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Chairperson
Finance and Expenditure Committee
Parliament Buildings
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Tēnā koutou Mr Brewer

Submission on the Local Government (Water Services) Bill

The Institute of Directors (IoD) appreciates the opportunity to comment on the Local Government (Water Services) Bill (the Bill).

The Bill marks a pivotal moment in the governance of the country's water infrastructure. The reforms could lead to the establishment of numerous council-controlled organisations (CCOs) or water organisations underscoring the critical need for robust governance frameworks. Effective governance and strong leadership will be essential to ensure these entities deliver safe, sustainable and efficient water services.

The approach proposed is deliberately flexible and affords significant scope for councils to choose to deliver internally, or either jointly or severally through a CCO or consumer trust model. Councils can also choose to change models, as they do now with other services, moving from business unit to single-council CCO to multiple-council CCO for example. The corollary of this, is that it offers less prescription or guidance when it comes to some important matters such as governance arrangements. Ultimately, each water organisation is responsible for water infrastructure within a council's jurisdiction; and with this, potentially hundreds of new governance roles.

The scale of the operations that the water service providers will govern – ranging from small councils managing water services in-house to large regional CCO collaborations – raises significant operational, financial,

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The Institute of Directors (IoD) is New Zealand's pre-eminent organisation for directors, and is at the heart of the governance community. We have over 10,500 members connected through our regional branch network and national headquarters. We believe in the power of governance to create a strong, fair and sustainable future for New Zealand.

Our role is to drive excellence and high standards in governance. We support and equip our members who lead a range of organisations from listed companies to state and public sector entities, large private organisations, council controlled organisations, councils, small and medium enterprises, not-for-profit organisations and charities.

We advocate on policy and regulation matters relating to governance as well as supporting ongoing capability development for directors and boards.

Our Chartered Membership pathway aims to raise the bar for director professionalism in New Zealand, including through continuing professional development to support good governance.

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regulatory and strategic challenges. Independent and experienced governance, technical expertise and financial resources will be essential to manage these complex water services effectively. The potential establishment of CCOs or consumer trusts will require careful planning and coordination to avoid fragmentation, inefficiency and inconsistency in service delivery.

Ensuring that each new entity can meet high standards for water quality, environmental protection, economic regulation and infrastructure investment is a formidable task. The success of the Local Water Done Well reforms will, therefore, hinge on the ability of these entities, and consequently their governing bodies, to navigate these challenges while maintaining transparency, accountability and efficiency.

In this context, governance becomes the linchpin for success. Effective governance structures will ensure that water service providers can operate sustainably, transparently and in the public interest, reducing risk and adding resilience.

The importance of good governance can be broken down into several key elements:

- **Clear roles and responsibilities:** Clear lines of decision-making authority are critically important and cannot be overstated. While the owners/shareholders will set out expectations, priorities, strategic direction and outcomes in a Statement of Expectations, each entity must have well-defined roles for board members, executives and councils. The board must have the final decision on business plans and CEO appointment to be able to govern effectively. Ambiguity in decision-making authority can lead to inefficiencies and conflicts
- **Strategic leadership:** Water organisation boards must possess a mix of governance experience, technical expertise, strategic insight, community representation and understanding of the relationship with tangata whenua. It will be imperative for all boards to have a depth of experience around working in a regulated environment, particularly economic regulation and, for larger CCOs, complex capital raising. The complexities of water infrastructure requires leaders who can balance engineering, asset management and funding demands with long-term community needs and environmental stewardship to deliver a robust water services strategy
- **Financial and economic oversight:** Sound financial management and a deep understanding of how an asset management plan works alongside the economics of complex infrastructure projects will be essential to ensure sustainable investment in infrastructure. This includes maintaining transparent funding mechanisms, managing debt responsibly, securing long-term financial sustainability, as well as meeting the requirements of the economic regulator
- **Accountability and transparency:** Water organisations need to give assurance to their council owner(s) and the communities they serve that their water services are being managed effectively and efficiently. Regular reporting, public engagement and independent audits can foster trust and ensure accountability – including to the water services and economic regulators
- **Risk management:** Risk is a rapidly evolving space. Water infrastructure is vulnerable to climate change, natural disasters and aging systems. Proactive risk management strategies and an understanding of risk financing are needed to address these challenges, build resilience and ensure continuity of service
- **Long-term planning:** As most water infrastructure is planned to last 100 years, directors need the ability to understand inter-generational equity when it comes to funding and pricing. The three-year election cycle of local government can have a significant impact on the ability of CCOs to focus on 10- or 30-year asset management and planning cycles. Navigating the short-term changes in strategic direction against long-term planning demands can be complex and can undermine the long-term focus needed for robust infrastructure planning.

However, as the Bill currently stands, there are potential impediments to each of these elements. Short-term planning cycles and political overreach may negatively impact on the ability of external professional directors to undertake their roles, especially as the directors seek to meet the environmental and economic regulations in addition to expectations within the Statement of Expectations (see further comments below).

With our focus on governance, we have limited our comments to the structural and governance arrangements that support and enable successful implementation of the water organisations.

Structural arrangements for water services provision

The principle of 'form follows function' is very applicable to water service provider governance. Essentially, the form or structure of an organisation should be based on its intended purpose; in other words, you need to determine the purpose and functions first and then design the structure to enable the strategy to be delivered.

Under the governance models proposed in the Bill, territorial authorities can choose from a range of different governance structures either separately or jointly. The proposed governance structures aim to address inefficiencies caused by the current fragmented and politicised decision-making processes. There are also enhanced governance mechanisms, such as financial ringfencing and professional boards, designed to improve accountability and decision-making quality. Economic regulation and assistance frameworks have been introduced to reduce the risks associated with underfunding and inefficient management. While good governance can't be legislated for, enabling (or disabling) conditions can be created.

Operating context

The Auditor-General's guide *Governance and accountability of council-controlled organisations* was produced to help local authorities and CCOs to deal with some of the issues they had encountered, including the challenges for CCOs and their directors of operating in a political environment. One of the supposed benefits sought from establishing a CCO was "separation from political direction". However, it was noted that despite the desired separation, it remains a political operating environment and that CCO directors need to understand the political environment it operates in. Page 49 of the guide notes:

> *"A CCO operates in a complex environment. Although a CCO may be an arm's-length commercial operation, unlike a privately owned entity, it operates in a political environment. It must meet the expectations of both shareholder and community. A CCO is the steward of community assets or uses ratepayer funds. It is accountable to the community for their use. At the same time, the parent local authority is accountable to the community for the performance of the CCO.*
>
> *CCOs are publicly owned entities. As elected representatives of the community, councillors have a legitimate interest in a CCO's activities. As a consequence, CCOs are subject to scrutiny from members of the public and from elected members that a business in the private sector is unlikely to experience. Private sector businesses are used to operating in private. Public sector entities must be prepared to operate in public.*
>
> *Public scrutiny is often apparent in the expectation that information will be readily available or in allegations that a director's personal interests conflict with those of the CCO.*

Further, elected members have a direct accountability to the community that elected them. They are also likely to have many connections in the community. Directors of CCOs may be less connected to the community, so members of the public may turn to councillors when they perceive problems with a CCO.

A decision of a CCO justified on commercial or other grounds and consistent with the agreed objectives set out in its statement of intent might nevertheless be unpopular with the community. The community might expect councillors to bring pressure on the CCO to review its decision."

Further, the Financial Markets Authority (FMA) handbook on Corporate governance in New Zealand – principles and guidelines states that "*independence of mind is a basic requirement for directors … Directors with an independent perspective are more likely to constructively challenge each other and executives – and thereby increase the board's effectiveness.*"

Governing a water organisation will be an incredibly complex role requiring directors with the right mix of governance experience, technical and regulatory expertise, strategic insight, community representation and understanding of the relationship with tangata whenua. Effective governance and strong leadership will be essential to ensure these entities deliver safe, sustainable and efficient water services. As good governance cannot be legislated, wherever possible, the Bill needs to provide an enabling environment to support directors to operate in accordance with good practice governance principles including maintaining independence, transparency, ethical standards, compliance with legislation, accountability, long-term thinking, risk management, stakeholder engagement, performance monitoring and reporting and efficiency.

Council-controlled organisations

Council-controlled organisations (CCOs) are known entities that operate at arm's length from councils but remain under council ownership and control. Under the Bill, the boards will be independent and governed under the *Companies Act 1993*.

Local authorities have set up CCOs (and council-controlled trading organisations) for a range of purposes, but were initially established to bring in the necessary skills and expertise to run commercial, technical or specialist functions such as airports, ports, zoos and economic development. Currently, local authorities may choose to appoint all independent members, or a mix of elected and non-elected members, or even staff as CCO directors.

In the IoD's Code of practice for directors, independence is considered a key means of accountability, objective judgement not subordinated to operational considerations or impaired by other interests, and a willingness to challenge. Similarly, in the 2023 Governance Thematic Review released by the Reserve Bank of New Zealand and FMA they state (p. 20):

"Director independence is essential in ensuring boards make fair and unbiased decisions and provide effective challenge. Independent directors bring a breadth of skills and experience to a board, along with fresh perspectives and objectivity, which help avoid the risk of groupthink.

Guidance and good practice highlight the importance of independence of mind, judgement and diversity of thought when it comes to effective decision making. Important ways of supporting this are through composition requirements and guidance on criteria for assessing director independence."

We support cl 40(3)(a) and (b) whereby both elected members and employees of shareholding councils are not permitted to be appointed. We consider that this aligns with the principles of independent governance under the *Companies Act 1993* and provides clear separation to avoid conflicts of interests. **Further clarification is required to exclude employees of a CCO being appointed as a director of a water organisation, including the exclusion of managing director roles.**

In the RBNZ/FMA Governance Thematic Review it is further noted that "*there is a risk that as a director's tenure increases, they will reach a point where it is likely to impair their independence. Some international guidance suggests that the independence of non-executive directors may be impaired if they have served on the board for more than nine years.*" We do not consider that this is an area for the Bill to traverse, but **good practice guidance could be provided separately to support local authorities on water organisation governance** (see also comments on Consumer Trusts below).

Elected members (and staff) will continue to play a critical role in relation to water services CCOs. Elected members play a key oversight and accountability role as well as selection and appointment of directors. Councils and CCO boards must maintain a high level of trust and transparency to continue to deliver on the council's aspirations. The Statement of Intent is a key document which needs to align with the priorities of the shareholders. However, the three-yearly electoral term can make long-term planning and financial confidence problematic (see further comments below).

While this is recognised as the shareholder's legitimate prerogative to require a different direction from their CCOs, balance is needed between the governance role that appointed directors have and their ability to make strategic long-term decisions to best meet their communities' needs. Elected members need to be cognisant of the different role and responsibilities that CCO directors have and how they can best work together to maximise outcomes.

We support cl 40(1) and (2) which note the need for directors to be appointed based on competence to perform the role, with an appropriate mix of skills, knowledge and experience in relation to providing water services.

We believe that this is a core tenet of good governance and will be especially critical with the complexity and challenges ahead for these entities including financial modelling, health and safety issues, public health, economic regulation, environmental stewardship and climate change risks.

One of the challenges will be the ability and capacity for local authorities to recruit and appoint directors. For many local authorities appointments to CCOs currently include council CEOs and elected members. For example:

> MDC Holdings Limited is wholly owned by Marlborough District Council, which in turn wholly owns Marlborough Airport Ltd (MAL) and Port Marlborough NZ Limited (PML). MDC Holdings Limited comprises "five or six Directors: the Mayor, one or two councilors [sic], two external Directors and the Council's Chief Executive." Additionally, the same two elected members on MDC Holdings Ltd along with the CEO and one of the two external directors comprise four of the five directors of MAL.

The appointment process for directors on CCOs is highly variable between councils, ranging from completely internal processes through to open and transparent external processes. To enhance the objectives of the Bill and to further promote independence, it is considered important that a transparent independent appoint process is undertaken for appointment of directors, especially as it is anticipated that former or current (but not re-standing) elected members and staff may wish to seek

appointment onto these entities. **We recommend that a clause be added to require an independent, external appoint process is undertaken for the appointment of board directors.**

We additionally note that Clause 40 contains neither a minimum or maximum number of directors for the establishment of a CCO. The legal minimum in accordance with the *Companies Act 1993* is one, and there is no stated maximum. While this could be left solely to the establishing council(s), we believe some general guidance may be beneficial. With the potential of multiple councils responsible for establishing and appointing directors to a CCO, we believe that councils would anticipate a role in selecting one or two directors themselves in a quasi-representative capacity. This has the potential to result in a large and unwieldy board.

In the NZX Corporate Governance Code there is a minimum of at least three directors (noting that at least two must be ordinarily resident in New Zealand and at least two must be independent directors). The average NZX listed company board has 6 directors. Generally, a board numbering between six and eight members is usually found to be the most appropriate in the case of medium to large-sized entities.

Large company boards historically had 12 or more directors, but as boards have become more professionalised, the number of directors has reduced. While some of this depends on the entity itself, research published by Harvard Law School in 2023 on board size concluded that effectiveness declines as boards grow too large. Research from New York University's Stern School of Business has similarly found better financial performance from smaller boards. Similarly, a study by the Wall Street Journal found a correlation between smaller boards and better financial performance.

Taking these points into consideration, and to avoid being too prescriptive, **we would support a minimum of at least five and a maximum of no more than 12 directors being added to cl. 40.**

Consumer trusts

For consumer trusts, there are no competency or capability requirements for the trustees (as per cl 40 for CCO directors) as they are elected. In the draft report for the Future for Local Government review, one of the elements they assessed was the "*potential to augment elected membership with appointees who bring particular governance capabilities that would strengthen the overall council*" to support better decision-making (possibly similar to the former District Health Board model with a mix of elected and appointed members).

Regardless, in the final report the panel noted that capability-based appointments were *"conclusively opposed"* in the submissions received. The Panel did support capability-based appointments to council committees, and in advisory roles at the council table (noting that we considered it a significant omission that the report failed to acknowledge the significant role CCOs play in the governance of council infrastructure and commercial services and the capability and skill brought by independent directors and submitted to this effect).

We noted in our submission that in the Auditor-General's publication *Our 2018 work about local government*, it was recommended that all audit (and risk) committees appoint an independent chair. They have subsequently produced resources and "*principles that help an audit committee add value*". One of those key principles is independence. Since those initial recommendations, most councils have both a separate audit committee and have an independent chair – a competency-based appointment.

To support capability-building and upskilling of elected members the report recommended, among other actions, training and development (including governance skills) and four-year electoral terms. It is noted that some states in Australia (for example South Australia and Queensland) already have mandatory training requirements for elected members within their respective Local Government Acts.

Under the proposed consumer trust model, some of the same issues that beset councils due to election processes, could befall these entities, including lack of long-term thinking and direction-setting, insufficient experience and capability, and not having the right mix of skills around the table. **There is the opportunity within the Bill to consider including requirements and expectations of consumer trust trustees and whether there is a role for some form of minimal educational requirement if elected.**

Further, the Bill is currently silent on the election cycle for trustees.

With energy trusts, there is variability throughout the country depending upon the individual trust deed of each trust. That being said, they do state the minimum and maximum number of trustees required. While they were established to reflect their individual communities and the current environment (1980s to 1990s), unfortunately due to the nature of the trusts, trying to update or modernise their trust deeds can be quite problematic resulting in them operating on outdated models.

There is equally a lot of variability in election cycles with some trusts having six-year terms, and often candidates are reappointed unopposed, along with no limits as to the number of terms the trustees can be re-elected (see earlier comment under CCOs). While the latter two points are the same for local authorities, it is noted that the election return rate for energy trusts is significantly lower than that of local government. For example, in 2024 Entrust had an election return rate of only 9.4 percent and WEL Energy Trust had a return rate of 10.5 per cent whereas in the 2022 local government elections there was an overall return rate of 42 per cent.

Clause 45(1) notes that the trust deed must include the term, however, we believe that a specific election cycle (potentially four-yearly) and a maximum number of terms for elected trustees needs to be included within the Bill.

Further, subsection (4) of cl 40 notes the restriction on elected members and staff does not apply for water organisations owned by consumer trusts. As the local authority(ies) is the settlor of the trust, there is still a potential conflict, and if the community or local authority do not consider that the trust model is working, they can terminate the trust (cl 53). They are also a major water user so will have a significant conflict with regards to pricing (see previous comments on independence also).

Under cl 49 there are no restrictions on who can be a trustee other than principal residence and water services account holder (alongside the requirements of the Trusts Act 2019). To meet some of the core objectives of the Bill including improving accountability and decision-making, and to provide the same level of independence and professional governance sought for CCOs, **we believe cl 49 should be amended to restrict elected members and staff from being either trustees of consumer trusts or being appointed as a director (similar to cl 40(3) for CCOs) and similarly that trustees cannot also be directors of the water organisation.**

It is also noted that there is no definition of 'principal residence'. Within the *Local Electoral Act 2001*, cl 61(2)(ca) defines it as *"the address in respect of which the candidate is registered as a parliamentary elector".* This definition does not necessarily mean the place where the person resides, it can be a holiday home, a parent's place of residence or other. **We consider that principal residence needs to be clarified and defined.**

Exemptions

In the explanatory note it states that the Bill includes a process for exemptions from, amongst other things, the requirement for an independent, competency-based board; this is not specifically listed in cl 55. It does note in cl 55(2) that territorial authorities can apply for an exemption from the requirement that a water organisation must be a company incorporated under the *Companies Act*

1993 (cl 37(1)), but this clause does not cover the requirement for an independent, competency-based board.

While we consider that cl 55 should be clarified, we would not support an exemption to the competency requirement for board members as we do not believe that it supports the good governance of water organisations.

Further, cl 55(4) provides for an exemption for the restriction on trustees of a consumer trust to not have any roles and responsibilities other than their roles and responsibilities as shareholders in a water organisation (cl 44(3)). **We consider firstly that cl 44(3) should be clarified** in its wording, as it states that trustees of a consumer trust "*must not have any roles and responsibilities other than their roles and responsibilities as shareholders in a water organisation*". This suggests that they cannot have any other roles and responsibilities, such as private employment, other governance positions etc. It would appear that the intent of this clause was that they "must not have any roles and responsibilities *in relation to the water organisation* other than their roles and responsibilities as shareholders ~~in a water organisation~~." **We consider that the cl 44(3) needs to be amended to include the words "in relation to the water organisation" and the words "in a water organisation" should be deleted. Once amended, we do not support the exemption in cl 55(4),** as having multiple roles within the entity would result in conflicts of interests and the trustee would not be able to operate independently or optimally due to having to manage their conflicts, undermining consumer trust.

The Auditor-General's publication on *Managing conflicts of interest: A guide for the public sector* notes that there are higher expectations about conflicts of interests in the public sector and that "*members of the public rightly expect the people making those decisions to act impartially, without any possibility that they could be influenced by favouritism or improper personal motives, or that public resources could be misused for private benefit.*" While the water entities may not legally be public entities, in the eyes of the public they are by virtue of their council shareholding, the use of public funding, and the emphasis of the water reforms on local ownership and decision-making.

Direct delivery by Councils

Cl 9(1)(a) permits councils to provide water services 'directly'. However, cl 24 and 32 provide for regional councils and water service providers to enter into 'joint water service provider arrangements' which can be for the purpose of providing *"water services or any aspect of water services in the providers' combined service areas"*. Accordingly, the Bill does not seem to consider **joint** in-house (direct delivery) arrangements.

We could not see any direction in the Bill on what 'providing services itself directly' would involve in terms of governance, and the Department of Internal Affairs information describes it as involving *"usual council governance oversight"*. **Further clarity is required with regards to possible structural and governance arrangements of direct delivery, as direct delivery models can vary considerably, with some that include joint in-house models with other councils as well as independent appointees.** An example of joint-in house delivery is the Nelson Regional Sewerage Business Unit:

> For all intents and purposes, the Nelson Regional Sewerage Business Unit (NRSBU) is an in-house model in that there has been no transfer of ownership or responsibility, and no legally separate governance model. The NRSBU was set up as a business unit in October 2000 under a Memorandum of Understanding between the Tasman District and Nelson City councils and is overseen by a joint committee of the two councils. The joint committee comprises two elected members from each council plus an iwi representative, a (non-voting) industry representative and an independent member. A general manager is employed by

Nelson City Council who is responsible for all activities and provides a quarterly operational report to the joint committee. The Joint Committee prepares a three-yearly business plan that sets the direction for the Business Unit and presents this to the two Councils for feedback and approval, an activity management plan guides long-term management and investment decisions, and they report back to both councils annually on financial and non-financial performance and compliance.

Potentially, such a model would constitute a 'joint water service provider arrangement' under the Bill (despite not involving separate CCOs, i.e. they are examples of 'joint but in-house' management, with no separate 'water organisation', and no transfer of responsibility away from the councils).

If that is right, then we suggest that further clarification on direct delivery and joint water service provider arrangements is required as:

- **It is not clear that this has been considered, i.e. it is not mentioned in the explanatory note or DIA materials that we could see**
- **The Bill could make it clearer that this is the case, i.e. that 'joint in house' models or council delivery with external appointees are consistent with cl 9(a), and that it is not necessary to create a CCO to enter into a joint arrangement**
- **Where such models are already in place, then the Bill could clarify they are able to continue and will be recognised as 'joint water service provider arrangements' under the Bill. (We note that cl 25 sets out consultation requirements for *entering* into a joint arrangement, but it does not make it clear that no such consultation is required if the arrangement is already in place)**
- **We could not see anything specifically precluding external appointees as part of an in-house/direct option, but again it may be useful to clarify. If external appointees are allowed, are they subject to the conditions in cl 40(1) and (2)?**

As noted above, the Auditor-General's guidance on audit (and risk) committees with regards to independent chairs has resulted in significant changes across local authorities and a focus on capability-based appointments for these roles. We consider in-house delivery models could similarly benefit from, at least, an independent chair. **We consider that if in-house models do permit external appointments, then cl 40(1) and (2) should apply to these, and further, that consideration should be given to an independent chair for water services committees (or their equivalent) for in-house delivery.**

Long-term planning certainty

Long-term planning is critical and complex. Each water organisation is required to give effect to the statement of expectations, which *"sets out the strategic and performance expectations for the organisation"*. The statement of expectations (cl 184(2)) and consequent water services strategy (cl 190(3)(c)), covers a 10-year period. However, the water services strategy is only in effect for a three-year period (cl 190(3)(b)).

In cl 7 of Schedule 3 it indicates a 30-year time horizon in preparing water services strategies, with cl 181(2)(a) stating that territorial authorities should not include information about water services in their infrastructure strategies if they are required to comply with that part of the Bill. Despite quite prescriptive requirements as to what should be provided in the water services strategy for the first 10 years, cl 7 suggests that only projecting capital and operating expenditure is required for the next 20 years.

The Infrastructure Commission notes that while infrastructure is designed to last generations, it is never static – *"they are constantly being added to, improved, or repurposed to meet the needs of current and future populations. Because infrastructure lasts such a long time, infrastructure decisions need to be made with an eye to the future"*.

Despite this, planning cycles of CCOs are frequently disrupted by election cycles. Taituarā (Local Government Professionals Aotearoa) note on their website that "*local government elections result in changes to the elected member composition every three years with new councillors bringing their own perspectives and priorities to Councils. [This] leads to different views on desired outcomes and expectations of CCOs.*"

They further note that they "*cannot think of a time in the last 15 years when there has been so many requests for support from Councils and CCOs across a wide range of areas*" including CCO reviews and restructures. "*New councillors, the breakdown of trusted relationships, or the need for efficiencies/cash generation can trigger reviews and restructures within the Council group.*"

The Panel for the Review into the Future for Local Government recommended a move to a four-year term for local government as this would *"improve members' abilities to make decisions for the long term by providing a longer window to get things done".* A remit was adopted at LGNZ's 2020 AGM calling for the local government term to shift to four years from the 2025 elections.

It is also noted that the ACT Coalition agreement requires the Government to introduce the *Constitution (Enabling a 4-year Term) Amendment Bill* shortly and support this through its first reading.

We support a four-year election cycle. While we appreciate that this is outside of the scope of this consultation, we believe it will still be beneficial for long-term planning. That aside, with assets that last 100 years, planning needs to go beyond even four-year cycles and water organisations need to be provided an enabling environment to circumvent many of the planning and funding problems that have beset councils in relation to infrastructure planning. With water strategies requiring to be audited, and environmental and economic regulatory oversight, we consider that the planning cycles could be adjusted to support longer-term decision-making.

It is further noted that if the water organisations are required to undertake community consultation in relation to the development of their water services strategy (cl 187(2)(e)), that those entities need to be able to respond to those priorities and matters raised by submitters. If the power continues to lie with the councils through the Statement of Expectations and Statement of Intent yet the responsibility lies with the water organisation, then they will not be able to undertake honest and transparent consultation if they are unable to be responsive.

Accordingly, we seek greater clarity and certainty of planning cycles to enable secure long-term planning within the complexity of short-term election cycles and to address the demarcation of roles and responsibilities, to ensure that directors can undertake planning and make decisions.

To further support long-term planning certainty, staggered appointment terms to the new water entities would also be beneficial. We do not regard this as a matter that needs to be prescribed in perpetuity. However, **an establishment provision requiring staggered appointment terms for directors and trustees when entities are first set up by council(s) would support continuity and certainty of governance.**

Conclusion

The *Local Government (Water Services) Bill* is laudable in its intent and gives local authorities the ability to determine the form of governance that best suits the requirements of their area of stewardship. We have recommended a number of governance-related amendments and clarifications to further support the intent of the Bill particularly as they relate to independence of appointments, need for competency-based appointments, complexity of long-term planning requirements, and role clarification between directors and elected members. There are some areas, such as tenure, that we do not consider are best dealt with through legislation and suggest that guidance could be developed to support local authorities in relation to water organisation governance.

We have also sought some clarification around consumer trusts particularly as they relate to both elections and director appointments and the governance and structure of in-house delivery models. Additionally, we have highlighted our concerns in relation to exemptions, particularly exempting the requirement for competency-based appointments.

The IoD would like to speak to this submission.

Ngā mihi nui

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