

Executive Summary

Purpose of this review

The New Zealand Government is reforming how drinking water, wastewater and stormwater (three waters) services are delivered across New Zealand. The reforms began in response to the issues identified following the Havelock North drinking water contamination in 2016.

Late last year the Taumata Arowai Water Services Regulator Bill, was introduced into Parliament. This legislation creates a new regulatory authority to oversee, administer and enforce a revised three waters regulatory system. The Government has now also introduced the Water Services Bill, which will set out the proposed legislation to reform the regulation of New Zealand's three waters networks. In July 2020, as this report was being finalised, government revitalised the three waters reform programme. It announced a partnership with local government, a timetable, preferred delivery model and funding.

These reforms will have significant implications and challenges for three waters service delivery. Councils across the country will need to adapt to meet the new requirements.



The Government has stated *“for many smaller councils, there is no clear way forward given the scale of the challenges”*.

The five councils of Hawke's Bay commissioned this report to see whether there are benefits in developing a region-wide solution, to help address current and future challenges for the delivery of drinking water, wastewater and stormwater services and to prepare for likely new central government regulations. It was commissioned in 2018, well ahead of the July 2020 announcement.

The review aligns with all five councils' shared strategic priority for 2019 to 2022 – water safety, security and planning – agreed by the Hawke's Bay Leaders Forum in November 2019. The Hawke's Bay councils all share responsibility for ensuring their communities enjoy safe, reliable, resilient and efficient drinking, waste and stormwater services. They also share the challenges of achieving community affordability at the same time as meeting growing demand, developing resilience and improving the performance of three waters services.

This report provides independent analysis and makes recommendations on

- the effectiveness of existing drinking, wastewater and stormwater services
- alternative service delivery options.

It is important to note that the review is not about freshwater reforms, privatising assets or services, water storage or issues such as chlorination. Flood protection and control assets owned and managed by Hawke's Bay Regional Council were also considered outside of the scope for this review.

What does the review set out to achieve?

Three waters services in Hawke's Bay are currently delivered by the four councils that own the assets: Central Hawke's Bay District Council (**Central Hawke's Bay**), Hastings District Council (**Hastings**), Napier City Council (**Napier**) and Wairoa District Council (**Wairoa**). The review concentrates on these four councils even though it was commissioned by all five councils¹. It examines options for a new organisation model to deliver the services and addresses the skills and expertise needed, operational considerations, challenges and benefits.

¹ While not involved in the three waters service delivery the Hawke's Bay Regional Council is a stakeholder as it has a regional role including a regulatory one for three waters.

Guiding the review were

- the six investment objectives developed and agreed through a series of workshops with council leaders, employees and Māori committee representatives
- principles developed through engagement with the Māori committees
- a current state assessment
- consideration of the future requirements of three waters services.

Figure 1 Investment objectives







To provide three water services in a way that is affordable and effective		The three waters service's model must address the challenge of providing for an effective, affordable service in a fiscally responsible way
To provide services that are safe, reliable and resilient		Access to safe and reliable three waters service are fundamental to all the urban and rural communities of Hawke's Bay
To provide services through a model that enables a meaningful role for Māori		The Local Government Act requires a local authority to provide opportunities for Māori to contribute to its decision making processes
To provide services through a model that has the value of water at the centre		Water is vital to community life and as such three water services are part of a holistic water system
To provide three waters services in a way that supports our urban and rural communities		The services influence how people across Hawke's Bay live, work, gather, socialise, recreate and value environmental amenity
To provide three waters services that build enduring capability and capacity		The three waters model must be capable of, and have the capacity to, deliver quality sustainable planning, management and operation of three water services now and into the future

Figure 2 Principles

Value Te Ao Māori	Incorporating and implementing mātauranga Māori, culture and values (i.e. Te Aranga Design Principles) are a core element for any potential framework to realise and enhance the region's commitment to Māori to protecting/enhancing water
Value water	Wai is the essence of all life and the world's most precious resource. It is of high importance to Māori, as it is the life giver of all things, a precious taonga, part of our whakapapa
Whakapapa – genealogical links	Recognise and respect the relationship and whakapapa (genealogical link) that mana whenua has with water.
Te mauri o te wai – the life force of water	Mauri is the integrated and holistic well-being and life support capacity of water. The well-being/healthiness of the water, the land and the people are intrinsically connected.
Holistic approach to water	Although the project is based around the review of the service and delivery of the three waters (infrastructure), the proposed model needs to take into account a holistic water approach: there is only one water.
Enabling of Te Tiriti o Waitangi	Involving mana whenua in governance and decision making required to ensure Te tiriti o Waitangi obligations are met, as well as making sure they are able to actively exercise kaitiakitanga in a practical way
Mana motuhake - identity, self-determination	The identity of mana whenua in Hawke's Bay should not be lost in any potential model. But inclusion and co-governance whilst keeping their identity is an opportunity

The primary focus of this review was to complete an assessment of the current state of council drinking water, wastewater and stormwater (**three waters**) services in the Hawke's Bay and develop a recommended approach to ensure the sustainable delivery of these critical services over the long term. The review followed a structured, staged process moving from current state assessment, definition of key principles, into analysis of a long and short list of options and their impacts on the Councils.

Detailed information and thorough analysis are provided in this report to provide the councils with the information they need to evaluate all the options. The approach and then analysis are consistent with the Better Business Case approach and the requirements of Section 17A of the Local Government Act 2002.

The case for change

- The status quo is not an option for the future of three waters service delivery in Hawke's Bay
- New regulations and standards are coming which will force change
- Future affordability challenges need to be addressed
- Strategically, there are good reasons for Hawke's Bay's councils to work together
 - for customers and ratepayers, staff and councils
 - to achieve the best solution for Hawke's Bay

The New Zealand Government is currently reviewing how three waters services are delivered across New Zealand. In a Cabinet paper released on 20 November 2018, the Government indicated that alongside regulatory changes there may be major structural reform of the water sector. It described a system facing significant issues where

“the scale of the challenge indicates that the status quo is not sustainable in the long term”.

Among the key issues identified were weak regulation, capability challenges (particularly for smaller councils) and funding and financing issues for upgrading infrastructure. The Government set out the following key objectives for the reform:

- Retaining and protecting public ownership of three waters assets
- Significantly improving the safety and quality of drinking water services, and the environmental performance of wastewater and stormwater systems
- Ensuring that all New Zealanders have equitable access to affordable three waters services
- Improving the coordination of resources and unlocking strategic opportunities to consider New Zealand's infrastructure needs at a larger scale
- Increasing the resilience of three waters service provision to both short and long-term risks and events, particularly climate change and natural hazards
- Moving the supply of three waters services to a more financially sustainable footing, and addressing the affordability and capability challenges faced by small suppliers and councils
- Improving transparency about, and accountability for, the delivery and costs of three waters services, including the ability to benchmark the performance of service providers.
- Being consistent with the objectives and operating principles of Taumata Arowai, the water services regulator
- Supporting an integrated approach to the development and management of land and water

- Providing a customer voice
- Accepting that change will have an impact on local government but limiting that impact as much as possible

Shared challenges and opportunities

In July 2020, the Government announced a revitalised three waters reform programme. That announcement provided a direction that did not exist during the preparation of this report. While at this stage the intent of the reform is clear the shape of the reform is still uncertain. It has not therefore influenced the outcomes and conclusions of this report.

The Councils face the same or substantially the same issues and need to address these challenges in an affordable, coordinated way that eliminates duplication and ensures that all councils and their communities have access to the appropriate strategic capacity and capability to do so.

The case for change centres around four key themes that are based on shared challenges and opportunities:



Maintaining and improving the condition and performance of infrastructure

All four councils, in their 30-year infrastructure strategies, highlighted similar challenges around

- managing *growth and demand* for extensions to existing supplies or supply challenges
- *asset condition and performance* driving renewal of aging infrastructure
- developing *resilience* to respond to floods, slips, infiltration and coastal inundation
- meeting increasing standards for *risk and compliance* in the provision of three waters services.

Napier City Council and Hastings District Council are roughly equivalent with approximately \$100 million operating revenue and over 400 employees. Central Hawke's Bay District Council and Wairoa District Council have revenue of \$27 million and \$21 million respectively and less than 62 employees.²

These statistics matter in the context of delivering three waters service because the small, rural councils need multiple small schemes to serve their communities, yet they have less employees who have to cover a broad range of duties and act as generalists, not specialists. In addition, the population and rating base in the smaller councils limits the funding available for capital works.

\$313M of three waters investment in three waters infrastructure originally forecast in 2018 – 2028 LTP

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\$605M of investment in three waters infrastructure now estimated as required during 2018-2028 LTP period

The Councils originally forecast a combined capital program for three waters over the 2018 - 2028 Long Term Plans (LTPs) of \$313 million. That has now been revised to a combined \$388 million.

There are also impending requirements for investment in three waters that all New Zealand Councils will face to meet changes in regulatory standards that the Councils have not allowed for. These changes require safer drinking water and upgrades to wastewater treatment plants that discharge to the freshwater and marine environments. We have estimated those additional costs using information made available by the Department of Internal Affairs (DIA) and the experience of the Councils themselves. The total estimated investment required is estimated by Morrison Low to be **\$605** million (during the LTP period) which is almost twice the amount that the councils allowed for in their LTPs.

² www.localcouncils.govt.nz – Key financial statistics (2018)

There may also be further costs associated with investment in stormwater in the future. However, at this stage we do not know what these standards may be, or the investment required so the costs have not been allowed for.

The current forecast capital program plus the additional investment required to meet new regulatory standards is the ‘**enhanced status quo**’ position. This position has been used throughout the review as the basis against which to assess different options as these changes and their costs will need to be met regardless.



Ensuring the right capability and capacity

There is a shortage of specialist resources for three waters across New Zealand and internationally. Hawke’s Bay’s councils are already finding it difficult to fill certain roles and attract the skills they need. Councils compete with each other for talent and the smaller councils require people who must be able to cover a broad range of duties aside from their specialist area.

As water reforms occur across New Zealand there is likely to be increased competition to attract and retain the specialist skills in water that are necessary to enhance delivery.



Ensure a meaningful role for Māori

Our kōrero with the Hawke’s Bay Māori committees revealed their frustration with the current model for three waters services delivery.

The principles that were developed through engagement with the Māori committees demonstrate the significance that Māori place on water and their expectations.

Te wai, he taonga i tuku iho mai i ngā tīpuna – water is a taonga, a precious treasure passed down from our ancestors.

The chairs of the Māori committees were clear that a meaningful role for Māori starts with the opportunity for partnership, co-governance and co-design in a new model and how it operates. Their view was that the status quo is not a sustainable option.

The review provides an opportunity for Hawke’s Bay’s councils to develop a partnership with Māori based on aligned values, from decision and design through to governance and implementation.

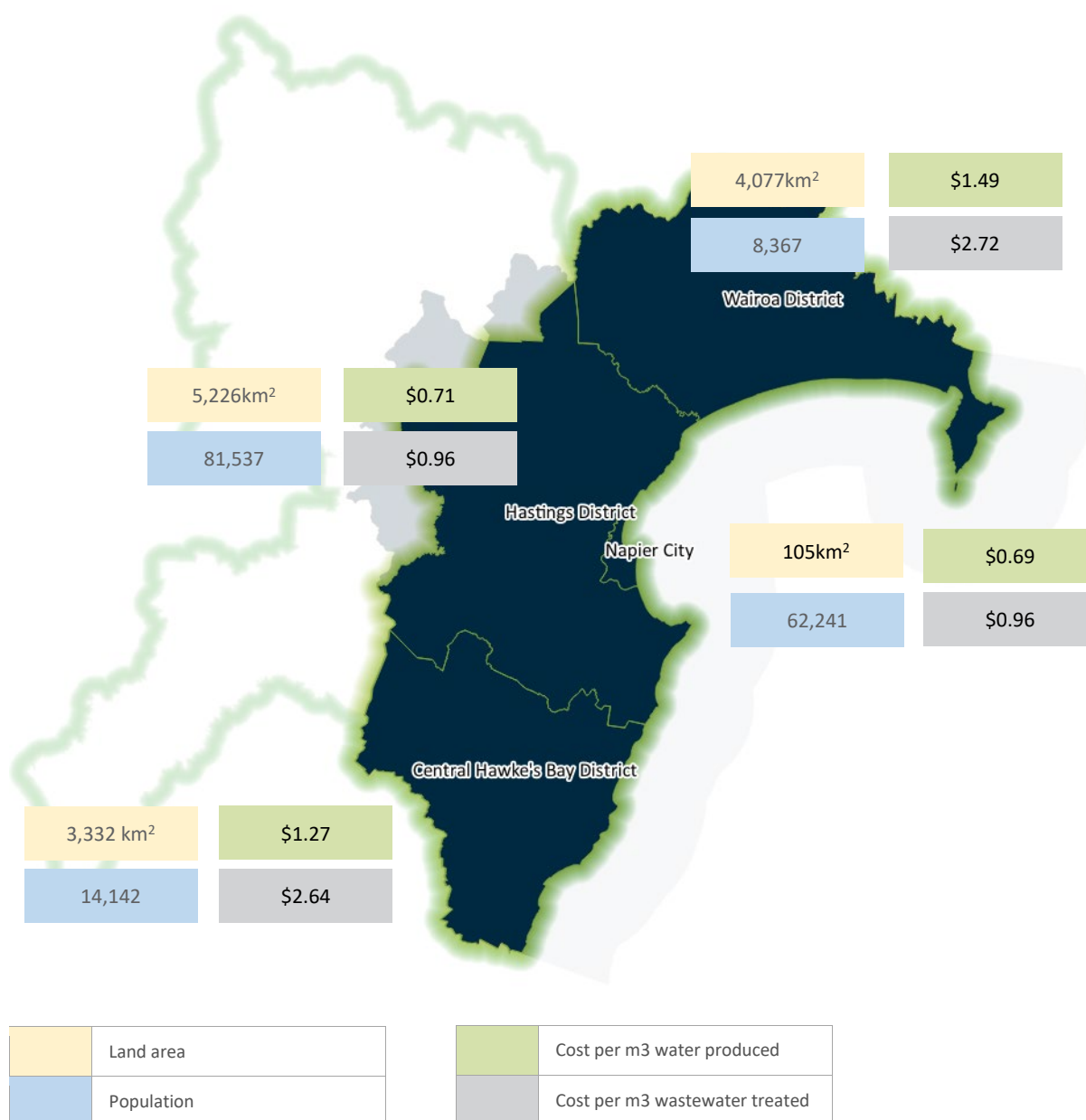


Community affordability

The four councils need to address three waters challenges and opportunities despite their differences. The most striking and obvious differences are the size of each organisation, the population they serve and their coverage of rural or urban areas.

For the Hawke’s Bay region to thrive, it is critical that core infrastructure and basic services are provided to all residents in the region at an affordable cost. As shown in **Figure 3** below, there are already stark differences between the cost to produce water and to treat wastewater between Napier and Hastings as compared to rural Wairoa and Central Hawkes Bay.

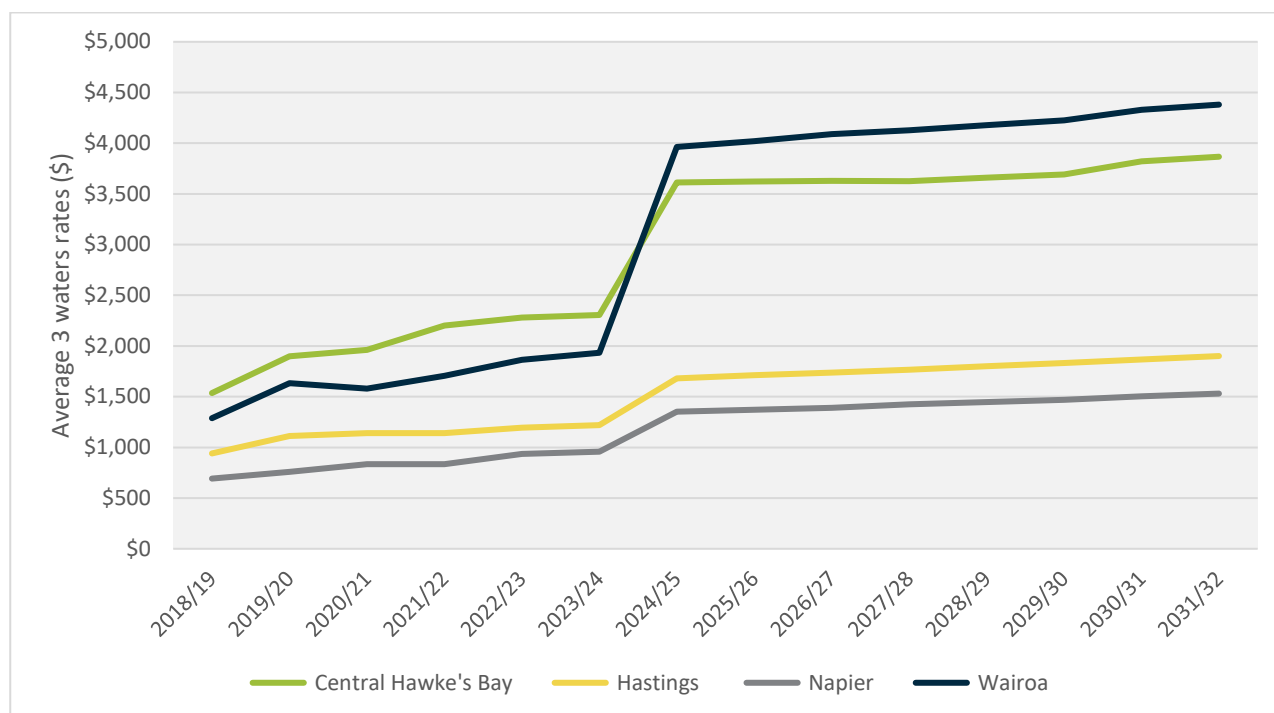
Figure 3 Comparison of size and population and current cost of water³



The enhanced status quo projection highlights that all the Councils face significant increases in three water rates over the next five years in order to meet new requirements. However, a combination of already high water rates, significant future investment requirements and a small rating base could see the average three water rate rise to over \$3,500 and \$4,000 per household in Central Hawke's Bay and Wairoa, respectively.

³ www.localcouncils.govt.nz and Morrison Low financial analysis

Figure 4 Enhanced status quo: estimated future costs



When the impact of the future investment required across the region is considered alongside the differences in the communities, the issues regarding affordability are magnified. The international affordability metrics for water and wastewater cited by Water New Zealand⁴ consider a range of spending between 2% to 5% of household income on water and wastewater as being unaffordable. **Table 1** below compares the current affordability challenge with the future projection. It demonstrates that at 2032 Wairoa exceeds, and Central Hawke's Bay is close to, the highest benchmark of 5%.

Table 1 Estimated two waters residential rate affordability metric: enhanced status quo (2032)

	2018/19	2031/32
Central Hawke's Bay	2.7%	4.4%
Hastings	1.1%	1.9%
Napier	1.0%	1.5%
Wairoa	2.1%	5.9%

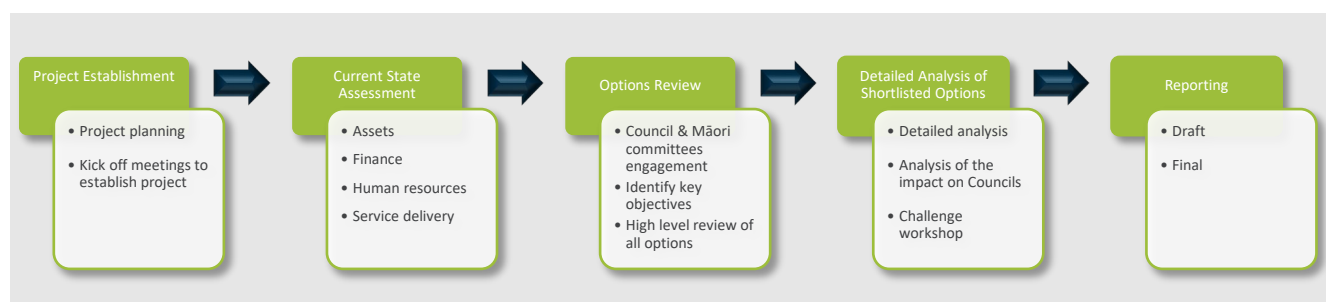
This affordability measure considers average (median) household income at a council level. That means half of all households fall below this level of income so their proportion of household income being spent on water and wastewater would be much greater than the average. For fixed income households large future price rises would be expected to have a greater affect than for the average.

⁴ Water New Zealand 2017-18 National Performance Review report

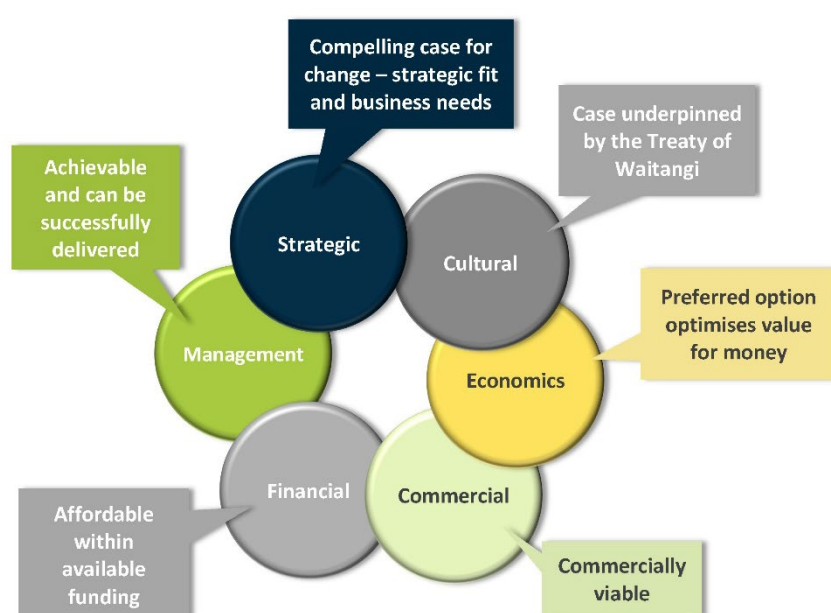
Our approach to the review

An overview of the methodology for the project is set out in **Figure 5**. It follows a structured, staged process moving from current state assessment, definition of key principles, into analysis of a long and short list of options over time. The approach and then analysis are consistent with the Better Business Case approach and the requirements of Section 17A of the Local Government Act 2002.

Figure 5 Summary of project methodology



Assessment using the better business case framework



The review was undertaken using a modified Better Business Case (BBC) framework.

This structured process ensures a wide range of factors are considered in reaching an overall recommendation. However, in this case the largely financially focused framework was supplemented by a sixth case, a cultural case, to ensure that principles developed through discussions with the Māori committees were incorporated into the assessment.

Some of the important issues considered were:

- Governance and accountability
- Impact on wider council services and functions
- Establishment costs
- Government funding
- Supporting legislation needed to implement changes
- Stranded costs
- Debt
- Shareholding

During the later stages of this review the Covid-19 pandemic swept through New Zealand and the world and the impact on the Councils and their communities was significant. Whilst the long-term impacts were not fully understood at the time of completing the review, we responded by:

- using the latest available projections (June 2020) for the Councils in financial forecasts
- creating an additional scenario where a substantial three waters investment programme is funded by the potential Government ‘shovel ready projects’ programme
- reconsidering aspects such as resilience, community affordability, capacity and capability in light of the known and expected long term economic and social impacts.

The options

Initially a long list of options was considered, and this was reduced to a short list through a high-level assessment. The shortlist represents the options most likely to meet the investment objectives with the enhanced status quo being the benchmark against which all options were considered. The five shortlisted options were then considered in detail.

Table 2 Shortlisted options

Option	Council Responsibility	Approach
Enhanced status quo	Each council retains three waters: <ul style="list-style-type: none"> – service delivery – asset ownership – resourcing (employees, consultants and contractors). 	The approach would see no change to service delivery arrangements but require significant additional resource and investment in infrastructure to meet changes to three waters regulations.
Shared services business unit (SSBU)	Each council retains three waters: <ul style="list-style-type: none"> – staff but second them to SSBU – asset ownership – relationship with public accountability for performance 	The SSBU would: <ul style="list-style-type: none"> – second staff from each council into a single group – have regional strategic oversight of asset management and infrastructure delivery and would plan and deliver all the capital and operational works for the region.
Management council controlled organisation (CCO)	Collectively the Councils would: <ul style="list-style-type: none"> – form a joint committee with other councils and Māori in a co-governance model – in co-governance role with Māori determine the objectives for the CCO – monitor the CCO performance – be accountable to ratepayers and residents for CCO performance – retain three waters asset ownership – approve strategies and plans. 	The management CCO would: <ul style="list-style-type: none"> – be accountable to councils and provide performance reports – employ its own staff and provide its own support services. – deal directly with the public for three waters matters. – have regional strategic responsibility for network management and asset management strategies and deliver all capital and operational works for the region – recover costs from each council based on the funding model chosen – be overseen by a board of directors and be accountable to the joint committee.

Option	Council Responsibility	Approach
Sub-national management CCO	<p>This option considers Hawke's Bay joining an existing CCO or creating a model that goes beyond Hawke's Bay.</p> <p>The intention is that by widening the area covered by the model, there might be savings and efficiencies of scale, however there is no guarantee that the main office would be based in Hawke's Bay.</p> <p>The model would operate the same as for the asset management CCO as set out above.</p>	
Asset owning (CCO)	<p>Collectively the Councils would:</p> <ul style="list-style-type: none"> – form a joint committee with other councils and Māori in a co-governance model – in co-governance role with Māori determine the objectives for the CCO – monitor the CCO performance – be accountable to ratepayers and residents for CCO performance 	<p>The asset owning CCO would:</p> <ul style="list-style-type: none"> – be accountable to councils and provide performance reports – own the three waters assets – be responsible for investment strategies and plans required for new infrastructure and meeting standards – consolidate operational and infrastructure costs to develop economies of scale – employ its own staff and provide its own support services. – deal directly with the public for three waters matters. – have regional strategic responsibility for network management and asset management strategies and deliver all capital and operational works for the region. – recover costs directly from each customer. – be overseen by a board of directors and be accountable to the joint committee.







Summary of the assessment of options against investment objectives and principles

The assessment of the options in the economic case discusses the extent to which each of the options meets the investment objectives and incorporates or responds to the principles developed through engagement with the Māori committees. A summary table of that assessment is set out below.

Enhanced status quo

Meets objective	 <ul style="list-style-type: none"> Retains the existing operational, technical and strategic roles in each council and community (through staff, consultants and contractors). Councils retain full control over all aspects of growth planning and infrastructure provision for their areas. Local matters can be prioritised to support growth and development.
Does not meet objective	 <ul style="list-style-type: none"> The anticipated future costs of upgrading infrastructure and meeting an enhanced regulatory requirement will have a significant impact on all the ratepayers of Hawke's Bay. The biggest impact, however, is on Central Hawke's Bay and Wairoa. Affordability challenge increase.  <ul style="list-style-type: none"> Increased national regulatory standards assumed to have affect and lead to better environmental outcomes. Trade-offs between investment in three waters and other services and assets will continue to have to be made.  <ul style="list-style-type: none"> No change, status quo does not meet expectations of Māori.  <ul style="list-style-type: none"> Councils continue to compete with each other for resources, strategic capacity and capability not spread across the region.  <ul style="list-style-type: none"> Does not enable participation in decision making, existing roles are largely advisory
Risks	 <ul style="list-style-type: none"> Small communities bear the risk of meeting future cost increases.  <ul style="list-style-type: none"> Asset management and risk management opportunities to share and collaborate initiatives regionally will be based on individual asset managers rather than a system or structure. Capacity and capability will be unevenly spread across the region.  <ul style="list-style-type: none"> Significant cost increases may affect the future growth of these areas.

Key to investment objectives and principles

	To provide three water services in a way that is affordable and effective		To provide three waters services in a way that supports our urban and rural communities		To provide services through a model that enables a meaningful role for Māori
	To provide services that are safe, reliable and resilient		To provide three waters services that build enduring capability and capacity		To provide services through a model that has the value of water at the centre









Principles developed through consultation with the Māori committees

Shared Services Business Unit

Meets objective	 <ul style="list-style-type: none"> Retains the existing operational, technical and strategic roles in each council and community (through staff, consultants and contractors). Councils retain full control over all aspects of growth planning and infrastructure provision for their areas. Local matters can be prioritised to support growth and development.
Does not meet objective	 <ul style="list-style-type: none"> Limited savings created. the anticipated future costs of upgrading infrastructure and meeting an enhanced regulatory requirement will still have a significant impact on all the ratepayers of Hawke's Bay. The biggest impact, however, is on Central Hawke's Bay and Wairoa. Affordability challenge just increase.  <ul style="list-style-type: none"> No real change from the status quo. Increased national regulatory standards assumed to have affect and lead to better environmental outcomes. Trade-offs between investment in three waters and other services and assets will continue to have to be made.  <ul style="list-style-type: none"> Aggregation of existing resources creates some improvements but minor as no additional resources developed. Shared services structure is less robust than other options, complex and has poor track record of delivering benefits. Lack of certainty in structure likely to limit the investment that would be required to achieve real benefits.  <ul style="list-style-type: none"> No change.  <ul style="list-style-type: none"> Does not enable participation in decision making, existing roles are largely advisory.
Risks	 <ul style="list-style-type: none"> Small communities bear the risk of meeting future cost increases.  <ul style="list-style-type: none"> Improved resilience in key roles through co-location (virtually and physically) leads to some improvements in asset management and risk management processes and practices but this is minor, and risk remains.  <ul style="list-style-type: none"> Significant cost increases may affect the future growth of these areas.

Key to investment objectives and principles

	To provide three water services in a way that is affordable and effective		To provide three waters services in a way that supports our urban and rural communities		To provide services through a model that enables a meaningful role for Māori
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Principles developed through consultation with the Māori committees

Management CCO

Meets objective	 <ul style="list-style-type: none"> Regional CCO able to create greater breadth and depth of resources to improve resilience. Risk management processes and practices driven by Board (and Statement of Intent).  <ul style="list-style-type: none"> Dedicated water CCO expected to lead to better ability to meet increasing standards and bring consistency of approach across the region. Communities able to choose individual service levels (within national standards). Trade-offs between investment in three waters and other services and assets will continue to have to be made.  <ul style="list-style-type: none"> Creation of dedicated water CCO provides increased opportunity for advancement and job enrichment. No competition between the Councils for resources. Strategic capacity able to be built within the CCO and then used for benefit of all four councils. Improved resilience through co-location, dedicated three waters focus and additional resourcing.  <ul style="list-style-type: none"> Provides opportunity for co-governance and in implementing that co-design.  <ul style="list-style-type: none"> Model provides opportunity for step change and development of new structure that enables participation in decision making by Māori.
Does not meet objective	 <ul style="list-style-type: none"> Delivers operational savings through aggregation but as each council area funds capital investment it has a limited impact on affordability. Individual councils make investment decisions which may limit effectiveness.
Risks	 <ul style="list-style-type: none"> Structure must ensure that resources are not all drawn into the cities and away from the small communities.  <ul style="list-style-type: none"> Mixed points of accountability between CCO and Councils. Trade-offs between investment in three waters and other services and assets will continue to have to be made.  <ul style="list-style-type: none"> Model requires significant focus on relationships between the CCO and Councils. Requires high degree of trust to be successful.  <ul style="list-style-type: none"> Development of co-governance and co-design process will place additional pressure on resources as Councils and Māori need to participate fully.

Key to investment objectives and principles

	To provide three water services in a way that is affordable and effective		To provide three waters services in a way that supports our urban and rural communities		To provide services through a model that enables a meaningful role for Māori
	To provide services that are safe, reliable and resilient		To provide three waters services that build enduring capability and capacity		To provide services through a model that has the value of water at the centre









Principles developed through consultation with the Māori committees

Sub-national management CCO

Meets objective	 <ul style="list-style-type: none"> Large water CCO able to create even greater breadth and depth of resources to improve resilience. Risk management processes and practices driven by Board (and Statement of Intent).  <ul style="list-style-type: none"> Dedicated water CCO expected to lead to better ability to meet increasing standards and bring consistency of approach across the region. Communities able to choose individual service levels (within national standards). Trade-offs between investment in three waters and other services and assets will continue to have to be made.  <ul style="list-style-type: none"> Creation of dedicated water CCO provides increased opportunity for advancement and job enrichment. No competition between the Councils involved in the CCO for resources. Strategic capacity able to be built within the CCO and then used for benefit of all, including the four councils. Improved resilience through co-location, dedicated three waters focus and additional resourcing.  <ul style="list-style-type: none"> Provides opportunity for co-governance and in implementing that co-design.  <ul style="list-style-type: none"> Model provides opportunity for step change and development of new structure that enables participation in decision making by Māori
Does not meet objective	 <ul style="list-style-type: none"> Delivers operational savings through aggregation but as each council area funds capital investment it has a limited impact on affordability.
Risks	 <ul style="list-style-type: none"> Structure must ensure that resources are not all drawn into the cities and away from the small communities.  <ul style="list-style-type: none"> Mixed points of accountability between CCO and Councils. Trade-offs between investment in three waters and other services and assets will continue to have to be made.  <ul style="list-style-type: none"> Model requires significant focus on relationships between the CCO and Councils. Requires high degree of trust to be successful.  <ul style="list-style-type: none"> Requires involvement and engagement with Councils and Māori outside of Hawke's Bay. Development of co-governance and co-design process will place additional pressure on resources as Councils and Māori need to participate fully.

Key to investment objectives and principles

	To provide three water services in a way that is affordable and effective			To provide services through a model that enables a meaningful role for Māori
	To provide services that are safe, reliable and resilient			To provide services through a model that has the value of water at the centre









Principles developed through consultation with the Māori committees

Asset Owning CCO

Meets objective	 <ul style="list-style-type: none"> Delivers the greatest savings through scale and capacity as well as controlling the revenue stream and investment decisions. Regionalising costs has a major impact on affordability when considered at a regional level,  <ul style="list-style-type: none"> Regional CCO able to create greater breadth and depth of resources to improve resilience. Risk management processes and practices driven by Board (and Statement of Intent). Board in this model bear all statutory responsibilities for three waters.  <ul style="list-style-type: none"> Dedicated water CCO expected to lead to better ability to meet increasing standards and bring consistency of approach across the region. Communities able to choose individual service levels (within national standards).  <ul style="list-style-type: none"> Creation of dedicated water CCO provides increased opportunity for advancement and job enrichment. No competition between the Councils for resources. Strategic capacity able to be built within the CCO and then used for benefit of all four councils.  <ul style="list-style-type: none"> Provides opportunity for co-governance and in implementing that co-design.  <ul style="list-style-type: none"> Model provides opportunity for step change and development of new structure that enables participation in decision making by Māori.
Does not meet objective	
Risks	 <ul style="list-style-type: none"> Structure must ensure that resources are not all drawn into the cities and away from the small communities. CCO now has responsibility for three waters infrastructure planning and must balance delivering on local and regional growth priorities.  <ul style="list-style-type: none"> Development of co-governance and co-design process will place additional pressure on resources as Councils and Māori need to participate fully. Requires legislative changes to be fully effective.

Key to investment objectives and principles

	To provide three water services in a way that is affordable and effective		To provide three waters services in a way that supports our urban and rural communities		To provide services through a model that enables a meaningful role for Māori
	To provide services that are safe, reliable and resilient		To provide three waters services that build enduring capability and capacity		To provide services through a model that has the value of water at the centre



Principles developed through consultation with the Māori committees

Recommended option: Regional asset owning CCO

Although both CCO options have benefits, the detailed analysis in this report demonstrates that a regional asset owning CCO is a more effective service delivery model than the management CCO and best meets the review's investment objectives and principles.

- It is the option that best addresses the issue of affordability. It is also the option that best addresses the very real risk that the scale of investment required to meet new standards and community expectations is greater than forecast.
- A dedicated regional water CCO is able to concentrate on three water challenges and prioritise investment decisions across the region, leading to better environmental and community outcomes than the Councils can individually achieve.
- It would have sufficient scale to create strategic capacity and capability across the region and support the areas where that is currently lacking. Scale, strategic capacity and capability gives a level of expertise and resilience in three waters that can be applied regionally, benefitting all ratepayers of the region rather than only some as is the case now.
- The model best provides the opportunity to provide a meaningful role for Māori, including co-design and co-governance.
- A regional water CCO is able to provide improved asset management, improved management of risk, and be better placed to meet any increased compliance requirements or increased environmental standards than the Councils can individually.
- In addition to being the only model that effectively addresses affordability issues across the region, the asset owning model also maximises available operational savings for the region, ensuring that services are not only affordable, but delivered in a cost effective way.
- There will be a need to ensure that the Statement of Intent and Shareholders Agreement of the regional CCO retain an appropriate balance between the individual priorities of each council with regional priorities including planning and supporting growth.

A regional asset owning CCO would be owned collectively by Central Hawke's Bay, Hastings, Napier and Wairoa and taking into account the findings of the cultural case should be implemented using a co-governance model in partnership with Māori.

Partnering with Māori to co-design and co-govern responds directly to the principles developed in this project and the investment objective to have a model that enables a meaningful role for Māori. It builds on existing models of co-governance but does so in a way that would be designed specifically for Hawke's Bay three waters service delivery.

- A regional asset owning CCO would operate as a separate legal entity external to all four councils, with its own governance, executive, administration support, procurement strategies and operational equipment. Importantly it would also own the networks and treatment plants and deal directly with customers.
- A board of professional directors would be appointed by the shareholding Councils and Māori. The directors will have the associated duties, obligations and liabilities of company directors rather than of councillors.
- Scrutiny of the CCO would be provided by a joint committee of the combined councils and Māori. The joint committee would, amongst other responsibilities, appoint and remove the directors and provide Māori with a co-governance role.

- The CCO would co-locate staff virtually and/or physically, housing all management, administration, asset management, planning and project management staff, and the coordination of the maintenance crews and contractors. Wairoa and Central Hawke's Bay would operate as satellite offices. There would be an estimated 143 staff (including Napier City Services staff) in the CCO. This includes more than 16 additional roles than are currently directly involved in delivering and supporting the three waters across the four councils.

Over the ten year modelling period the asset owning model:

- saves \$117.4M in operating costs
- reduces capital expenditure by \$31.1M

By 2032 the asset owning CCO creates \$18M of operational savings per annum

As highlighted in **Table 3** below, by 2032 the asset owning model has \$28.3 million less debt and \$16.7 million lower annual operating costs (totalling a \$117.4 million saving in our modelling period).

In addition, it has saved \$31.1 million in capital expenditure when compared to the enhanced status quo.

Table 3 Comparison of financial performance of service delivery models

	Debt (2032) \$m	Cumulative capital spend (2032) \$m	Annual operating cost (2032) \$m
Enhanced status quo	\$316.7	\$758.5	\$131.5
Shared service business unit	\$307.5	\$749.6	\$121.7
Management CCO	\$303.1	\$745.6	\$121.9
Asset owning CCO	\$288.4	\$727.4	\$114.8

These savings translate into lower ratepayer charges and an increased ability to respond to costs arising from further regulation, new standards or unforeseen investment requirements.

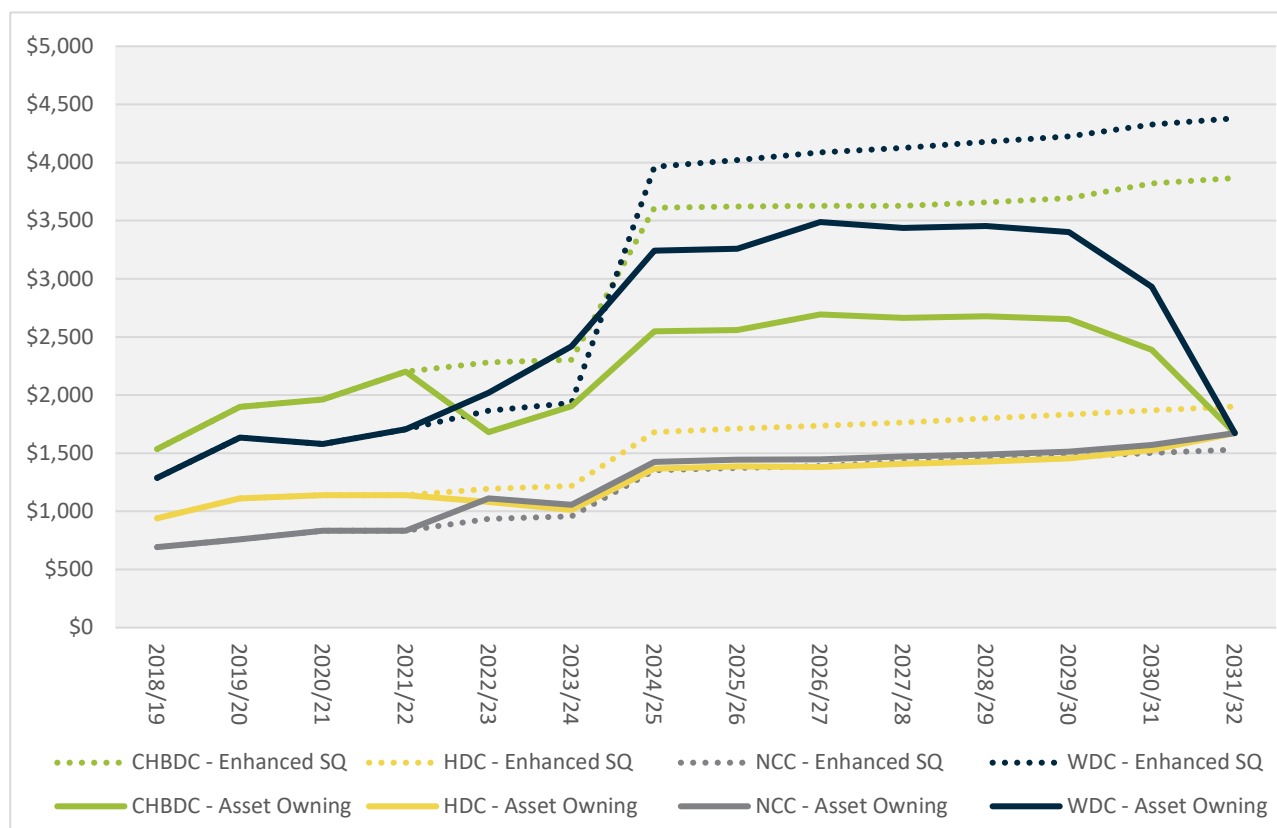
One of the challenges in adopting an asset owning CCO model that is regularly encountered in business cases and through the consultation process, is the perceived inequity that arises when councils are transferring different levels of debt or assets of varying conditions. Where this happens ratepayers may feel that they are inheriting someone else's problem.

To address this issue, we have proposed an equitable regionalisation approach where three waters charges are gradually regionalised for a period of time after the establishment of the asset owning CCO. Over that period, residents in each former council area would have charges that include a contribution based on the proportion of 'liability'⁵ each council contributes to the CCO. In our view this creates a more equitable path toward a standard regional charge. There are options for how this could work, and we have presented in **Figure 6** an approach which, in our view, is the best compromise.

The charges are compared to the projected three waters average residential rate for the enhanced status quo.

⁵ A combination of debt, future required compliance upgrades, and costs to bring assets up to the regional average condition

Figure 6 Comparison of rates impact under asset owning and enhanced status quo models



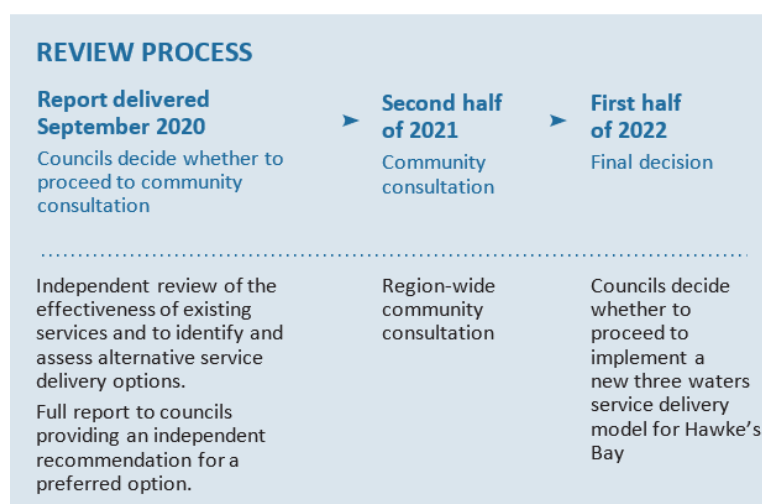
Within three years of its formation, the asset owning CCO becomes more affordable for ratepayers in Central Hawke's Bay, Hastings and Wairoa. While Napier ratepayers are not projected to have a reduced cost of three waters under the asset owning model, the difference when costs are equalised is within the range that was explored in our sensitivity testing. We explored other options for regulating costs varying both time and value, which are set out in this report.

For ratepayers in Central Hawke's Bay, Hastings and Wairoa the savings afforded by an asset owning CCO exceeds the value of stranded costs left in the respective councils. This means that the total cost of local government services is likely to be lower for ratepayers in those regions under an asset owning CCO.

The path to change

Implementation of change does not come without risks and challenges. However, the CCO model is not new in New Zealand, and water authorities are common in Australasia and internationally.

Making a change in the model for service delivery of the three waters would be significant for the Councils, their staff and their communities, and the management case set outs an outline of the next steps required.



In summary, there are two stages if the Councils choose to proceed:

- Stage 1: The key aspects of stage 1 are
 - Decision by the Councils to proceed to consultation
 - Community consultation in accordance with the Local Government Act on the options
 - Decision by Councils on whether to form a CCO
- Stage 2: The second stage, a transition process, would only occur if a decision to form a regional three waters CCO was made. That process will be determined as part of Stage 1 but is likely to take 6 – 12 months from the date of any decision by the Councils. Again, there are legislative requirements which will dictate the process and programme including councils' obligations to its employees.

Together stages 1 and 2 will form the body of a change program which has been estimated to take two to three years from now (allowing for almost a year for the LTP process to be completed) and cost in the order of \$2 - \$2.4 million to reach the point of making a decision to form a CCO, and then \$5.9 million for its actual formation.

Cost estimates for change
 Stage 1: \$2 – \$2.4M
 Stage 2: \$5.9M

These are substantial costs for any group of councils, and while ultimately the communities of Hawke's Bay will benefit, the Councils quite rightly have expectations of government support in order to make the change. At this stage, no allowance for government support is included within the modelling.

Risks

Key risks include the need for all councils to agree to the change and the high degree of community interest that will arise with the proposed change.

- Without the critical mass of all four councils there is a danger that the benefits of change will be substantially reduced or lost. That is particularly the case if Napier or Hastings were not involved.
- Equally, if there is not a regional response then it is less likely to gain the same or any degree of support from the Government.
- Water and the formation of CCOs are both politically sensitive issues for councils and the community. Combining them together will create a very high level of interest and there is likely to be significant engagement on the issues. There is a risk that other issues are brought into the conversation that detract from the key underlying issues highlighted in this report.
- The development of a co-governance model will require Councils and Māori to participate in what may be a resource intensive process.
- Uncertainty created by the potential change can and will affect existing staff. Attraction, recruitment and retention of key staff is a particular concern for the councils.

Conclusion

A change in the service delivery model to an asset owning CCO is anticipated as being able to provide improved asset management, improved management of risk and be better placed to meet any increased compliance requirements than the Councils individually can. It is expected to have sufficient scale to create strategic capacity across the region and support the areas where that is currently lacking. It provides an opportunity for a uniquely Hawke's Bay co-governance approach with Māori that delivers on the expectations expressed by the Māori committees during this review. The cultural case describes their views on how Māori can contribute in a meaningful way to this process in partnership with the councils. This recommendation holds if, through the government reform programme, a regional water entity evolves that is similar (shared ownership, asset owning, co-governance) but is created under new legislation.

A dedicated regional water CCO that has no other competing priorities is expected to support and prioritise investment decisions across the region leading to better environmental and community outcomes regionally than the Councils individually can.

Where to find important information

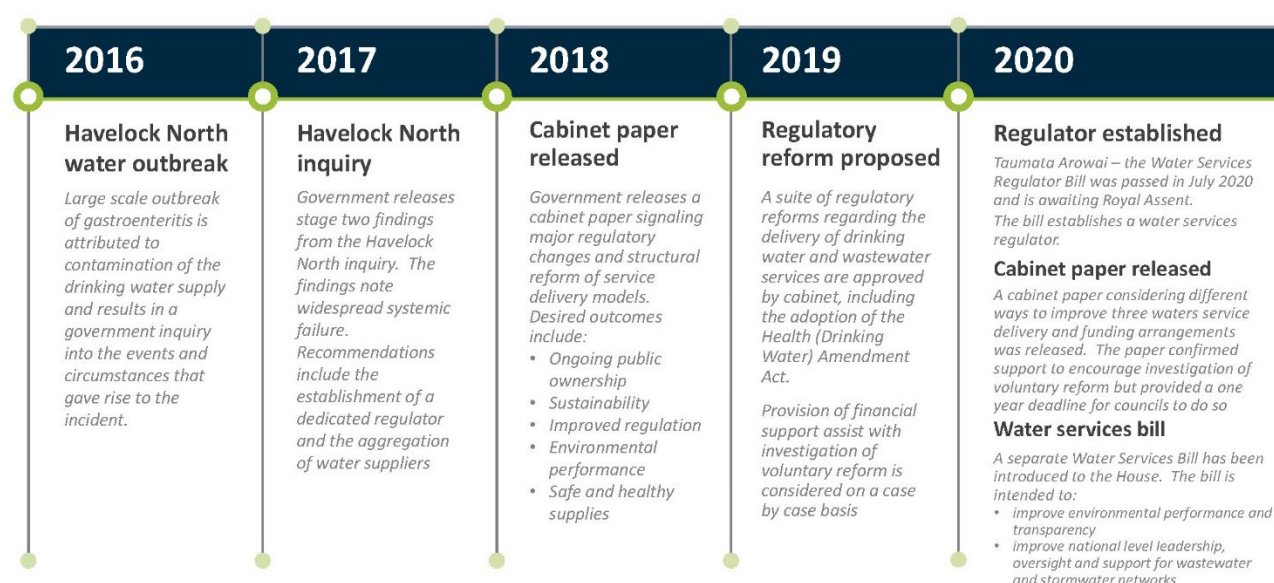
Section of the report	What it contains
Introduction (page 21)	Context for the review Methodology
Strategic Case (page 30) <i>The strategic case sets out a case for change, problem definition, investment objectives and critical success factors and in this case, to provide a cultural lens, the seven principles developed through engagement with the Māori committees.</i>	Investment objectives Current state assessment Expected changes from three waters reform Development of enhanced status quo
Cultural Case (page 53) <i>The role of this cultural case is to highlight that within the regulatory framework relating to water, Te Ao Māori, the Māori world view, through its language, genealogy, stories and traditions, requires a greater level of competency than usual.</i>	Engagement with Māori Principles
Economic Case (page 59) <i>The economic case sets out the options for change and analyses them against the investment objectives, critical success factors and in this case, to provide a cultural lens, the seven principles developed through engagement with the Māori committees.</i>	Description of options Assessment of the options using <ul style="list-style-type: none"> investment objectives principles
Commercial Case (page 88) <i>The commercial case sets out the transactions that would be required to implement any change and the impact of changes on the commercial arrangements for service delivery.</i>	Draft governance and functional structures Demonstration of how councils hold the CCO to account Examples of some co-governance models Organisational design principles for options reflecting the investment objectives and principles Impacts on each Council if regional three waters CCO is created Shareholding
Financial Case (page 123) <i>The financial case sets out the financial impact of any change and the high-level funding arrangements of the options.</i>	Costs and benefits of different options Costs for establishing each option Debt Equitable regionalisation Impacts on ratepayers Sensitivity analysis Stranded costs Financial impact on Councils
Management Case (page 150) <i>The management case sets out overall transition management and project governance arrangements for any change, high-level timing and future decision-making requirements.</i>	Next steps in process of change Cost estimates for process of change Risks of change

Introduction

National context - a timeline of reform

Following the Havelock North water contamination event of 2016, the New Zealand Government has embarked on a major programme of reform of the delivery and regulation of three waters services in New Zealand.

The major events and announcements that have taken place as part of that programme of reform are outlined in the timeline below.



The programme has, to date, resulted in:

- creation of Taumata Arowai – the Water Services regulator
- announcement of \$761M in funding to councils who agree to investigate opportunities for collaborative approaches to water service delivery with further tranches of funding potentially available
- amendments to the Health Act 1956 to remove the defence of “all practicable steps” and to mandate compliance with the standards, among other changes to improve compliance
- announcement of three year, three waters reform programme supported by a central / local government steering committee.

The Government clearly remains committed to reform of the water service delivery sector (whether voluntary or otherwise) and has also been unwavering in its key objectives in any such reform. Broadly, the Government has made it clear that any reform of water service delivery should seek to achieve the following key objectives:

- Retaining and protecting public ownership of three waters assets
- Significantly improving the safety and quality of drinking water services, and the environmental performance of wastewater and stormwater systems
- Ensuring that all New Zealanders have equitable access to affordable three waters services
- Improving the coordination of resources and unlocking strategic opportunities to consider New Zealand’s infrastructure needs at a larger scale

- Increasing the resilience of three waters service provision to both short and long-term risks and events, particularly climate change and natural hazards
- Moving the supply of three waters services to a more financially sustainable footing, and addressing the affordability and capability challenges faced by small suppliers and councils
- Improving transparency about, and accountability for, the delivery and costs of three waters services, including the ability to benchmark the performance of service providers.
- Being consistent with the objectives and operating principles of Taumata Arowai, the water services regulator
- Supporting an integrated approach to the development and management of land and water
- Providing a customer voice
- Accepting that change will have an impact on local government but limiting that impact as much as possible.

This review incorporated the aspects of the reforms known at the time of completion. It also recognises the growing expectation within the sector that the anticipated reforms will be made. As a result, the status quo option considered in this report includes estimates of future additional costs arising from changes to meet enhanced regulatory standards (known as enhanced status quo).

Taumata Arowai – the Water Services Regulator Bill

Taumata Arowai – the Water Services Regulator Bill was introduced to Parliament in December 2019. It has completed legislative passage and awaits Royal Assent.

There is a growing acknowledgement, both within Hawke’s Bay and New Zealand of the importance of tikanga Māori and the need to create a meaningful role for Māori in decisions relating to the management of water. This is reflected in recent legislation to establish Taumata Arowai, and in recent changes to the Local Government Act 2002. Taumata Arowai – the Water Services Regulator Bill includes provisions to ensure the establishment of a governance group and Māori Advisory Board.

The intent of Taumata Arowai – the Water Services Regulator Bill is to ensure that Māori interests and knowledge are embedded throughout the work of the water regulator. For example, the operating principles of Taumata Arowai include building and maintaining credibility and integrity, so that Taumata Arowai is trusted by Māori (amongst others) and partnering and engaging early and meaningfully with Māori.

One of the duties of the governance board is to ensure that Taumata Arowai maintains the systems and processes that enable it to act consistently with the principles of the Treaty of Waitangi, and to engage with Māori and understand perspectives of Māori. The board must include members that collectively have knowledge, experience and capability in the Treaty of Waitangi and its principles and the perspectives of Māori and tikanga Māori.

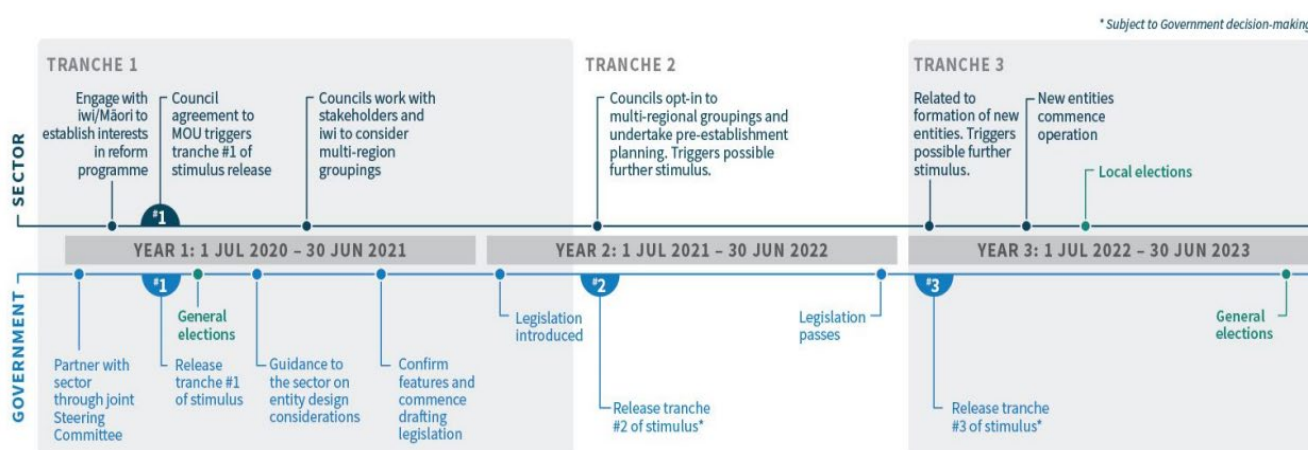
The role of the Māori Advisory Group is to advise the board on Māori interests and knowledge as they relate to the objectives, functions and operating principles of Taumata Arowai and the collective duties of the board. This includes

- developing and maintaining a framework that provides advice and guidance for Taumata Arowai on how to interpret and give effect to Te Mana o te Wai. Te Mana o te Wai can be broadly translated as the quality and vitality of water; and
- providing advice on how to enable mātauranga Māori, tikanga Māori, and kaitiakitanga to be exercised.

July 2020 Government Reform

In July 2020, the Government announced a revitalised three waters reform programme.

- The reform programme is to examine, at a minimum,
 - waters service delivery entities that are of a significant scale, are asset owning, structured as statutory entities and publicly owned
 - delivery of drinking water and wastewater services as a priority – stormwater where effective and efficient, and
 - must have mechanisms for enabling iwi/Māori communities to provide input.
- The potential size of entities will need to be considered against three principles:
 - Potential to scale benefits to consumers at a multi-regional level to ensure full benefits of scale.
 - Alignment of geographical boundaries to encompass natural communities of interest.
 - Relationship with relevant regulatory boundaries particularly to enable water to be managed from source to the sea.



The announcement provided a direction that did not exist during the preparation of this report. While at this stage the intent of the reform is clear the exact shape and timing of the reform is still uncertain. The analysis and conclusions of this report remain relevant to the intent of the reform.

Local Government Act 2002

A council-controlled organisation (CCO) is a model of regional service provision that has been effectively used by local government in New Zealand. Establishing regional or multi-regional water service CCOs is therefore a viable solution to the voluntary water reforms required by government and a formal requirement for Section 17A reviews. Government is also intent on ensuring that Māori interests and perspectives are embedded through the reforms associated with three waters.

To this end, Government has enacted several changes to the provisions relating to CCOs in the Local Government Act 2002.

The Local Government Act 2002 Amendment Act 2019 (2019 No 54), requires that:

- local authorities consider whether knowledge of tikanga Māori may be relevant for directors of the CCO (section 57(3))
- before a CCO makes a decision that may significantly affect land or a body of water, it must take into account the relationship of Māori and their culture and traditions with their ancestral water, amongst other things (section 60A).

While less directly relevant, the amendment to section 17 relating to the transfer of responsibilities (insertion of (3A)) may also have some bearing

- The terms and conditions agreed under subsection (3) must ensure effective provision for any affected co-governance or co-management arrangements that are established by legislation (including Treaty of Waitangi claim settlement legislation) and that are between local authorities and iwi or Māori organisations.

Ownership of water

The report needs to acknowledge that there are currently unresolved issues of native title in freshwater and Māori ownership over freshwater.⁶ The scope of the review is confined to the three waters services and does not therefore consider freshwater nor the ownership of freshwater itself. Having said that, the recent focus on Auckland's drinking water supply issues and Watercare's desire to take water from the Waikato River is a good example of how closely connected they are.

The purpose of this report is to compare service delivery models for the provision of drinking water, wastewater and stormwater. The impact of any resolution of freshwater ownership issues is therefore considered to be the same as resolution will be at the national level. Any organisation across New Zealand that provides three waters services will be equally impacted regardless of their structure. We do note that different options considered in this report do provide different opportunities to recognise and give effect to Treaty of Waitangi obligations and these are highlighted, but that is distinct from recognising rights in and over freshwater.

Regional context

The five councils within the Hawke's Bay Region including Central Hawke's Bay District Council, Hastings District Council, Hawke's Bay Regional Council, Napier City Council and Wairoa District Council ("the Councils") have collectively commenced this review of the three waters service delivery.

The primary objective of this review is to complete an assessment and recommendations of the current and potential delivery models for three waters in the Hawke's Bay region. It is focussed on the three waters service provided by the Councils, but in doing so needs to acknowledge the broader issues and emerging community concerns relating to water and the management of water within Hawke's Bay and more generally across the country. The review is concerned with the three waters services – drinking water, wastewater and stormwater. Issues relating to the wider management of rivers, lakes and harbours, for example, are not part of this study except to the extent that the three waters services impact on rivers, lakes and harbours.

Excluded from the scope of this study are the drainage and flood protection assets and services provided by the Regional Council. While they form part of the overall management of stormwater in the region, at this stage, they are outside the scope of the study.

This study is intended to provide the Councils with information to engage effectively with central government on the water sector reforms whatever shape those reforms take.

⁶ <https://www.stuff.co.nz/national/115362888/waitangi-tribunal-slams-crown-over-freshwater-failures-calls-for-mori-rights-to-be-recognised?rm=a>

Covid-19

During the later stages of this review the Covid-19 pandemic swept through New Zealand and the world. The impact on the review itself was relatively minor as work was able to continue regardless. However, the impact on the Councils and their communities was significant.

The Councils and the Government have played a key role in supporting communities and the economy and now in supporting and driving forward recovery. Nationally and regionally, there is pressure to both reduce the rates burden on communities and to invest to create jobs. This creates a difficult balancing act for the Councils.

Collectively the Councils grouped together to make a combined application for over \$300 million of three waters infrastructure investment to the Government, through Crown Infrastructure Partners, who sought shovel ready projects. The coordinated approach was intended to ensure that the economic recovery of the region could, in part, be driven by investment into three waters infrastructure.

Methodology

Project

An overview of the methodology for the project is set out in **Figure 7**. It follows a structured, staged process moving from current state assessment, definition of key principles, into analysis of a long and short list of options over time. The approach and then analysis are consistent with the Better Business Case approach and the requirements of Section 17A of the Local Government Act 2002.

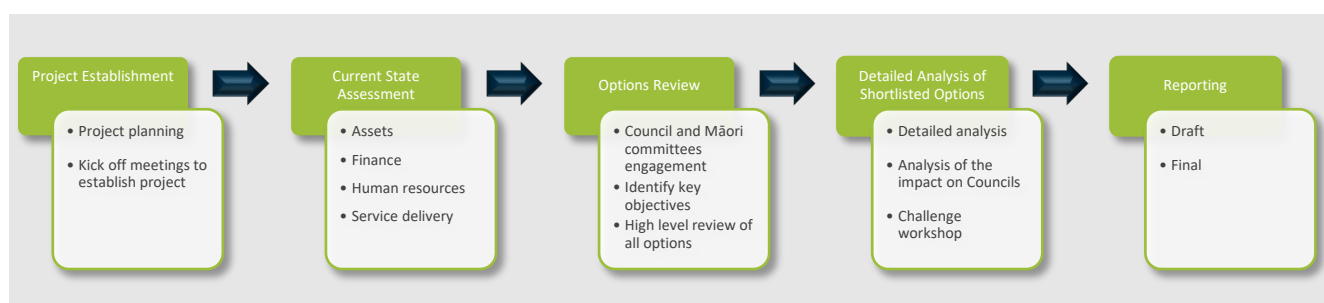
Throughout the process there was engagement with the Councils' project team as well as the Councils themselves and identified stakeholders.

The current state assessment and initial review of the options was undertaken in 2019. While the data in that current state assessment has in many cases been superseded, the current state still provides a good background and supporting evidence in the case for change. The detailed analysis stage in the review was elongated by a break during the local government elections, confirmation of a substantial financial contribution from the Government and Covid-19. The Government contribution enabled further and more detailed work to be undertaken on key elements of the review. This included a *Regional Asset Valuation and Condition Alignment* by WSP to better understand the differences and similarities in the asset information used as a base for this report and informed sensitivity analysis. It also allows for an analysis of the actual impacts on each council of potential changes in the service delivery model. The findings from this further work are included throughout this report. The WSP Report is attached as **Appendix D** and the Current State as **Appendix G**.

It is important to note that the review is intended to provide analysis of the costs and benefits of different service delivery models for three waters in Hawke's Bay. The report should therefore be seen as only the first step in a process and not an outcome in and of itself.

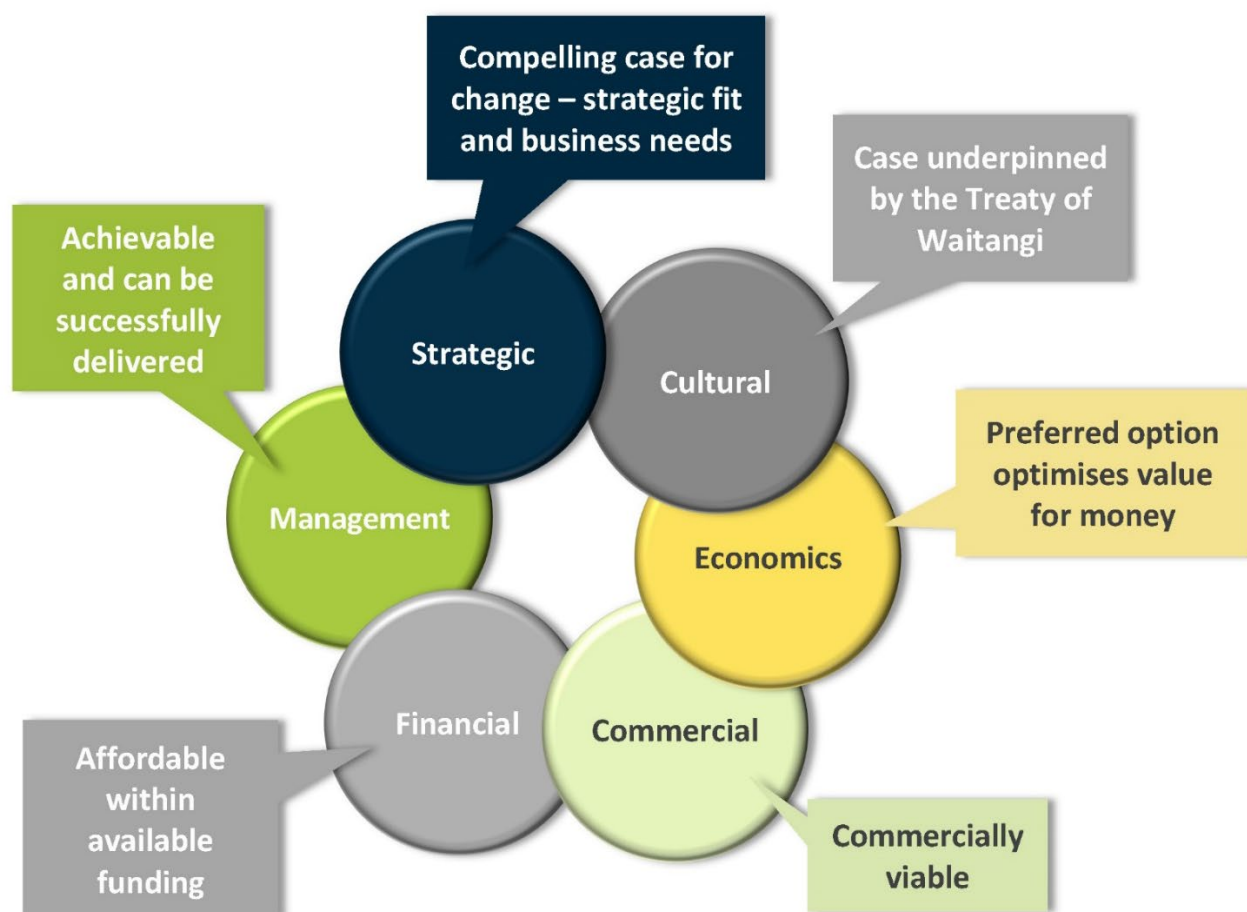
The report will need to be considered individually and collectively by the Councils, including, we anticipate, identification of the future work required to identify a preferred option and the approach to those phases of work, then engagement with the respective communities and the region as a whole before any determination by a council or the Councils is made.

Figure 7 Summary of project methodology



The review was undertaken using a modified Better Business Case (BBC) framework. This structured process ensures a wide range of factors are considered in reaching an overall recommendation. However, in this case the largely financially focused framework was supplemented by a sixth case, a cultural case, to ensure that principles developed through discussions with the Māori committees were incorporated into the assessment.

Figure 8 Treasury better business case approach



Engagement process

Council engagement

A combined workshop was held in Waipawa on 21 January 2019, with representatives from all five councils involved in the study. Chief executives, infrastructure managers, Māori advisory staff and the chairs and/or representatives from the Māori committees of each council attended the workshop.

Workshops were held with each council in late March 2019 to coincide with the conclusion of the short-listing process to provide an update on the project at that point, the current situation, identify the options that were short listed and why, along with options that were not short listed and why.

Māori engagement

The Māori engagement strategy used in this project was to meet with the existing council Māori committees of the four territorial authorities (noting that Central Hawke's Bay does not have a formal committee) as well as the Hawke's Bay Regional Council Regional Planning Committee (statutory Treaty Entity Committee) and Māori Committee. A meeting was held with Te Taiwhenua o Tamatea Inc in place of a formal committee of Central Hawke's Bay District Council. These meetings were held around Hawke's Bay in February 2019.

Out of the meetings with the Māori committees, a set of principles was developed. These principles were then used to inform development of the investment objectives. Investment objectives lie at the heart of the Better Business Case approach.

A further session held in April of 2020 with the chairs of the Māori committees confirmed the principles and led to an assessment in this report of how the options incorporate or respond to these principles. It was through discussion intended to be about assessing the shortlisted options against the investment objectives and in particular the objective of *enabling a meaningful role for Māori*, that the chairs articulated that a meaningful role for Māori starts with co-design of the model. The outcomes of the hui are discussed in the strategic case.

Wider engagement

Extensive engagement with the Councils and the community, should the project proceed, is programmed to take place once a preferred option or options are identified.

A communication and engagement strategy for engaging with the communities of Hawke's Bay has been developed, and implementation of this, should the project proceed, will be funded from the government financial contribution.

Clarifications

Council areas considered by the review

While parts of the Rangitikei and Taupō District Councils are within the Hawke's Bay Regional Council area, those areas are not within the scope of this study.

Financial data

Financial data is based on three years of budget information provided by each council, and updated 2018 long term plan projections for the years beyond that. The original figures were updated through the 2019/20 annual planning process, the 2020/21 annual planning process, Covid-19 and application for funding from the Crown Infrastructure Partners led programme of "shovel ready" projects to support the economic recovery post Covid-19. All of which took place over the course of this project.

Figures used in this report may therefore differ from the published 2018 LTP, annual reports and annual plans.

DIA performance measures

Department of Internal Affairs (DIA) requires all councils in New Zealand to report against mandatory non-financial performance measures. These measures have been used in this report, with the 2017/18 results reported in the current state assessment (**Appendix G**) and the 2018/19 results separately in **Appendix H**. However, we note that while the measures themselves are mandatory, each council may set its own targets.

This means that although, for example, all councils may meet a particular measure, their performance can be quite different. This also means that the most useful comparison requires analysis of both the target and the actual performance.

The Water NZ annual performance review has also been used for comparative purposes.

Asset condition

While each council reports condition data based on the same scale of 1 – 5, we acknowledge that each council has its own approach to determining the actual condition of its assets. It is noted that the amount of unknown asset condition information that was reported may also skew the results. A comparison between the respective conditions of the Councils' three waters assets should only therefore be treated as indicative. We note that during WSP's 2020 regional asset valuation and condition alignment review they found such significant variation as to consider that a comparative analysis based on the raw data was not possible. WSP developed an approach to provide a comparison and this has been used as part of the sensitivity analysis.

Supporting legislation

This report assumes that, as advised by DIA, certain legislative changes to support the efficient and effective operation of a regional water CCO would be made to the Local Government Act 2002 if a regional water CCO was formed in Hawke's Bay. Essentially these changes would put a regional water CCO in the same position as a council and Watercare. Key provisions would relate to an ability to plan, charge and recover development contributions, exemption from income tax, access to land etc. Similar provisions were part of a Local Government Act 2002 Amendment Bill in 2016 that was never passed into legislation.

Regional approach

The analysis in this report assumes that any new model is adopted by all four of the councils. If one or more of the councils did not proceed then the likely costs and benefits (financial and non-financial) would be different from that set out in this report.