



MIN038

To: Mayors / Chair  
cc: Chief executives

Dear Mayor / Chair

## Financial sustainability of water services

I am writing to underline the importance of financial sustainability requirements and the new economic regulation regime under Local Water Done Well. I also want to take this opportunity to acknowledge the work you are doing to implement Local Water Done Well in your local area, and to set out our next steps in the months ahead.

I understand your council has indicated a preference in your consultation materials for a multi-council council-controlled organisation (CCO) model for delivering water services for your community.

Delivery of financially sustainable water services sits at the core of Local Water Done Well, and it will form the basis for how the Department of Internal Affairs will assess Water Services Delivery Plans (Plans).

As the economic regulator, the Commerce Commission will also play a key role in ensuring water services providers collect sufficient revenue and invest sufficiently in quality water infrastructure and services on an ongoing basis.

With the Local Water Done Well framework, tools and guidance largely in place, it is now up to you to consider your options, work with other councils, and make the decisions required to ensure clean, safe, reliable, and financially sustainable water services for your community.

I recognise these are challenging conversations, and I back the efforts you are making to get water services right for your community now and for future generations.

## Assessing financial sustainability

Water Services Delivery Plans provide a framework for councils to assess the financial sustainability of their water services and chart a course for improvement.

The Local Government (Water Services Preliminary Arrangements) Act 2024 sets out the Plan requirements, including that Plans must explain what a council proposes to do to ensure that the delivery of water services will be financially sustainable from 1 June 2028.

While the Department will be providing further guidance to councils about the Plan assessment process later this month, there are a couple of key areas I wanted to emphasise in relation to financial sustainability at this stage in your Plan development:

- **Meeting financial sustainability requirements and working together.** The Act defines financial sustainability as ensuring revenues are sufficient to fund long-term investment in water services and meet all regulatory requirements.

I have been clear in my expectation that council should be working together to address financial sustainability challenges, as you are already actively doing.

In particular, I expect councils to be actively considering working with and supporting their neighbouring councils, especially smaller and rural councils, particularly given there is no requirement for price harmonisation under Local Water Done Well.

As you'll be aware, collaboration enables resource sharing, efficiency gains, better access to financing, and lower costs for ratepayers. Having a pipeline of future work across a region also provides greater investment certainty, and the potential to build a strong future workforce.

- **Long-term thinking and solutions.** While Plans must cover a 10-year period, they can also include information that covers a further 20 years if the information identifies investment requirements for water services infrastructure or to support future housing growth and urban development. Councils should be planning and making decisions with an enduring focus on financial sustainability, with these outcomes in mind.
- **Efficiency of water use and demand management through usage-based charging.** The Local Government (Water Services) Bill provides a five-year timeframe to transition away from using property values as a factor in setting water charges, to new charging mechanisms such as water metering and volumetric charging.

Water metering and volumetric charging can help reduce water consumption, assist in quick identification of leaks and help manage water losses, which supports the ongoing efficiency and effectiveness of water infrastructure. Councils should be considering these tools (where they are not already in place) as part of their future arrangements.

Under the economic regulation regime, over time the Commerce Commission will also be able to consider whether prices are efficient. Including, for example, whether prices reflect the cost of providing services and whether providers are using water resources efficiently.

### **Economic regulation regime for water services**

As you progress your Plan, it is important to keep in mind that the entities that make core decisions on water supply and wastewater services will be subject to economic regulation under the Commerce Act 1986. These decisions include those relating to the level of charges or revenue recovery and/or capital and operating expenditure.

As a minimum, all regulated suppliers (councils and water organisations) that have responsibility for these core decisions will be subject to information disclosure. This means the Commerce Commission will require regulated suppliers to publish robust information about the planning, investment, and performance of their water supply and wastewater services.

The Commission will also publish a summary and analysis of that information, to promote greater understanding of the performance of individual regulated suppliers, including their relative performance compared with other providers, and changes in performance over time.

The Local Government (Water Services) Bill also gives the Commission other regulatory tools that they will be able to implement as needed. This includes the ability to set minimum and maximum revenue thresholds, providing a clear expectation to regulated suppliers about what level of revenue needs to be collected for investment in, and operation of, water infrastructure. The Commission will also monitor and enforce the requirement that revenue from regulated water services is spent on regulated water services (financial ringfence).

Where it is considered necessary, the Bill contains a designation process whereby the Commission may be given the power to implement quality regulation, performance requirement regulation, and price-quality regulation for specific suppliers.

I am encouraging all councils to consider the implications of the new economic regulation regime as you are making decisions on your future water services delivery arrangements. I have asked the Commission to engage closely with councils to provide information about the new regime. Please contact the Department if you would like them to facilitate a meeting if you have not done so already.

### **Next steps and support available**

I want to maintain the momentum as we approach the 3 September deadline for submission of Plans. The Department will be ready to accept early submission of Plans by councils that are able to. Please keep this in mind in your planning.

I do not intend to grant extensions to the deadline for submitting Plans given the progress made so far, and various avenues of support that have been and continue to be available. Where a Plan is not submitted on time, I will be considering using my powers under legislation to intervene, such as by appointing a Crown water services specialist.

If you feel you may need additional support to enable you to resolve challenges and ensure progress with your Plan, Crown facilitators continue to be available. Crown facilitators are a key part of our approach and councils shouldn't be reluctant about requesting their support. A Crown facilitator can provide tailored guidance, facilitate collaboration among councils, or assist with joint planning efforts.

My officials also continue to be available to answer questions or provide technical support. I encourage you to get in touch with the Water Services Delivery Plan team at [wsdp@dia.govt.nz](mailto:wsdp@dia.govt.nz) if they can be of assistance to you.

I look forward to seeing continued progress on your plans for future delivery of water services and commend your efforts to support this critical future thinking while continuing to maintain your business-as-usual water services maintenance and ongoing activities.

Thank you for your continued engagement and support as we work to implement Local Water Done Well. You may wish to share this correspondence with your elected members.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Simon', with a stylized flourish at the end.

Hon Simon Watts  
**Minister of Local Government**