cost and revenue base following a separation to ensure the council isn’t compromised as a consequence of the transaction. Particular focus will need to be given to the cost of effecting any transaction. The outputs of that modelling will need to be fed back into any negotiation process to ensure that the council doesn’t end up assuming an unacceptable level of risk or financial exposure.



03 — Executing the Transaction

Executing a major transaction is a complex and expensive process which typically impose huge strains on the business as usual activities of an organisation. If a transaction is to be successfully completed, councils will need to devote significant leadership capability and capacity to the task of making it happen. To the extent that leadership is provided by existing staff there will be capability gaps that need to be backfilled.

Successful execution will involve robust planning and programme management. It is likely that councils will need to set up or have access to some form of programme management office (PMO) to ensure the execution process runs to plan and that risks and issues are identified and tackled early.

Proper planning can remove uncertainty and ambiguity, identify and recognise people issues, ensure that there is a plan for change at all levels and make sure that a comprehensive communication and relationship management plan is in place that anticipates the needs and anxieties of all stakeholders.



04 — Positioning for the Future

The Three Waters reform process as proposed represents the most fundamental change to local government arrangements in New Zealand in a generation. Any such change will have associated risks and councils will need to have faith that the promised benefits will eventuate. However, the proposed changes have the potential to serve as a catalyst for a fundamental rethink of the role of local government in New Zealand.

At face value the transfer away from direct council ownership and control of a significant part of the current mandate signals a diminution in the role of local government. That does not need to be the case. While the case for the Three Waters reform strongly argues for the benefits of the scale and specialisation associated with consolidation there are equally strong arguments for increased “localism” in the delivery of other services – particularly social and people orientated services such as social housing,

education and primary health services. The opportunity presented for local Iwi participation in any new construct for these services could potentially be huge.

A pivot to a **people** rather than **infrastructure** focus offers the opportunity for local authorities to fundamentally redefine their relationship with their community while also improving the effectiveness of centrally funded interventions.

Any repositioning of the role of local government will require a significant redefinition in the relationship between central and local government – including funding arrangements. This will not be an instant process, and government will only contemplate changes where it has confidence that the capacity and capability is in place to ensure communities benefit and the performance of the social sector overall is enhanced.



05 — Conclusion

Government's Three Waters reform proposals present councils with a choice the scale and implications of which they have not been presented with in decades. The immediate decision has been whether and how to participate. However, as part of that decision making process we expect that councils will need to think hard about the detail behind what is proposed, how any separation transaction could be executed and – most critically – how their role and the relationship they enjoy with their community could be redefined as a consequence of the Three Waters reform.

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