



Dear Mayor / Chair

Enduring settings for Local Water Done Well

Today I announced key details of New Zealand's future water services delivery system under Local Water Done Well.

Given the significance of this information for you and your role in the management and delivery of water services for your communities, I want to provide you with an overview of this information.

The changes I am announcing today follow recent Cabinet decisions on the enduring components of Local Water Done Well.

They are firmly grounded in the Coalition Government's view that councils face differing circumstances and are best placed to make decisions for themselves about how water services are delivered sustainably and affordably to their communities in future.

We're committed to keeping water assets in local control and giving you flexibility to choose water services delivery models that suit your circumstances and communities' preferences. Meeting economic, environmental and water quality regulatory requirements is a bottom line.

Central government will be providing new models for water organisations, confirming financing arrangements that support financial sustainability, and setting out a new regulatory regime that protects consumers while avoiding undue costs.

I want to emphasise the Government's expectation is that councils will lead the development of their future water services delivery arrangements.

It is also important to note that the current fiscal environment means there will not be any central Government funding provided to support the delivery of water services. However, councils may use remaining Council Transition Support funding, or any unspent Better Off funding to support the development of plans for future water services.

These changes follow the progress we have already made towards delivering on Local Water Done Well.

With our first Local Water Done Well Bill, the Coalition Government quickly shifted responsibility for water services and ownership of water assets back to local councils.

Our second Local Water Done Well Bill is currently before Parliament and is expected to be enacted later this month. This Bill provides the framework and preliminary arrangements for councils to lead the way in making changes to the delivery of water services for your communities.

It provides the foundation for Local Water Done Well, with the requirement for councils to develop Water Services Delivery Plans. We're intentional in ensuring that councils are in control of how they will deliver high-quality, financially sustainable water services in the long run.

Importantly, the Plans require councils to provide a bottom-up assessment of their local situation, needs and preferences – and what that means for how you move forward. We know it's not going to be a one-size-fits-all approach because the needs and local circumstances of different councils aren't the same.

The information I am sharing with you today is critical to the development of these Plans, providing options and flexibility for you to determine future delivery arrangements.

New water services delivery models

Our third Local Water Done Well Bill – the Local Government Water Services Bill – will add significantly to the range of water services delivery models for councils to choose from as you develop your Water Services Delivery Plans.

The new models that will be provided for in the Bill are intended to underpin the financial sustainability of water services. They are designed to allow increased long-term borrowing for investment in water infrastructure. This in turn spreads the cost of this investment over a longer period easing upward pressure on rates.

The new water organisations can be owned by multiple councils and/or consumer trusts. They are intended to have the flexibility to be financially independent from their council owners from a credit rating perspective.

These new options are in addition to existing service delivery models – including 'in house' services operated directly by councils and the council-controlled organisation model available under the Local Government Act – which councils can choose from for their future water services delivery.

All of the options are voluntary and councils can choose to use them or not, depending on their local circumstances as long whichever model they choose meets new minimum legislative requirements.

Financing arrangements

I'm also pleased to confirm the Local Government Funding Agency (LGFA) has confirmed that it will provide financing to support water council-controlled organisations (CCOs) established under Local Water Done Well and look to assist high growth councils with additional financing.

LGFA will extend its existing lending to CCOs to new water organisations¹ that are CCOs and are financially supported by their parent council or councils. LGFA will support leverage for water organisations up to a level equivalent to 500 percent of operating revenues² (around twice that of existing councils), subject to water organisations meeting prudent credit criteria.

Importantly, LGFA will treat borrowing by water organisations as separate from borrowing by their supporting parent council or councils.

Councils will also retain the ability to borrow through LGFA should they choose to keep water services 'in house' rather than establish a water organisation.

LGFA is also reviewing whether it can prudently provide additional flexibility to councils to meet the future challenges faced by the sector.

This is about providing choice and flexibility to councils to achieve financial sustainability, not just simply telling them what to do or mandating them, like the former government did.

Hence, the importance of starting with Water Services Delivery Plans to determine local investment requirements and appropriate solutions.

I am confident there will be solutions to suit every council's needs and preferences. I'd also emphasise that the Department is willing to work with councils that are concerned about their ability to achieve financially sustainable water services.

New economic regulation regime

Cabinet has also agreed to a new regulatory regime as part of Local Water Done Well, to drive change and performance improvements across the sector.

This includes a new economic regulation regime. This has been led by my colleague, Commerce and Consumer Affairs Minister Andrew Bayly. It will be administered by the Commerce Commission from mid-2025.

The regime will give New Zealanders peace of mind that revenue collected through rates or water charges is being spent on the right level of water infrastructure needed. The Commerce Commission will monitor water services providers so that water services are invested in, maintained, and delivered at a quality that communities expect.

Wider regulatory changes to reduce compliance costs

¹ 'Water organisation' means the separate organisations that councils may establish to provide water services – and does not include councils. There will be various types of water organisation under Local Water Done Well, and LGFA will only be lending to water organisations that meet the qualifying criteria for LGFA membership as a CCO. In particular, financially independent water organisations will not meet the qualifying criteria.

² Note that this metric is being used for comparative purposes only and a more appropriate metric for water organisations will ultimately be used.

The Government is also proposing several changes to the drinking water quality regulatory regime, to reduce the cost and burden for drinking water suppliers.

Changes include:

- Ensuring Taumata Arowai considers the cost of compliance on suppliers when performing its functions
- Reducing the regulatory burden on very small drinking water supplies by excluding 'shared domestic supplies' serving 25 consumers or fewer from regulation
- Enabling Taumata Arowai to proactively issue exemptions from certain regulatory requirements, where compliance with the Water Services Act is impractical, inefficient, unduly costly or burdensome
- Removing the requirement for Taumata Arowai and suppliers to give effect to Te Mana o te Wai.

The proposed changes provide regulatory certainty to Taumata Arowai and to suppliers and will remove barriers to Taumata Arowai taking a proportionate, cost effective and efficient approach in its functions and duties.

While regulation is a central feature of Local Water Done Well, it will be applied in a way that incentivises councils to invest in fit-for-purpose infrastructure and find efficiencies, but not be so burdensome that funding growth and upgrading assets is out of reach.

Further information and next steps

The information about key Local Water Done Well Cabinet decisions that I've shared today will be reflected in the proposed Local Government Water Services Bill which is expected to be introduced to Parliament in December 2024.

Further information about these changes can be found on the Department of Internal Affairs' website at www.dia.govt.nz/Water-Services-Policy-Future-Delivery-System. This includes a range of factsheets and an 'implementation roadmap' that sets out key activities and milestones for the implementation of Local Water Done Well.

More detailed information can also be found in the associated Cabinet papers that have been proactively released on the Department of Internal Affairs' website.

I have asked the Department to engage directly with mayors to provide further information about these proposals. Officials will be in touch directly to arrange these meetings.

This initial information will assist you in the development of your Water Services Delivery Plans.

Once the Local Government (Water Services Preliminary Arrangements) Bill has been enacted, more detailed information, guidance and support will be available to assist you further in developing your Water Services Delivery Plans.

I encourage you to get in touch with the Department if you have further questions at this stage, or to seek assistance with any initial discussions your council may be having. Please contact waterservices@dia.govt.nz.

Thank you for your continued engagement and support.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Simeon Brown". The signature is written in a cursive style with a large initial 'S' and 'B'.

Hon Simeon Brown
Minister of Local Government