



January 2026

LOCAL WATER DONE WELL

Guidance: Planning, reporting, and accountability for water organisations and their shareholders

This guidance provides information about the planning, reporting, and accountability framework that applies to water organisations and shareholders under the Local Government (Water Services) Act 2025 (the Act).

It is part of a package of factsheets and guidance material relating to the Act and the associated Local Government (Water Services) (Repeals and Amendments) Act 2025.

Together, the Local Government (Water Services) Act 2025 and the Local Government (Water Services) (Repeals and Amendments) Act 2025 set out the enduring settings for the new water services system. They are the third tranche of legislation in the Government's three-stage process for implementing Local Water Done Well.

This guidance informs water service providers¹ that are water organisations – and their shareholders – about the planning, reporting, and accountability framework that applies to them under the Local Government (Water Services) Act 2025 (the Act), and the key features of this framework. In particular, it explains:

- How the accountability framework in the Act is designed and intended to operate for water organisations and shareholders.
- The planning, reporting, and performance cycle that underpins the accountability framework, and the roles and responsibilities of water organisations and shareholders.
- The purpose, content, and processes associated with each of the key planning and reporting documents for water organisations, and related matters – covering:
 - statement of expectations;
 - water services strategy;
 - water services annual budget;
 - water services annual report;
 - additional documents and performance monitoring requirements;
 - significance and engagement policies.

¹ Water service providers is a term used in the Act that includes council providers and water organisations (including water services council-controlled organisations that became water organisations when the new legislation was enacted).

- Intersections with related areas of the Local Government Act 2002 (LGA02) that will be relevant to council shareholders.
- Timeframes and transitional provisions – including the timing of the first water services strategy and water services annual report.

This document applies where a water organisation is the water service provider, and is largely focused on situations where the organisation has one or more council shareholders (rather than shareholders that are trustees of a consumer trust). A separate guidance document has been prepared to explain the planning and reporting requirements that apply when a council is the water service provider.

Accountability framework for water organisations and council shareholders

Overview

Part 4 of the Act provides a comprehensive new planning and reporting framework for water services. This has been designed for the new water service delivery arrangements provided for in the Act, and to support and enable other aspects of the Act and new water services system. These include the objectives and financial principles (in sections 17 and 18), the ability to transfer water service responsibilities to water organisations, and the new economic regulation regime for water services in the Commerce Act 1986.

In particular, Part 4 of the Act supports the accountability framework that applies to water organisations and their shareholders. Accountabilities and responsibilities under the Act are as follows:

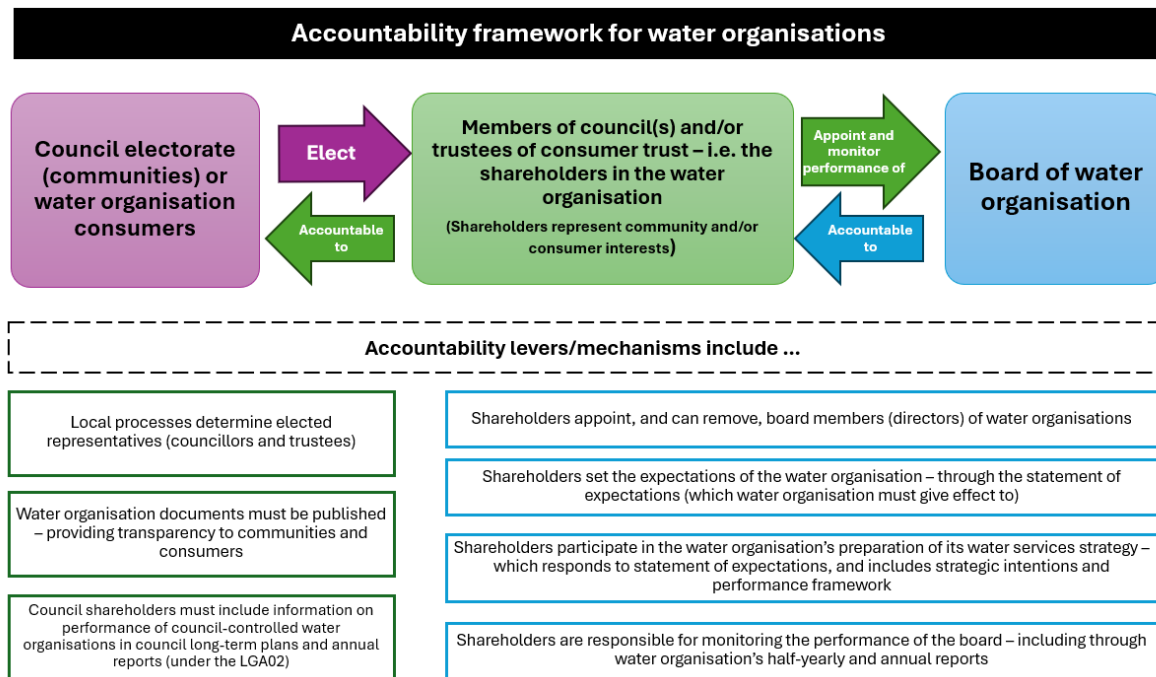
- **Councils** are directly accountable to communities, in accordance with the broader local government legislative framework.² Members are elected by these communities.
- Each **council** is responsible for ensuring water services are provided in its district in accordance with the Act, but may establish and/or become a shareholder in water organisations and discharge its responsibility by entering into a transfer agreement with a water organisation. Where this occurs, the **water organisation** becomes the water service provider for the water services that have been transferred.
- In the case of the **Auckland water organisation**³ (Watercare), the accountability framework is the same, but its responsibilities for water supply and wastewater services are provided for in the Local Government (Auckland Council) Act 2009, rather than a transfer agreement.

² This Act is part of a broader suite of local government legislation, including the Local Government Act 2002, Local Government (Rating) Act 2002, Local Electoral Act 2001, and Local Government (Auckland Council) Act 2009.

³ As defined in section 4 of the Act.

- Water organisations** are accountable for their performance to their council shareholders (or trustees in a consumer trust, if applicable). Shareholders hold the accountability levers – such as by appointing and removing the board of the water organisation, and monitoring its performance. Shareholders are accountable to the communities and/or consumers who elect them, and represent their interests.

The key features of this framework are illustrated in the diagram below.



As shareholders in water organisations, **councils** continue to be subject to the general local government legislative framework. Although the Act includes provisions that apply in addition to, or instead of, some of the usual provisions in the LGA02, this does not affect the basic premise of local government accountability to communities (except in situations where trustees in a consumer trust are the sole shareholders in a water organisation⁴).

Overview of the planning and reporting cycle for water organisations

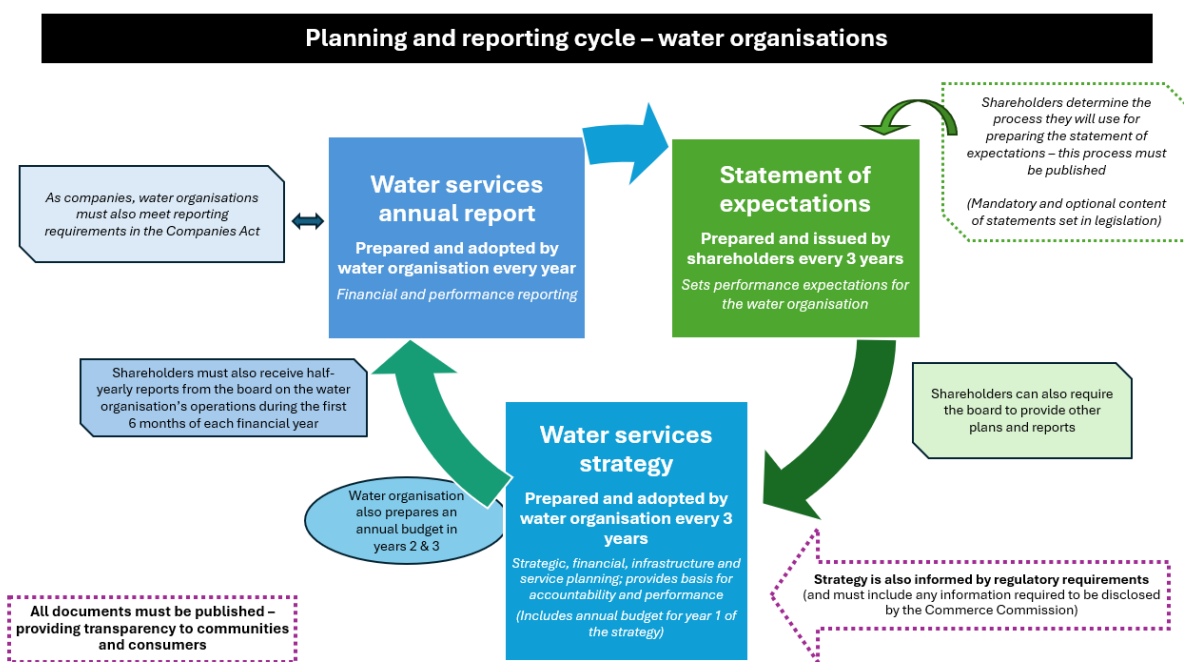
Part 4 of the Act includes requirements for several planning and reporting documents for the water services provided by a water organisation. These documents provide a transparent basis for a continuous cycle of planning and performance for the water organisation – supporting the organisation's accountability to its shareholders, and shareholders' accountability to their communities.

This planning and reporting framework includes responsibilities for **water organisations**, and their **shareholders**.

⁴ The Act enables councils to establish consumer trusts to be shareholders in a water organisation – either jointly with council shareholders or as sole owners/shareholders. The trustees of a consumer trust are elected by the water organisation's consumers.

- **Shareholders** prepare/adopt the statement of expectations for the water organisation. During this process, the **water organisation** must have an opportunity to review and provide comments on a draft of this statement. Water organisations must give effect to the statement of expectations.
- **Water organisations** prepare/adopt the water services strategy, water services annual budget, and water services annual report – but there are also roles for **shareholders** in these processes.

The planning and reporting cycle, and the main documents it comprises, are illustrated in the diagram below. The publication requirements for each document are set out in section 223 of the Act.



Links with Local Government Act documents

For **water organisations**, the documents set out in Part 4 of the Act are required instead of the plans and reports that are ordinarily required for council-controlled organisations (CCOs) under Part 5 of the LGA02.⁵ For Watercare, there is also an effect on certain provisions in the Local Government (Auckland Council) Act 2009 that apply to Auckland Council's substantive CCOs.⁶

⁵ The documents in Part 4 of the Act replace the CCO statement of expectations, statement of intent, annual report, half-yearly or quarterly reports, and other matters provided for in sections 64 to 69 and Schedule 8 of the LGA02, which must not be prepared for/by water organisations. This is clarified in section 221 of the Act.

⁶ Section 91 of the Local Government (Auckland Council) Act, which enables Auckland Council to impose additional accountability requirements on substantive council-controlled organisations, does not apply with respect to Watercare. This reflects that, as a water organisation, Watercare will not have the statement of intent referred to in section 91, and that many of the matters covered in that section will be in the water services strategy. Auckland Council will be able to use the statement of expectations to set any additional expectations.

As is also the case for council water service providers, the Part 4 documents apply instead of there being extensive information about water services in long-term plans, annual plans, infrastructure strategies, and annual reports under Part 6 of the LGA02.

However, **council shareholders** will need to include information about the water organisation itself in their long-term plans and annual reports prepared under the LGA02.⁷

For example, the long-term plan must identify:

- the council's significant policies and objectives in relation to ownership and control of the organisation;
- the nature and scope of the activities to be provided by the organisation; and
- the key performance targets and other measures by which performance is to be judged.

The council's annual report then reports on these matters – including a comparison between actual performance and the key performance targets and other measures set out in the long-term plan. The annual report would also include audited consolidated financial statements for the financial year.

What happens if not all water services have been transferred to a water organisation?

Councils may have decided to retain some water services (such as stormwater services), or aspects of a water service (such as a small, rural water supply scheme) – meaning they continue to be the water service provider with respect to these services.

In most cases, the **council**⁸ will need to prepare/adopt a water services strategy, water services annual budget, and water services annual report covering the services it has retained. This would apply if a council was providing stormwater services, for example (either directly or through a contract⁹ for services with a water organisation or other third party).

However, these documents are not required if the council is only responsible for a “minor aspect” of a water service.

The Act clarifies that a council that is responsible for providing only a minor aspect of a water service that is not connected to a water supply network, wastewater network, or stormwater network that is provided by another water service provider:

⁷ Clauses 7 and 28 of Schedule 10 of the LGA02.

⁸ Note that most of the references in the Act are to territorial authorities – but these also apply to regional councils where relevant (see section 43 of the Act for application and exceptions). In this guidance document, we have used the generic term ‘council’ for simplicity, but the Act is more specific.

⁹ Instead of transferring responsibilities for stormwater services to a water organisation, a council may decide to enter into a contract with the organisation with respect to some or all of those services. If there is a contractual arrangement, the water organisation is not the “water service provider” and does not have the associated responsibilities or powers (such as the ability to charge consumers).

- need not prepare and adopt a water services strategy, a water services annual budget, or a water services annual report in respect of the minor aspect of the water service; but
- if it does not prepare and adopt all of those documents under Part 4 of this Act, the council must include information relevant to the minor aspect of the water service in its planning and reporting documents prepared under Part 6 of the LGA02, with appropriate modifications to reflect the minor nature of the aspect of the water service that it provides.¹⁰

Examples of a minor aspect of a water service include wastewater services for a community facility, such as a campground, that is not connected to a wastewater network; and a water supply for a small number of rural homes that are not connected to a water supply network.

Statement of expectations¹¹

Purpose, process, and timing

The statement of expectations is a critical document for shareholders in a water organisation. Its purpose is to:

- set out the shareholders' expectations of the water organisation; and
- inform and guide the decisions and actions of the water organisation, and the organisation's preparation of its water services strategy.

Shareholders are required to prepare and adopt a statement of expectations, and provide it to the water organisation at least **six months** before the organisation is required to prepare its water services strategy. A longer period may also be agreed between the shareholders and the organisation.

This means the preparation of the statement of expectations is on a three-yearly cycle – to inform the water services strategy. Like the strategy, the statement must relate to a period of at least 10 consecutive financial years.

Subject to the content requirements described below, there is flexibility for shareholders about how they wish to utilise this document. It will be up to shareholders to determine the nature and extent of any updates/amendments needed to a statement of expectations. For example, it may be the case that shareholders are sufficiently satisfied with the expectations they have set in the initial statement, and subsequent iterations do not involve substantial changes. This would help to provide consistency to the water organisation.

¹⁰ Section 219 of the Act.

¹¹ The information provided in this part of the guidance document reflects provisions in sections 224 to 229 of the Act, and aspects of the policy intent that informed these provisions.

Shareholders can only provide one statement of expectations to a water organisation at any time, and must publish the process they will follow to prepare each statement. The intent of these requirements is to ensure:

- a water organisation is not receiving multiple statements – for example, in situations where it has more than one shareholder, it cannot receive a statement from each shareholder;
- shareholders have agreed a process they will follow to collaboratively prepare each statement, and there is transparency – for the water organisation and the public – about this process.

As noted above, the process to prepare a statement of expectations must allow for water organisation input. **Shareholders** are required to:

- provide a draft of the statement to the **water organisation**;
- give the water organisation a reasonable opportunity to review the draft statement and provide comments; and
- consider any comments provided by the water organisation before finalising the statement.

The Act does not include any requirements for shareholders to consult communities when preparing a statement of expectations. However, **council shareholders** should consider any relevant obligations in their significance and engagement policies and the LGA02. Further details on significance and engagement policies are provided later in this guidance document.

Content

The statement of expectations is the primary way for shareholders to provide direction to their water organisation, and is a core mechanism for transparency and accountability – between the shareholders and the organisation, and between shareholders and their communities/consumers.

This is reflected in the purpose of the statement – to set out shareholders’ expectations of the water organisation – and in the content requirements. In particular, the statement of expectations **must** include “the outcomes that the shareholders expect the water organisation to achieve by providing water services”.

The statement **may** also include “performance indicators and measures that the shareholders may use to monitor the water organisation”. Note that these indicators and measures relate to the performance of the organisation itself – not the water services it provides. There are separate provisions for levels of service, performance measures and targets for the water services in the content of the water services strategy.

The mandatory content of the statement of expectations also reflects that it is an important document for managing the intersections between the water organisation’s role as a water service provider and the wider context in which council shareholders operate. For example, the statement **must** include:

- requirements relating to the council's resource management planning and land use planning that are relevant to the water organisation's service area; and
- a requirement that the water organisation must act in accordance with any relevant statutory obligation that applies to a shareholding council.

The statement **may** also include matters such as:

- a requirement that the water organisation act in accordance with an obligation that a shareholding council may have with a third party (including with hapū, iwi, or other Māori organisations) under a contract or other agreement;
- how the shareholders require the water organisation to conduct its relationships with the shareholders; the shareholders' communities or any specified stakeholders within those communities; hapū, iwi, and other Māori organisations; and/or consumers in the water organisation's service area;
- expectations in relation to collaborating with the shareholders and other parties when providing water services.

In addition, there are connections between the statement of expectations and other water organisation planning and reporting documents. The statement:

- **must** describe the information that the water organisation must include in its water services half-yearly report (under section 248 of the Act);
- **may** include expectations relating to the strategic priorities to be included in the water organisation's water services strategy; and
- **may** include a requirement that part or all of the water organisation's water services strategy be independently reviewed or audited (noting that this is not a legislative requirement otherwise – except as provided for under section 239(1)(a) of the Act).

Furthermore, for **council shareholders** there is a connection between the statement of expectations and the assessments of communities' access to drinking water, wastewater, and stormwater services that councils must conduct under sections 69 and 71 of the Act.

If a council is a shareholder in a water organisation, it is required to consider the findings and implications of these assessments in relation to the statement of expectations. The intent is that relevant matters would be included in this statement – for example, where shareholders have an expectation that the water organisation will address certain findings from an assessment in its water services strategy.

These assessments must be undertaken every three years, and completed at least a year before the water services strategy is adopted. The assessments have a broader scope than just the services that are provided by a council or water organisation, and cover all communities throughout a council's district (except drinking water domestic self-suppliers).¹²

¹² Section 68 provides definitions for the provisions relating to these assessments. Similar provisions were previously located in the LGA02. The first assessment of drinking water services must be completed by 1 July 2026 (the date that had previously been in the LGA02). The first assessment of wastewater and stormwater services must be completed by 1 July 2029.

Flexibility and constraints

Other than the relatively limited mandatory content requirements, there is **considerable flexibility for shareholders** to determine what to include in their statement of expectations. There is also the scope to have different expectations that apply to different parts of the water organisation's service area – which may be desirable in situations where there are multiple council shareholders, for example.

A statement may contain a matter that applies:

- to all or a specified part of the water organisation's service area (for example, a matter that applies only to a council's district);
- to all or a specified part of the water services provided by the water organisation (for example, a matter that applies only to wastewater).

There are some **limitations** on this flexibility, though, and it works in connection with other core documents that apply to the water organisation (foundation documents and transfer agreements).

A statement of expectations must be consistent with:

- all legislative obligations that apply to the water organisation;
- the water organisation's foundation documents – these being its constitution (or all rules and other documents that establish or govern the water organisation, if it does not have a constitution), and the shareholders' agreement (if there is more than one shareholder);¹³
- the water organisation's responsibilities, as specified in a transfer agreement (or in the case of Watercare, its statutory responsibilities for providing water supply services and wastewater services).

If a water organisation receives a statement of expectations that is inconsistent with a direction or requirement imposed by a regulator, the regulator's direction or requirement prevails to the extent of the inconsistency.¹⁴

In addition, unless the water organisation's foundation documents provide otherwise, a statement of expectations must not include any requirements or expectations that:

- relate to the water organisation's performance or exercise of a duty, function, or power under this Act; or
- require the water organisation to perform, or not to perform, a specified act, or to achieve a specified result, in relation to a specified person or persons.¹⁵

¹³ These are the foundation documents that must be prepared when a water organisation is established – see section 44(4) of the Act, and the definition of foundation documents in section 4.

¹⁴ The regulators referred to in section 229 of the Act are the Commerce Commission, Water Services Authority, and the regional council or unitary authority in whose region the water organisation is providing water services.

¹⁵ Section 228 of the Act.

The general intent of these provisions is to limit the ability of shareholders to interfere in operational matters – because overseeing those matters is the responsibility of the board.

Finally, if a water organisation is financially independent of its shareholders, the statement of expectations must not include any requirements or expectations that would compromise that financial independence.¹⁶

Water services strategies

Overview

Water services strategies are the core planning and accountability document for water organisations.

As a water service provider, each water organisation must prepare a water services strategy, and have a strategy in place at all times.

A water services strategy:

- must be adopted before the start of the first financial year to which it relates;
- comes into force on the first day of the first financial year to which the strategy relates;
- continues in force until the end of the third consecutive financial year to which it relates; and
- must relate to a period of at least 10 consecutive financial years or such other period as is specified in Part 4 or Schedule 3 of the Act.

The Act also contains specific provisions that apply to the water services strategy for a new water organisation, and transitional arrangements for the timing of the first strategies. These matters are described at the end of this document.

Each strategy incorporates several components – strategic, operational, and financial – and presents this information in a single, integrated document. It also covers multiple time horizons, with:

- pricing/charging and budgetary information for a three-year period;
- financial forecasting information over a 10-year period;
- long-range infrastructure and investment information, over at least 30 years.

Effect of adopting a water services strategy

The Act clarifies that the effect of a water services strategy adopted by a water service provider is to provide a formal and public statement of the provider's intentions in relation to the matters covered by the strategy.

¹⁶ Section 228 of the Act.

However, a resolution to adopt a water strategy does not constitute a decision to act on any specific matter included in the strategy. No person is entitled to require a water service provider to implement the provisions of a strategy.

This approach is similar to the approach taken in the LGA02, regarding the effect of adopting a long-term plan.

Under section 233 of the Act, a water organisation may make a decision that is inconsistent with the contents of its water services strategy – except decisions to set a charge under section 86 of the Act.¹⁷

The Act deals with inconsistent decisions by a water organisation in a similar manner to the provisions that apply to councils under the LGA02.

If a decision of a water organisation is significantly inconsistent with, or is anticipated to have consequences that will be significantly inconsistent with, the organisation's water services strategy, the organisation must, when making the decision, clearly identify:

- the inconsistency;
- the reasons for the inconsistency; and
- any intention of the water organisation to amend the water services strategy to accommodate the decision.

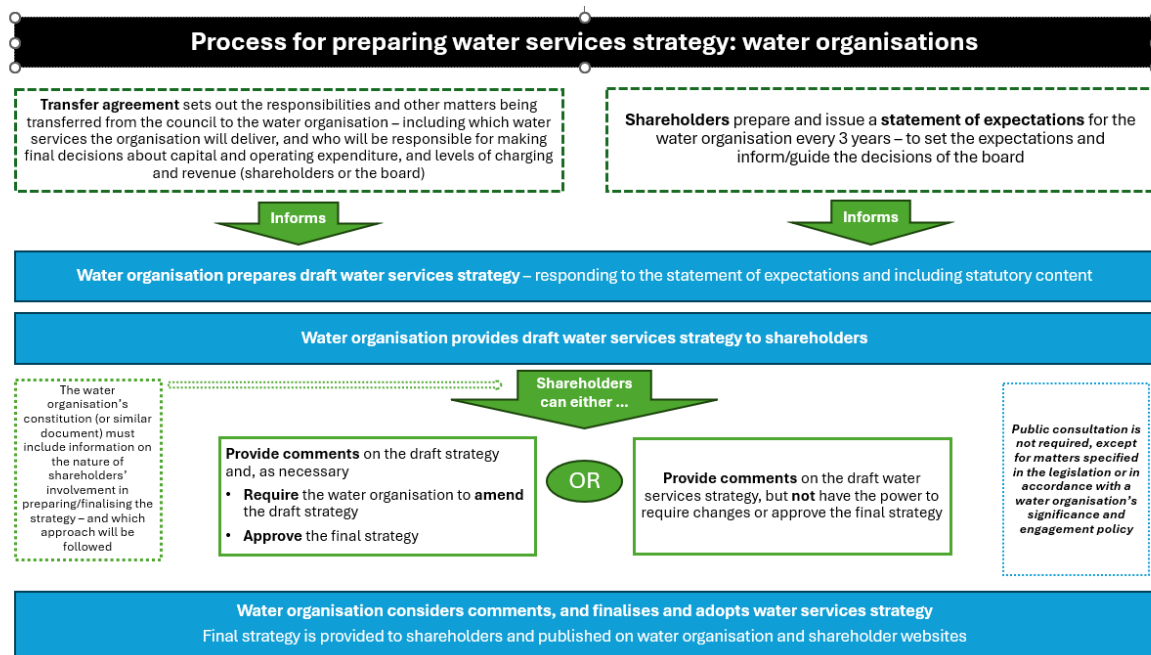
Process for preparing water services strategies

Water services strategies are prepared by water organisations with respect to the water services they are responsible for providing – as set out in a transfer agreement.

Part 4 of the Act includes requirements relating to the processes for preparing water services strategies. There are different processes for water service providers that are councils and water organisations. These differences reflect the accountability arrangements that apply – with councils being directly accountable to communities, and water organisations being accountable to their shareholders (who are accountable to communities and consumers).

The diagram and information below explain the processes to be followed by water organisations and their shareholders, and the relationship with other documents.

¹⁷ Under section 86, charges must be set in accordance with the water organisation's water services strategy. Under clause 5 of Schedule 3, the strategy must include the intended approach to pricing and charging for the first three financial years to which the strategy relates, along with the intended schedule of prices and charges, and supporting methodologies.



Water organisations are required to:

- prepare a draft water services strategy in accordance with Part 4 of the Act and their significance and engagement policies (prepared under Part 2 of the Act – and referred to later in this guidance); and
- provide the draft strategy to shareholders for comment.

The Act requires that **shareholders** of the water organisation must determine the nature of their involvement in preparing and finalising the water services strategy, including whether the shareholders will be able to, as necessary:

- provide comments on the draft strategy, require the water organisation to amend the draft strategy, and/or approve the final strategy; or
- provide comments on the draft water services strategy, but not have the power to require changes or approve the final strategy.¹⁸

The **shareholders** of the water organisation must ensure information on the nature of their involvement in preparing and finalising the water services strategy is included in the water organisation’s foundation documents.¹⁹

In addition, as required by clause 9 of the Schedule 3 of the Act, the **water organisation’s water services strategy** must include:

- a summary of any comments provided by shareholders on a draft of the strategy;

¹⁸ If a council shareholder is able to approve the final strategy, it must comply with the decision-making requirements in the LGA02 when doing so. The responsible decision makers for revenue and charging must be specified in the water organisation’s transfer agreement – as required by Schedule 2 of the Act. Who the final decision maker is in relation to “approving” certain aspects of the strategy may have implications for who is considered to be the regulated party under the Commerce Act.

¹⁹ The foundation documents include the constitution, or any other rules or other documents that establish or govern the water organisation, and the shareholders’ agreement (if there is more than one shareholder).

- an explanation of any significant changes that shareholders required the organisation to make to the draft strategy; and
- a statement as to whether shareholders approved the final water services strategy.

Additional considerations for shareholders when determining their involvement in the water services strategy

Shareholders should give careful consideration to the implications of an approach that enables them to do more than comment on the draft strategy. Approving the final strategy and/or requiring changes to the draft strategy could mean shareholding councils are “decision-makers” in relation to critical aspects of the strategy – including with regard to the factors below.

This is an important consideration because other parts of the legislation set out specific requirements relating to who holds the final decision-making responsibilities about certain matters that are part of the mandatory content of a water services strategy – these being:

- the water organisation’s capital expenditure and operating expenditure for the water services it provides;
- the water organisation’s level of charges and revenue recovery for the water services it provides.

The water organisation’s transfer agreement must set out whether the board of the organisation or the council shareholder(s) will be responsible for making decisions about the above matters.²⁰

If a transfer agreement specifies that the council will be responsible for making any final decision relating to the matters described above, the practical implications of that approach must be explained in the transfer agreement or the water organisation’s foundation documents. This must include an explanation of:

- the implications for the council and the water organisation;
- the implications for the process of preparing the water organisation’s water services strategy and water services annual budget;
- how the council will notify the water organisation of its final decision; and
- how the council will ensure that its process for making the final decision is transparent to its communities.

The legislation is not specific about the implications that may be relevant, but points for consideration are likely to include:

- that the decision-maker would also be a “decision-making local government water service supplier” subject to economic regulation by the Commerce Commission under the Commerce Act 1986;²¹

²⁰ Clause 7 of Schedule 2 of the Act.

²¹ See section 57D of the Commerce Act 1986.

- the impact on borrowing arrangements between the Local Government Funding Agency and water organisation;
- despite elected members and employees of a shareholder council not being permitted to be appointed to the board of a water organisation under the Act, any decision-maker that is not on the board of the water organisation but is making decisions of a nature expected of a company director should be cautious in respect of being considered a deemed director (which could attract director's duties) under the Companies Act 1993.

In addition, if a council shareholder is able to approve the final water services strategy, it must comply with the general decision-making requirements in the LGA02.

Additional consultation requirements

Water organisations and their shareholders are not required to consult communities or consumers on a draft water services strategy. However:

- a water organisation's **significance and engagement policy** may require such consultation; and
- if the shareholders require the water organisation to consult on any proposals contained in a draft water services strategy (in addition to the shareholders commenting on the strategy), the organisation must consult in accordance with its significance and engagement policy.

In addition, the Act requires that public consultation must be undertaken on a proposal in a water services strategy to:

- transfer ownership or control of a strategic water services asset; or
- receive a transfer of ownership or control of a strategic water services asset; or
- make a significant change to the level of service provided in relation to any water service.²²

This public consultation must be undertaken by the organisation's shareholders – or the organisation itself, if directed by the shareholders.

Process when amending a water services strategy

A water organisation may amend its water services strategy at any time. However, before doing so, the organisation must:

- consider whether its significance and engagement policy is relevant to the proposed amendment, and take any further action required to comply with the significance and engagement policy;

²² Section 236(9). This is similar to the requirements in Part 2 of the Act for consultation on these matters that apply in situations where a council is the water service provider.

- give written notice to its shareholders of the proposed amendment, and consider any comments made by the shareholders on the proposed amendment that:
 - the water organisation receives by a date agreed with the shareholders; and
 - the shareholders make in accordance with the nature of their involvement (as described above, and referred to in section 236(2) of the Act).

Purpose of the strategy

The Act sets out the purpose of a water services strategy.²³ For a water service provider that is a water organisation, the purpose is to:

- state publicly, for the period to which the strategy relates:
 - the water services activities that it intends to carry out to achieve the objectives specified in section 17 of the Act and any other outcomes; and
 - how the intended activities will contribute to the expectations, outcomes, or any other relevant matters set out in the water organisation's statement of expectations;
- provide a basis for accountability to the water organisation's shareholders for its performance in providing water services;
- provide an opportunity for the shareholders of the water organisation to:
 - participate in the water organisation setting its strategic intentions and performance framework; and
 - influence the strategic direction of the water organisation.

Part of the purpose is also to present, in one document, information that relates to a water service provider's provision of water services throughout its service area – to provide transparency about, and support decision making in relation to:

- the costs of, and investment associated with, providing water services;
- the water service provider's proposed charges, levels of service, and performance measures;
- financial forecasting; and
- long-term infrastructure and investment plans.

These provisions reflect a key part of the intent for water services strategies – that there be a single document for a water organisation's service area, which brings together all of the above components, even in situations where the organisation may have multiple shareholders and cover multiple districts. However, a strategy may still include different information or proposals in relation to different parts of the service area.

²³ Section 232 of the Act.

Each water services strategy must be consistent with the water organisation's foundation documents, and its responsibilities. For most water organisations, these responsibilities are specified in transfer agreements. For an Auckland water organisation (Watercare), these are its responsibilities for providing water supply and wastewater services under the Local Government (Auckland Council) Act 2009.

Content

The content of water services strategies is largely the same for all water service providers, but there are a few additional requirements that apply where the provider is a water organisation. This is mainly because the water services strategy also fulfils the role of a statement of intent for the water organisation, and responds/relates to aspects of the statement of expectations and any other requirements from shareholders.

For water organisations, a water services strategy must contain:

- the information specified in Schedule 3 of the Act (see below);
- any information that they are required to publicly disclose in a water services strategy under subpart 4 of Part 4 of the Commerce Act 1986;
- any information that their shareholders require; and
- an explanation of any information that is included to give effect to a decision made by a shareholder.

Information included in a water services strategy must be consistent with any applicable requirements or determinations issued by the Commerce Commission under Part 4 of the Commerce Act 1986.

All information that is included in a water services strategy must be prepared in accordance with generally accepted accounting practice, if that information is of a form or nature for which generally accepted accounting practice has developed standards. However, this does not apply:

- if Part 4 of the Commerce Act 1986 makes alternative requirements; or
- to a funding impact statement that is included in the strategy (see clause 5(2)(e) of Schedule 3).²⁴

The general intent behind the legislative design of the content requirements of the strategy was for there to be consistency with similar documents required under the LGA02, where relevant and useful in the new water-related context. Many of the requirements are similar to and/or based on provisions in the LGA02, but have been modified to be appropriate for the new legislation and water services system.

²⁴ This is consistent with the approach that is also taken to the funding impact statements included in council documents under the LGA02.

One similarity is that a lot of the information in a water services strategy is broken down into groups of water services activities. This provides transparency about, and supports accountability for, each of the groups of activities and the outcomes the water organisation expects to achieve by providing the group of activities.

A "group of water services activities" means all of the water services activities provided by, or on behalf of, a water service provider as part of providing one of the following (as applicable to a water organisation's specific responsibilities):

- water supply services;
- wastewater services;
- stormwater services.²⁵

*Strategic matters*²⁶

For a water service provider that is a water organisation, the water services strategy must include:

- the organisation's strategic priorities;
- the objectives, outcomes, and expectations that apply to the organisation, including the objectives specified in section 17 of the Act, and any outcomes or expectations specified in the organisation's statement of expectations;
- an overview of regulatory requirements;
- an explanation of how the organisation intends to achieve or meet the matters referred to above (that is, the strategic priorities, objectives, outcomes and expectations, and regulatory requirements);
- the measures and targets by which the organisation's shareholders can assess the organisation's performance in relation to its objectives and outcomes;
- factors that the organisation expects will have a significant impact (on the organisation), including:
 - any expected changes to the population and to the use of land in its service area, and the expected capital and operating costs required to address the expected changes;
 - any expected investment needed to meet objectives relating to housing growth and urban development;
- any other significant issues affecting the organisation's ability to maintain existing levels of service to consumers and to meet additional demands for water services;
- information relating to a territorial authority's resource management planning and land use planning in the organisation's service area, including how the organisation intends to respond to any relevant requirements that are included its statement of expectations;

²⁵ Each of these services are defined in section 4 of the Act.

²⁶ Set out in clause 2 of Schedule 3 of the Act.

- a description of any stormwater service zones in the organisation's service area and any proposals to change them.

The information referred to above must cover the period of **at least 10 consecutive financial years** to which the water services strategy relates (but not broken down individually for each financial year), or such other period as is specified in Schedule 3 or Part 4 of the Act.

In addition, a water services strategy must identify, for a period of **at least 30 consecutive financial years** any expected significant water infrastructure issues for the organisation over that period, the principal options for managing any identified issues, and the implications of these options.

Operational matters and performance information

Clause 3 of Schedule 3 of the Act sets out the content requirements for what are referred to as operational matters. This covers two main topics – proposed activities and levels of service information (including performance measures and targets).

This information must be included for each group of water services activities (provided by the water organisation) and for the following time periods:

- in detail for each of the first 3 financial years covered by the strategy; and
- in outline for each of the subsequent financial years covered by the strategy.

The strategy must include information on the nature and scope of the main water services activities the water service provider proposes to undertake, and any significant work the provider proposes to undertake relating to those activities.

The strategy must also contain a statement of the provider's intended levels of service provision, which must include:

- the performance measures that apply to the group of water services activities, including as applicable:
 - the measures that the provider considers will enable the public to assess the level of service for major aspects of the group of water services activities; and
 - any intended levels of service that the provider is required to publicly disclose in a water services strategy in accordance with a section 52P determination under the Commerce Act 1986; and
 - if no similar requirements have been set under the Commerce Act (above), any performance measures specified in a rule made under section 261B of the LGA02 that are relevant to a group of water services activities; and
- the performance targets for each performance measure (referred to above); and
- any relevant quality standards or performance requirements in a section 52P determination under the Commerce Act 1986; and
- any intended changes to the level of service that the provider provided in the financial year before the first financial year covered by the water services strategy and the reasons for the changes; and
- the reasons for any material change to the cost of water services.

Regarding the information on performance measures, the intent is that this will incorporate any requirements set by the Commerce Commission (through what is referred to as a section 52P determination). However, if the Commission has not set requirements, then relevant measures in the “non-financial performance measures rules” made under the LGA02 would be included in the strategy. Over time, these rules are most likely to continue to be relevant for stormwater services, which are not regulated under the Commerce Act.

Financial matters²⁷

Forecast financial statements

A water services strategy must include, for each year to which the strategy relates, a complete set of forecast financial statements for the water service provider. For a water organisation, these are the financial statements that relate to the entire organisation.

In addition, the strategy must include, for each group of water services activities, each of the following statements for each financial year to which the water services strategy relates:

- a forecast statement of comprehensive revenue and expenses;
- a forecast statement of cash flow;
- a forecast statement of financial position.

The strategy must also include the forecast financial statements that were prepared for the financial year immediately before the first financial year to which the strategy relates (except in situations where this is the first strategy). The previous year’s financial statements must be presented in a way that allows the public to compare those statements with the forecast financial statements covered by the strategy.

Information on funding, revenue, and pricing

A water services strategy must contain the water organisation’s intended approach to funding, revenue, and pricing. This must include – for each group of water services activities the organisation provides – detailed information on the following for the first three financial years to which the water services strategy relates:

- the intended approach to pricing the water services;
- the intended approach to charging consumers; and
- the intended sources of funding and revenue.

This must be accompanied by:

- the intended schedule of prices and charges; and
- the methodologies that support the provider’s prices and charges.

²⁷ Clause 5 of Schedule 3 of the Act.

The information relating to the intended sources of funding and revenue must include:

- the reasons for selecting each intended source of funding and revenue;
- an indication of the amount or level of funding or revenue expected from each intended source;
- an explanation of the intended funding mechanism for each intended source; and
- the reasons for selecting each intended funding mechanism.

The intended approach to funding, revenue, and pricing must be consistent with any requirements set by the Commerce Commission under Part 4 of the Commerce Act 1986.

Capital and operating expenditure

A water services strategy must include – for each group of water services activities – the amount of capital expenditure and operating expenditure that the provider has budgeted, in each financial year to which the water services strategy relates, for the purposes of:

- improving the level of service;
- meeting additional demand for the group of water services activities; and
- replacing existing assets in the water services infrastructure.

If capital expenditure is budgeted for two or all of the purposes described above, the expenditure may be treated as if it were budgeted solely in relation to the primary purpose of the expenditure.

Funding impact statements

The strategy must include – for each group of water services activities – a funding impact statement for each financial year to which the strategy relates.

A funding impact statement must be in the prescribed form, and identify:

- the sources of funding to be used by the water service provider;
- the amount of funds expected to be produced from each source; and
- how the funds are to be applied.

The forms for the funding impact statement will be prescribed in regulations. These will be based on similar forms for groups of activities funding impact statements in the Local Government (Financial Reporting and Prudence) Regulations 2014 (which will cease to apply to water services groups of activities once the new regulations are in place).

Additional financial information for water organisations

In addition to the financial information required under clause 5 of Schedule 3 (as set out above), the water services strategy must include:

- the water organisation's policy on giving security for borrowing;
- the organisation's objectives for holding and managing financial investments and equity securities;

- the organisation's quantified targets for returns on financial investments and equity securities;
- if the water organisation decides to set separate water services charges for separately used or inhabited parts of a property under section 95 of the Act, a definition of separately used or inhabited.²⁸

This is similar to information that councils prepare under the LGA02.

Water services infrastructure²⁹

A water services strategy must outline the most likely scenario for managing the water service provider's water services infrastructure assets over a period of at least 30 years and, in that context, must:

- include estimates of the projected capital and operating expenditure associated with managing those assets:
 - in each of the first 10 financial years covered by the strategy; and
 - in each subsequent period of 5 financial years covered by the strategy; and
- identify, for each period described above:
 - any significant decisions about capital expenditure the provider expects it will be required to make;
 - when the provider expects it will be required to make those decisions;
 - for each decision, the principal options the provider expects it will have to consider;
 - the approximate scale or extent of the costs associated with each decision.

Links with council infrastructure strategies under the LGA02

The above content of the water services strategy (as well as information on some of the assumptions described below) is similar to the information and time periods that were previously covered in council infrastructure strategies under the LGA02.

Information on water services infrastructure that is required to be included in a water services strategy cannot be included in council infrastructure strategies (under section 101B of the LGA02). However, a council infrastructure strategy may include general information on water services infrastructure if that information is part of, or desirable to support, an integrated approach to infrastructure planning in the council's district.

Information on forecasting assumptions and risks³⁰

A water services strategy must, in relation to any forecast financial statements and financial estimates included in the strategy:

²⁸ Clause 6 of Schedule 3 of the Act.

²⁹ Clause 7 of Schedule 3 of the Act.

³⁰ Clause 8 of Schedule 3 of the Act.

- identify all the significant forecasting assumptions and risks underlying the financial estimates, and (without limiting this) identify the following assumptions on which the financial estimates are based:
 - assumptions concerning the life cycle of significant water services infrastructure assets;
 - assumptions concerning sources of funds for the future replacement of significant water services infrastructure assets;
 - in relation to the scenario referred to in clause 7 of Schedule 3, the assumptions about growth or decline in the demand for relevant services, and increases or decreases in relevant levels of service;
- in any case where significant forecasting assumptions involve a high level of uncertainty, identify the nature of that uncertainty, and include an outline of the potential effects of that uncertainty on the financial estimates provided.

Consumer feedback³¹

A water services strategy must include information about how the water service provider proposes to obtain feedback from consumers in relation to the water services that the water service provider provides to them. The results are then included in the water services annual report (see below).

As the wording of the provision indicates, the intent is that a water organisation would have mechanisms and processes for gathering consumer feedback on the services they receive (in addition to complaints data) – and for addressing any significant matters raised in the feedback.

This is about understanding the consumer experience – not engagement with consumers or communities about the proposals in a water services strategy or other matters.

Audit of water services strategies

Under section 239 of the Act, a water service provider:

- **must** request a report from the Auditor-General on the provider's water services strategy if the Secretary for Local Government requires the provider to do so (by written notice);
- **may** request a report from the Auditor-General on the provider's water services strategy if the provider decides, on its volition, to do so.

In the case of a water organisation, this is also something that shareholders can require, by including a requirement in the statement of expectations that part or all of the organisation's water services strategy be independently reviewed or audited.

If a water service provider requests a report from the Auditor-General, it must do so at least 12 months before the date by which the provider must adopt the water services strategy.

³¹ Clause 4 of Schedule 3 of the Act.

A report from the Auditor-General provided under this section:

- must comment on:
 - whether the strategy gives effect to the purpose of a water services strategy (see section 232); and
 - the quality of the information and assumptions underlying the forecast information provided in the strategy; but
- must not comment on the merits of the policy content of the strategy.

If the Auditor-General provides a report to a water service provider, the provider must include the report in its water services strategy.

Water services annual budget³²

For the first financial year of a water services strategy, the following documents must be treated as being the water service provider's water services annual budget adopted for that year:

- the forecast financial statements included in the provider's water services strategy under clause 5(1) and (2)(d) of Schedule 3:
- the funding impact statement included in the provider's water services strategy under clause 5(2)(e) and (9) of Schedule 3.

For each financial year that is not the first financial year to which the provider's water services strategy relates, a water service provider must:

- prepare a water services annual budget; and
- adopt that annual budget before the start of the financial year to which the budget relates; and
- publish the annual budget in accordance with section 223 of the Act.

Process for making water services annual budget

A water service provider is not required to consult on a water services annual budget.

However, in the case of a water organisation, the process for preparing a water services strategy under section 236(1) to (5) applies, with all necessary modifications, to preparing a water services annual budget.

Contents of water services annual budget

A water services annual budget must, for the relevant financial year, contain:

- the water service provider's proposed budget, including:

³² This part of this document relates to sections 240 to 242 of the Act.

- fees and charges (including any charges set by a water organisation under section 86);
- financial statements (as described in clause 5(1) and (2)(d)(i) to (iii) of Schedule 3);
- a funding impact statement (as described in clause 5(2)(e) and (9) of Schedule 3);
- any information that the water service provider is required to publicly disclose in the water services annual budget under Part 4 of the Commerce Act 1986; and
- an explanation of any significant variation between the information in the annual budget and the corresponding information in the water services strategy for the financial year.

The annual budget must be consistent with the provider's intended approach to funding, revenue, and pricing for the financial year, as set out in its water services strategy (see clause 5(2)(a) of Schedule 3 of the Act).

In the case of a water organisation, the annual budget may include the list of charges that the organisation is required to publish under section 91 of the Act.

Information included in a water services annual budget must be consistent with any applicable requirements or determinations issued by the Commerce Commission under Part 4 of the Commerce Act 1986.

All information that is included in a water services annual budget must be prepared in accordance with generally accepted accounting practice if that information is of a form or nature for which generally accepted accounting practice has developed standards. However, this requirement does not apply:

- if Part 4 of the Commerce Act 1986 makes alternative requirements; or
- to a funding impact statement that is included in the budget (see clause 5(2)(e) and (9) of Schedule 3).

Water services annual report³³

A **water organisation** must, in relation to each financial year, prepare and adopt a water services annual report that reports on the organisation's operations during that financial year. This report is a critical accountability document for the organisation and its shareholders.

The **water organisation** must adopt the annual report no later than **three months** after the end of the financial year to which it relates.

The **water organisation** must provide the annual report to the **shareholders** of the water organisation.

³³ This section of this document relates to sections 243, 246 and 247, and Schedule 4 of the Act.

A water organisation's annual report under this Act **may** be combined with an annual report required under section 208 of the Companies Act 1993.

As clarified in section 247 of the Act, the Auditor-General is the auditor of a water organisation.³⁴ This is consistent with the approach taken for other CCOs under the LGA02.

Purpose of the water services annual report

The purpose of a water organisation's water services annual report is:

- to enable the organisation's **shareholders** and the **public** to make an informed assessment of the water organisation's performance;
- to compare the organisation's intended activities and intended performance levels for providing water services, as set out in the organisation's water services strategy for the financial year, with the actual activities and performance levels;
- to promote the **organisation's accountability to its shareholders** for its performance throughout the financial year; and
- to support the **organisation's shareholders' accountability to the shareholders' communities** with respect to:
 - the provision of water services; and
 - the water organisation's performance.

Content

A water services annual report for a financial year must contain:

- the information specified in Schedule 4 of the Act (see below);
- any information that the water service provider is required to publicly disclose in a water services annual report under subpart 4 of Part 4 of the Commerce Act 1986; and
- a report by the Auditor-General on:
 - the financial statements required by clause 2(1)(b) of Schedule 4;
 - the statement relating to budgeted and actual capital expenditure required by clause 4 of Schedule 4;
 - the funding impact statement required by clause 5 of Schedule 4; and
 - each statement of service required by clause 7 of Schedule 4.

Information included in a water services annual report must be consistent with any applicable requirements or determinations issued by the Commerce Commission under Part 4 of the Commerce Act 1986.

³⁴ This section applies despite sections 207P to 207V of the Companies Act 1993.

All information that is included in a water services annual report must be prepared in accordance with generally accepted accounting practice, if that information is of a form or nature for which generally accepted accounting practice has developed standards. However, this requirement does not apply:

- if Part 4 of the Commerce Act 1986 makes alternative requirements; or
- to a funding impact statement included in the annual report.

General information³⁵

A water services annual report must contain information that will enable a person to make an informed assessment of the water service provider's operations and performance, including information that:

- compares the provider's intended activities and intended performance levels, as set out in the provider's water services strategy for the financial year, with the actual activities and performance levels; and
- explains any material differences between the provider's performance and the provider's water services strategy.

A water services annual report must, in relation to each group of water services activities of the water service provider:

- identify the water services activities within the group of water services activities; and
- identify the outcomes and objectives to which the group of water services activities primarily contributes (as referred to in the provider's water services strategy); and
- report the results of any measurement undertaken during the financial year of progress towards achieving those outcomes and objectives.

Financial statements³⁶

A water services annual report must include the following information for the relevant financial year:

- a complete set of audited financial statements for the water organisation;
- for each group of water services activities:
 - a statement of comprehensive revenue and expense;
 - a statement of cash flows;
 - a statement of financial position; and
- any other prescribed information (which must be in the prescribed form).

³⁵ Clause 1 of Schedule 4 of the Act.

³⁶ Clause 2 of Schedule 4 of the Act.

This information must be presented in a way that allows a person to compare the financial statements with the forecast financial statements for the financial year covered by the report (which were included in the provider's water services strategy or water services annual budget).

The report must also include the financial statements that were prepared for the financial year immediately preceding the first financial year to which the report relates.

Water organisation performance information³⁷

A water services annual report must include information about how the water organisation has performed in relation to any performance indicators and measures that the shareholders of the organisation use to monitor the organisation's performance and have included in the organisation's statement of expectations.

This section of the report focuses on the **water organisation's performance** during the financial year. There is separate information – as described below – on the levels of service for the water services it has provided during the year.

Statement of service – information on levels of service³⁸

A water services annual report must include, for each group of water services activities, an audited statement of service that:

- compares the actual level of service provided in relation to each group of water services activities with the intended service level;
- specifies whether any intended changes to the service levels were achieved; and
- if there is a significant difference between the intended service level and the service level that was achieved, specifies the reasons for that difference.

Information on capital expenditure³⁹

A water services annual report must include, for each group of water services activities, an audited statement that compares:

- the capital expenditure budgeted for the provider (as set out in the provider's water services strategy for the financial year); with
- the capital expenditure that the provider actually spent in the financial year.

The statement must show separately the provider's budgeted expenditure, and the provider's actual expenditure:

- to meet any additional demand for a group of water services activities;
- to improve the level of service in relation to a group of water services activities; and

³⁷ Clause 3(2) of Schedule 4 of the Act.

³⁸ Clause 7 of Schedule 4 of the Act.

³⁹ Clause 4 of Schedule 4 of the Act.

- to replace any assets that are part of the water services infrastructure.

If capital expenditure is budgeted for two or all of the purposes referred to above, the expenditure may be treated as if it were budgeted solely in relation to the primary purpose of the expenditure.

Funding impact statement⁴⁰

A water services annual report must include, for each group of water services activities, an audited funding impact statement that:

- identifies the water service provider's funds produced by each source of funding;
- specifies how those funds were applied; and
- compares the information provided above with information included in the water service provider's water services strategy.

The funding impact statement must be in the prescribed form. As noted above in relation to the water services strategy, the forms for funding impact statements will be prescribed in regulations.

Results of consumer feedback⁴¹

A water services annual report must include information relating to:

- the results of any feedback sought from the water service provider's consumers in relation to the water services provided to them, as referred to in the provider's water services strategy (see clause 4 of Schedule 3); and
- how the provider addressed, or proposes to address, any significant matters raised in the feedback.

Information on dividends⁴²

A water services annual report must specify the dividend, if any, that the water organisation's shareholders have authorised the organisation to pay (or the maximum dividend that the organisation proposes to pay) for its equity securities (other than fixed interest securities).

It should be noted that the financial principles in section 16 of the Act are relevant to considerations about dividends.

Insurance of assets⁴³

A water services annual report must include the following information in relation to the water service provider:

⁴⁰ Clause 5 of Schedule 4 of the Act.

⁴¹ Clause 9 of Schedule 4 of the Act.

⁴² Clause 3(1) of Schedule 4 of the Act.

⁴³ Clause 6 of Schedule 4 of the Act.

- the total value of the assets in the water services infrastructure that are owned by the water service provider and that are insured;
- the maximum total amount for which those assets are insured;
- the total value of the assets in the water services infrastructure that are owned by the water service provider, and covered by a financial risk-sharing arrangement;
- the maximum total amount available to the water service provider under those risk-sharing arrangements;
- the total value of the assets in the water services infrastructure that are owned by the water service provider, and self-insured;
- the value of any fund that the water service provider maintains for the purpose of self-insuring those assets.

Statement of compliance⁴⁴

A water services annual report must include a statement that all statutory requirements in relation to the water services annual report have been complied with.

The statement of compliance must be signed by the chair of the board of the water organisation, and the chief executive of the organisation.

Links with shareholders' annual reports

As noted above, the Act requires that a water organisation must provide its water services annual report to its shareholders.

Although the Act does not refer to connections between a water organisation's water services annual report and the annual report of its shareholders, in practice the organisation and shareholders will need to consider and manage these connections.

This is particularly relevant to **council shareholders**, who will need to include audited consolidated financial statements in their own annual reports (adopted under section 98 of the LGA02, and which include the content specified in Part 3 of Schedule 10). The consolidated financial statements would combine information on the parent council with information on its CCOs – including a water organisation.

In addition to the consolidated financial statements, a council's annual report must also include "such other information as is necessary to enable an informed assessment of the operations of each entity reported on".⁴⁵ This would include information relating to a water organisation.

The water organisation will need to ensure each shareholding council has the information it needs to prepare these components of its annual report.

⁴⁴ Clause 8 of Schedule 4 of the Act.

⁴⁵ Clause 29(1)(c) of Schedule 10 of the LGA02.

A council's annual report is also required to include, in relation to each CCO in which the council is a shareholder (including water organisations):

- a report on the extent to which the council's significant policies and objectives in regard to ownership and control of the organisation (as set out in the relevant long-term plan or annual plan) have been implemented or attained in the year to which the report relates; and
- a comparison between the nature and scope of the activities intended to be provided by the organisation in the year to which the report relates (as set out in the relevant long-term plan or annual plan) and the nature and scope of the activities actually provided by the organisation in that year; and
- a comparison between actual performance and the key performance targets and other measures set out in the relevant long-term plan or annual plan.⁴⁶

Where the shareholders in a water organisation include a **consumer trust**, the trustees are required to prepare financial statements and an annual report for the trust, in accordance with sections 58 and 59 of the Act.

Additional documents and performance monitoring

Additional plans or reports required by shareholders

Section 249 of the Act enables **shareholders** to require their water organisation to prepare additional plans or reports, including:

- one or more thematic plans;
- an asset management plan;
- quarterly reports.⁴⁷

Any such requirements must be done through a written notice, which must specify:

- the date by which the water organisation must provide the plan or report to the shareholders;
- the matters to be addressed in the plan or report; and
- if relevant to the particular plan or report, the period that the plan or report must cover, and when the water organisation must report to shareholders on its progress against a plan.

The written notice may be included in the shareholders' statement of expectations provided to the water organisation (see section 224).

⁴⁶ Clause 28 of Schedule 10 of the LGA02.

⁴⁷ These provisions are similar to the provisions that apply to CCOs under the LGA02.

A water organisation that receives a written notice must provide the additional plan or report to the shareholders in accordance with the written notice.

If the shareholders require a water organisation to prepare quarterly reports, the water organisation must provide the quarterly reports no later than two months after the end of the first and third quarters of the relevant financial year.

Performance monitoring by shareholders

Section 250 of the Act requires the **shareholders** of a water organisation to regularly monitor the performance of the organisation.

The monitoring must include an annual review of the organisation's performance in giving effect to:

- the statement of expectations provided by the shareholders (see section 224); and
- the strategic priorities, objectives, and outcomes specified in the water organisation's water services strategy.

Significance and engagement policies⁴⁸

The Act requires water organisations to prepare and adopt significance and engagement policies – much like councils are required to have these policies under the LGA02.

The legislative approach recognises and supports the accountability framework that applies to water organisations and shareholders, as described earlier in this document. It also accommodates the need for mandatory consultation/engagement on some matters.

The intent behind the significance and engagement policy is to enable each water organisation to develop a flexible and locally-driven approach to engagement, which is tailored to and accommodates the preferences of its shareholders and communities.

A **water organisation** must adopt its first significance and engagement policy **within 12 months** after the organisation is established (under section 44 of the Act).⁴⁹ However, if a water organisation was providing water services before the commencement date of the Act, it must adopt its first significance and engagement policy within 12 months after that commencement date (that is, by 27 August 2026).⁵⁰

Given the connections between a water organisation's significance and engagement policy and water services strategy (see below), it will be important for the first policy to be in place to inform the preparation of the first strategy.

⁴⁸ Sections 34 to 38 of the Act, and section 76AA of the LGA02.

⁴⁹ Section 37(1) of the Act.

⁵⁰ Section 37(2) of the Act.

Purpose of water organisation significance and engagement policies⁵¹

The purpose of a water organisation's significance and engagement policy is:

- to enable the organisation, its shareholders, its consumers, and its communities to identify the degree of significance attached to particular issues, proposals, water services infrastructure, decisions, and activities;
- to enable the organisation to develop a flexible and locally appropriate approach to engagement, which recognises and accommodates the preferences and expectations of:
 - its shareholders;
 - its consumers;
 - its shareholders' communities; and
 - any particular communities specified in the policy (for example, iwi, hapū, and other Māori organisations in the water organisation's service area);
- to provide clarity about:
 - how and when communities can expect to be engaged in decisions about different issues, water services infrastructure, or other matters;
 - whether engagement will be undertaken by the organisation or its shareholders; and
 - how the organisation will take account of consumer and community views on matters on which the organisation's shareholders have expressed a view;
- to inform the organisation from the beginning of a decision-making process about:
 - the extent of any engagement that is expected before a particular decision is made;
 - with whom the engagement occurs (for example, shareholders, consumers, particular communities, or the general public); and
 - the form or type of engagement required.

Content of the policy⁵²

A water organisation's significance and engagement policy must set out the following:

- the organisation's general approach to determining the significance of proposals and decisions in relation to issues, water services infrastructure, and other matters;
- any criteria or procedures that the organisation will use in assessing the extent to which issues, proposals, water services infrastructure, decisions, or activities are significant or may have significant consequences;
- the organisation's general approach to engaging with consumers and communities, including the circumstances in which engagement will be undertaken by:
 - the organisation; or

⁵¹ Section 35(3) of the Act.

⁵² Sections 35(1) and (4) of the Act.

- the organisation's shareholders;
- how the organisation will respond to community preferences about engagement on decisions relating to specific issues, water services infrastructure, or other matters, including the form of engagement that may be desirable;
- any particular approaches or arrangements for engaging with particular relevant communities (for example, iwi, hapū, and other Māori organisations in the water organisation's service area).

The policy must also include matters required by the water organisation's shareholders.

Specific content – links with other requirements in the Act

In addition to the general content described above, the water organisation must ensure that its significance and engagement policy sets out all relevant matters relating to specific decisions and actions that the Act requires to be made or done in accordance with a significance and engagement policy.⁵³

These matters include:

- whether a proposed contract under section 22 is a significant contract, and the matters the organisation will consider when determining whether a contract is a significant contract;
- whether a proposed joint water service provider arrangement under section 26 is a significant joint water service provider arrangement, and the matters the organisation will consider when determining whether an arrangement is a significant joint water service provider arrangement; and
- how to undertake engagement in relation to a proposed significant contract and a proposed significant joint water service provider arrangement in a way that is consistent with sections 31 and 32.⁵⁴

The policy must also address all matters, and contain all information, necessary for:

- decisions under, and consultation required by, section 236(11); and
- the organisation to make its water services strategy under section 236.⁵⁵

Section 236 sets out the process for preparing a **water organisation's water services strategy**, as referred to earlier in this document.

Under subsection 236(11), a water organisation must ensure that its significance and engagement policy addresses all matters necessary for determining:

- whether a water services asset is a strategic water services asset;
- whether a proposed change to the level of service is a significant change; and

⁵³ Section 35(2) of the Act.

⁵⁴ Section 36(1) of the Act.

⁵⁵ Section 36(2) of the Act.

- how to comply with subsections 236(9) and (10).

Subsection 236(9) requires that public consultation must be undertaken on a proposal in a water services strategy to:

- transfer ownership or control of a strategic water services asset; or
- receive a transfer of ownership or control of a strategic water services asset; or
- make a significant change to the level of service provided in relation to any water service.

Under subsection 236(10), this consultation must be undertaken by the water organisation's shareholders, or by the organisation itself, if directed by the shareholders.

As the organisation determines over time whether specific water services assets are strategic water services assets for the purposes of section 236(11), it must develop a list of strategic water services assets and include the list in its significance and engagement policy for use under that section.

Processes for preparing and amending a policy

Under section 37(3) of the Act, when preparing a significance and engagement policy, a **water organisation** must:

- (a) engage with:
 - (i) its **shareholders**; and
 - (ii) the **consumers** in its service area; and
 - (iii) the **communities** in the districts or regions of those of its shareholders that are councils; and
 - (iv) any **particular communities** identified by shareholders (for example, iwi, hapū, and other Māori organisations in the organisation's service area); and
- (b) obtain its shareholders' approval of the proposed policy.

Under section 37(4), when a water organisation is preparing its significance and engagement policy, the **organisation and any councils that are shareholders** in the organisation must together:

- (a) identify any matters addressed by the organisation's proposed policy and one or more of the councils' significance and engagement policies; and
- (b) consider the respective roles and responsibilities of the organisation and the councils; and
- (c) agree on amendments to the organisation's proposed policy and the councils' policies that minimise unnecessary duplication and inconsistency between them.

A water organisation:

- **may amend** its significance and engagement policy at any time; but
- **must amend** the policy if there is a change to the organisation's responsibilities for water services, including when the organisation receives or returns responsibilities under a transfer agreement.

When amending the policy, the **water organisation**:

- must comply with subsection 37(3)(a)(i) and (b); and
- must comply with subsection 37(3)(a)(ii) to (iv) unless it considers on reasonable grounds that it has sufficient information about the interests and preferences of consumers and communities to enable the purpose of the policy to be achieved; and
- must comply with subsection 37(4) if one or more councils are shareholders in the organisation.

Deviation from policy⁵⁶

If a decision of a water organisation is significantly inconsistent with, or is anticipated to have consequences that will be significantly inconsistent with, its significance and engagement policy, the organisation must, when making the decision, clearly identify:

- the inconsistency;
- the reasons for the inconsistency; and
- any intention of the organisation to amend its significance and engagement policy to accommodate the decision.

Links with council significance and engagement policies

Under section 34 of the Act, **council shareholders** in a water organisation must amend their significance and engagement policies (adopted under section 76AA of the LGA02) to:

- suit their role as shareholders in a water organisation;
- remove any matters that are no longer needed and are instead required to be included in the significance and engagement policy of the water organisation.

The collaborative process for preparing the water organisation's policy should enable council shareholders to identify the matters that can be removed from their own policies.

As described above, council shareholders must work with the water organisation to identify and agree which matters will be covered in their respective policies, considering their respective roles and responsibilities. The intent is to minimise unnecessary duplication and inconsistency between the policies – as well as ensuring the purposes of the policies are met.

⁵⁶ Section 38 of the Act.

Councils are usually required by section 76AA(5) of the LGA02 to undertake public consultation when amending a significance and engagement policy. However, consultation under subsection (5) is not required to amend a policy to the extent that the amendment is made when a council:

- has established a water organisation under the Local Government (Water Services) Act 2025; and
- is working with that organisation in relation to the organisation's significance and engagement policy under section 37(4) of that Act.

Timeframes and transitional arrangements

The provisions in the Act commenced on the day after Royal assent. However, this does not mean the new documents in Part 4 had to be prepared immediately.

As outlined below, transitional provisions in Schedule 1 of the Act set out the dates associated with the first water services strategy and water services annual report. These provisions apply to existing water service providers – that is, councils, Watercare, and any other CCOs that automatically became water service providers following enactment. There are separate provisions in Part 4 of the Act for the first documents of any new water organisations established after the Act commences.

Transitional provisions have also been inserted into Part 10 of Schedule 1AA of the LGA02 to deal with the interactions with LGA02 planning and reporting documents during the interim period. These provisions mean:

- for councils that automatically became water service providers under the new Act – consequential amendments to sections 93, 95, 101B, and Schedule 10 the LGA02 do not apply to until they prepare/adopt their first water services strategy under the Act;
- for CCOs that automatically became water organisations and water service providers under the new Act (including Watercare) – any existing planning and reporting documents for CCOs under Part 5 of the LGA02 continue to apply until the first (replacement) documents under Part 4 of the Act are provided to / adopted by the water organisation.

First documents for new water organisations

Part 4 of the Act includes provisions that deal with the first statement of expectations, water services strategy, and water services annual report for newly-established water organisations. These provisions apply to any water organisation that is established after enactment. (They do not affect existing providers, such as councils with in-house business units or Watercare.)

The provisions reflect that timeframes for the first set of documents may need to be varied, depending on when the water organisation is established and commences operations. They also seek to ensure there are no gaps in accountability.

Shareholders must prepare the first statement of expectations and provide it to the water organisation as soon as practicable after establishment – but within six months of that date, at the latest. Shareholders may also provide a document setting out their interim expectations to cover the period before the statement of expectations is provided.

The **water organisation** must prepare and adopt its first water services strategy as soon as practicable after establishment – but before the start of the first financial year to which the strategy relates.

There is flexibility for shareholders and the board of the new water organisation to determine:

- the time period that will be covered by the first water services strategy – so this can be longer or shorter than the standard time period, and the first strategy may come into force on a date other than the start of a financial year;
- the interim arrangements that apply to the water organisation before the first water services strategy comes into force. These may include relevant parts of the long-term plan or water services strategy of the shareholding council(s) remaining in force (to ensure there are no accountability gaps). Other interim business planning or budgetary documents may also be prepared to guide the organisation's initial operations and provide a basis for monitoring and reporting on its performance.

A new water organisation's first water services annual report would report on its operations during its first financial year. If a water organisation is established less than four months before the end of a financial year, that period can be combined into the annual report for the organisation's first full financial year (so it can cover up to a 16-month period).

Timing of first documents if the water organisation was established before the Act was enacted

Schedule 1 of the Act includes transitional arrangements that set out the timing of water service providers' first water services strategy and first water services annual report.

The transitional provisions apply to all council water service providers, and any water organisations that existed before the enactment of the Act in August 2025 (Watercare and any other former water services CCOs). The provisions described above apply to new water organisations, established after enactment.

Under the provisions in Schedule 1, each water service provider must prepare and adopt its **first water services strategy** (under Part 4 of the Act) **no later than 30 June 2027** – but there is flexibility to accommodate situations where the provider wants the strategy to commence earlier.

The first strategy must come into force on the earlier of:

- 1 July 2027;
- a date determined by the water service provider when it adopts the strategy.

Regardless of the commencement date of the first strategy, it must continue in force until 30 June 2030. This puts the timing of all providers' subsequent strategies on the same cycle, and aligns with council long-term planning cycles under the LGA02.

The **first water services annual report** corresponds with the first water services strategy.

If a water service provider's first water services strategy comes into force on or before 31 December 2026, the provider must prepare its first water services annual report for the period:

- starting on the date on which the water services strategy comes into force; and
- ending on 30 June 2027.

If a water service provider's first water services strategy comes into force on or after 1 January 2027, the provider must prepare its first water services annual report for the period:

- starting on the date on which the water services strategy comes into force; and
- ending on 30 June 2028.

Further information

The Local Government (Water Services) Act 2025 and Local Government (Water Services) (Repeals and Amendments) Act 2025 are available at www.legislation.govt.nz.

For further information about Local Water Done Well, including guidance and information for councils, visit www.dia.govt.nz/Water-Services-Policy-and-Legislation

Questions? Contact wmdp@dia.govt.nz