

OPEN Briefing from the Strategic Advisor and PWC providing a Three Waters Reform update

Date of Briefing: 24 February 2021
5.20pm – 6.30pm

Attendees

Elected Members: Mayor Barry, Deputy Mayor Lewis, Cr Bassett, Cr Briggs, Cr Dyer, Cr Hislop, Cr Mitchell, Cr Rasheed (until 5.55pm), Cr Sutton (until 6.26pm), Ms P Hanna, Ms V Horrocks

Staff: Ms J Miller, Chief Executive; Ms H Oram, Director Environmental and Sustainability; Mr M Boggs, Director Strategy and Engagement (until 5.25pm); Mr Bruce Hodgins, Strategic Advisor; Ms Jenny Livschitz, Chief Financial Officer; Mrs H Clegg, Note Taker

Attendees: Mr Bryan Patchett, Regional Water Reform Project Director; Mr Dan Marshall, Partner PWC, and Mr Chris Whiteside, Associate Director, PWC

Apologies / Absences

Elected Member Apologies: Cr Brown, Cr Milne. Cr Rasheed for early leaving.

Elected Members Absent: Cr Edwards, Cr Shaw

Key Objectives of the Briefing

The purpose of the briefing was to provide a Three Waters Reform update, including possible implications on revenue and debt for the council.

Discussion

Mr Patchett led the Briefing and used a slideshow presentation

He highlighted:

- Strong affirmation of partnership with iwi maori.
- “Opt-Out” rather than an “Opt-In”. Councils will be required to run consultation processes with their communities, to make the decision on whether to opt-out of reform process. (Legislative change first required to allow that conversation to occur.)
- Ambitious timeframe set by Cabinet. Timeline and milestones important.
- Number of entities and boundaries were yet to be determined.
- New Regulator would ensure councils were charging for water at appropriate rates.
- The new publicly owned entities should be up and running in mid-2023.

Mr Patchett answered questions from members:

- Three Waters Reforms concern the institutions that will manage and deliver water; it was not about who owned water, or individual resource consents (e.g. historical consents issued for water bottling.)
- The new entities would inherit all assets, revenues and debts.

Mr Patchett detailed the economic modelling undertaken by WICS, which was commissioned to gain a better understanding of the potential benefits to New Zealand available through aggregation. He acknowledged data used and assumptions made dated from 2018, which was now out of date, and that population growth had not been factored in. However, conclusions by DIA were that overall, the modelling gave a general positive outcome for the Reforms, and that on average, everyone would be better off.

Findings included:

- NZ had a low value of water assets.
- NZ had a low connection rate to reticulated water systems (e.g. 40% of Whangarei residents are not on town supply water).
- Significant variations nationwide on costs of water and coverage of water services.
- Nationwide, councils' Three Water revenues were not sufficient to cover costs of infrastructures.
- Significant investment was required to bring water supply systems up to standard (including environmental standards). Rural areas faced the biggest challenges. If authorities chose to "opt-out", councils would need to find the monies themselves. Three Waters costs could be as much as 50% more expensive for ratepayers in areas which opt-out.
- Scenario 5 currently seemed to be the most likely scenario – four entities across NZ, with Wellington in a "Lower North Island/Upper South Island" entity. Nga Tahu would prefer their customary area be better reflected, which did not include the top of the South Island.

Mr Patchett answered questions from members:

- Figures quoted included the costs of bringing every residential property in NZ on-line with safe drinking water.
- Modelling included assumptions about Auckland's current water shortage issues.
- Acknowledged this initial Reform may be the start of a further refining of the entities, and that in order to gain greater efficiencies and equity, fewer than 4 or 5 entities may be the final result.
- Catchment areas as well as population numbers (around 1M – 1.5M users) were used to develop possible entity areas.
- Acknowledged lack of numbers of personnel qualified to staff many entities, and that having only one entity initially may not benefit all of NZ (it would almost certainly be based in Auckland).
- People on own water supply were not included in the Reforms, but as soon as you collect water for distribution to other parties, you are subject to the new regulations. e.g. accommodation establishments will have more regulations than an individual dwelling.

- There would be a tipping point where a high number of councils opting-out, would result in imbalances within the entities. There would probably be time restrictions for entry into an entity, if an authority did not join from the beginning (eg five year).
- The Chief Executive advised the CEO's from the lower North Island and upper South Island met regularly, and that she had already advised them of this council's support for the Three Waters Reforms in general. She acknowledged everyone was cautious, with the details of the system yet to be announced.

Mr Marshall used a slideshow to explain the high-level analysis and findings PWC had conducted into the potential impacts of the proposed Reforms on councils in the Wellington region.

- He acknowledged the use of 2018 data in the WICS report and urged members to analyse the themes emerging from the data, rather than the data numbers.
- HCC proportion of water revenue to total revenue was high, meaning HCC was allocating more of their revenue to water, than other councils. Water revenue would be transferred to the new entity, which meant HCC would lose that money in the future.
- HCC proportion of water assets to total assets was also high – these would also be transferred to the new entity.
- All councils' water asset and capex plans were different. It would be important to ascertain that HCC was gaining a fair value for the assets transferred, and that there was no liability arising from other councils who had deferred maintenance of their assets.
- The government was still working on debt transfer details, including developing fair and equitable methodology for the transfer of debt to the new entities.
- PWC highlighted four possible debt transfer methods and acknowledged the final one may be a hybrid of them. It was noted there was a high degree of variability in the methods, and that the government would not want to have different, bespoke methods for each council in New Zealand.
- Debt was highly variable – South Wairarapa's debt was consisted of 96% related to water, Mr Patchett explained that the final outcome may be that the councils of the region may not all agree on the final chosen methodology, but that they had all been well informed.
- Mr Whiteside advised the government would want the new entities to be financially sustainable, and that the relationship between debt and revenue was important.
- The Chief Executive advised it was difficult to understand the benefits of being a shareholder in a new entity, as it appeared there would be no power available to councils.
- Mr Marshall explained the driver of the Reforms was to move Three Waters off the balance sheets of local authorities. Mr Whiteside advised it was believed a model more akin to the Tasmanian model may be adopted, which would provide a governance seat for each authority within an entity. He acknowledged there was currently very little information regarding this.
- Revenue and debt in HCC may change under a new entity – there was a potential for overall rates to reduce.
- The final methodology imposed by the government could have significant impacts for HCC.

The PWC personnel answered questions from members:

- Discussions would be held with the Chief Financial Officer regarding the value of updating figures used in calculations.
- The WWCommittee may be able to influence proceedings, but it was noted that the current system could not be transferred to the proposed new system.

Next Steps

The Strategic Advisor will obtain information from Mr Patchett, on where Lower Hutt sat in the variability of paying-for-water scale, compared to other authorities. He would distribute this to members.

Briefing Materials

[Attachment 1 – Three Waters Reform – Where are we at? February 2021, by Bryan Patchett](#)
[Attachment 2 – Three Waters Reform - PWC](#)