

Three Waters Reform

Where are we at?

February 2021

Briefing to Hutt City Council

Regional Water Reform Project

Bryan Patchett, Project Director

Agenda

1. Update on Reform process
 - Principles shaping reform
 - Key Cabinet decisions – December 2020
 - Revised timeline & milestones for 2021
2. Key findings from Economic Modelling
3. Taking a regional approach
4. PWC Modelling
5. Next steps

1. Update on Reform Process

Principles that are shaping water reform

- Voluntary, partnership-based approach with local government (now “Opt-Out”)
- Partnership with iwi/Māori - throughout the reform process and in the new three waters service delivery system
- Agreement to create small number of new multi-regional water service entities (statutory & asset-owning) - that enable benefits from aggregation to be achieved over medium/long-term
- Delivery of drinking water and wastewater services as a priority (with approach to stormwater still being determined)
- Preference that new water entities be collectively owned by local authorities - with legal & financial separation; and competency-based boards
- Safeguards against privatisation with mechanisms that provide for continued public ownership, community input & local service delivery

Key Cabinet Decisions – December 2020

Cabinet Agreed:

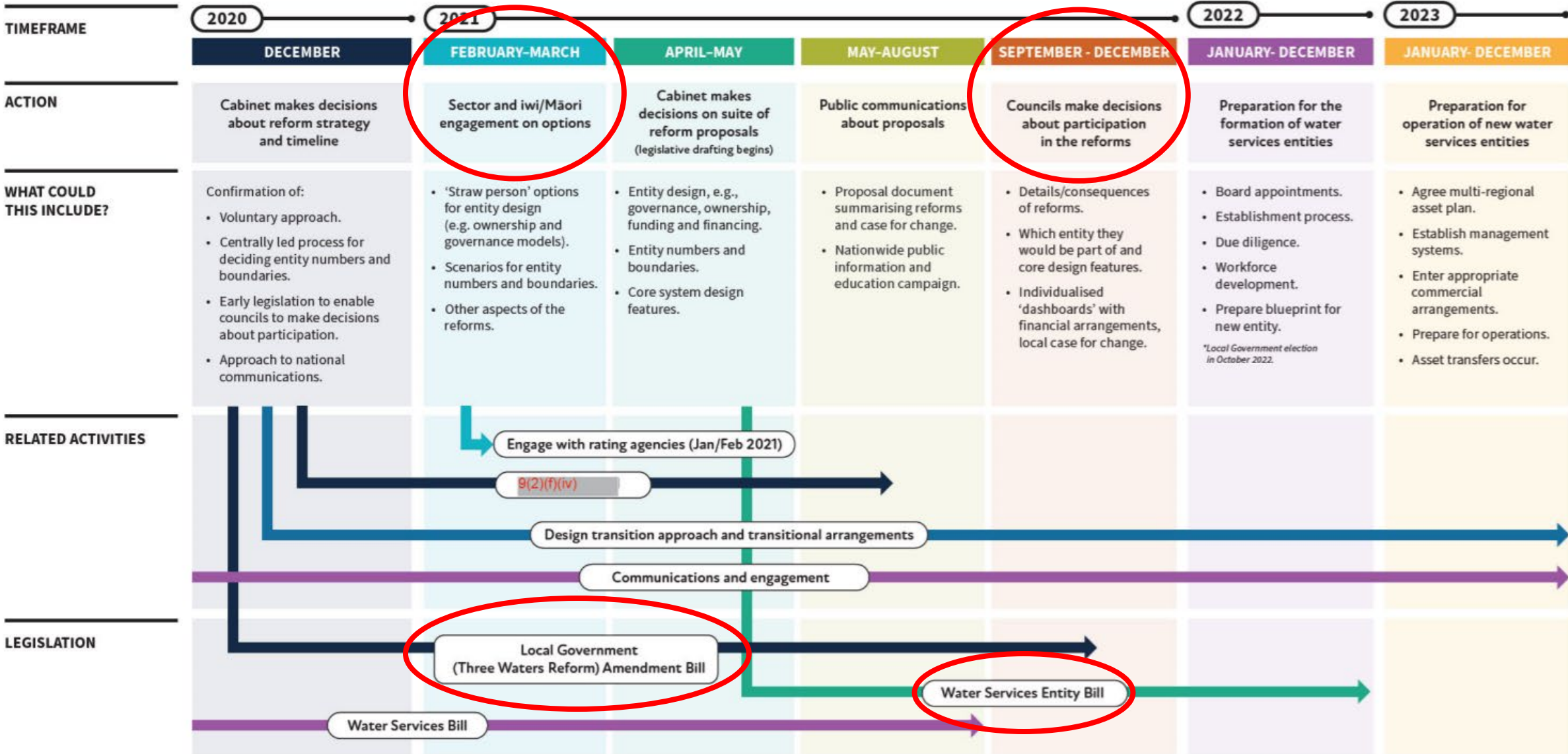
1. Substantive policy decisions April/May to enable legislation to be introduced later in the year, including decisions on main features, number and boundaries of new water entities
2. Centrally-led process for identifying number & boundaries
 - considering scale benefits, communities of interest, equity of pricing and access to services, relationships with other boundaries (such as catchments and Iwi rohe/takiwa)
3. Councils will be asked to decide to participate on ‘Opt-out’ basis
 - councils included in new water entities by default, and can decide not to continue to participate
4. Nation-wide public information/education campaign to provide national picture of case for change - May to August

Key Cabinet Decisions – December 2020 contd.

Cabinet Agreed:

5. Legislation mid-2021 to remove LGA statutory obstacles to councils three waters decision making, & enable community consultation in appropriate manner
6. Government information pack ahead of council decision-making
 - outlining entity design (e.g. ownership & governance), financial and other implications of participating, and entity council water services would be aggregated in to
7. Much stronger regulatory system for water services
 - enhanced enforcement of drinking water regulation, stronger environmental regulation, *and likely introduction of economic regulation*

Revised Timeline & Milestones for 2021



2. Findings of Economic Modelling

Economic modelling to understand potential benefits available through aggregation

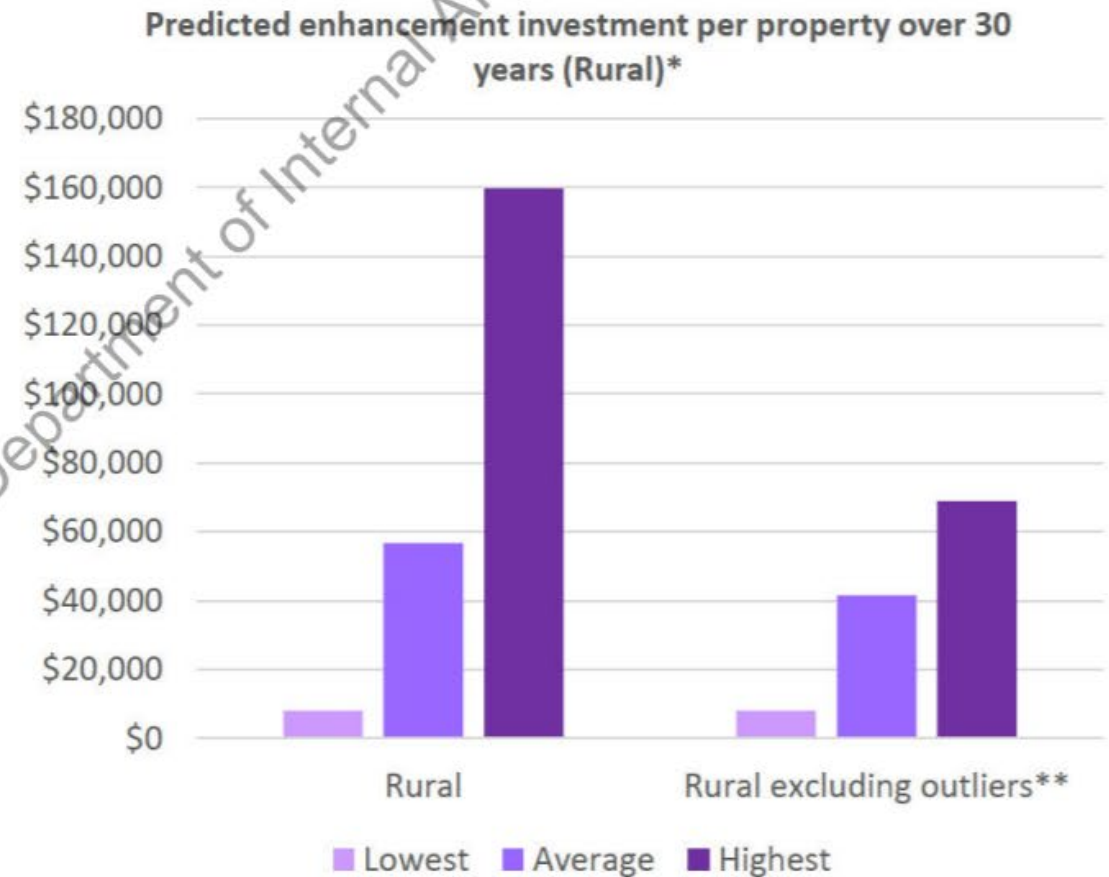
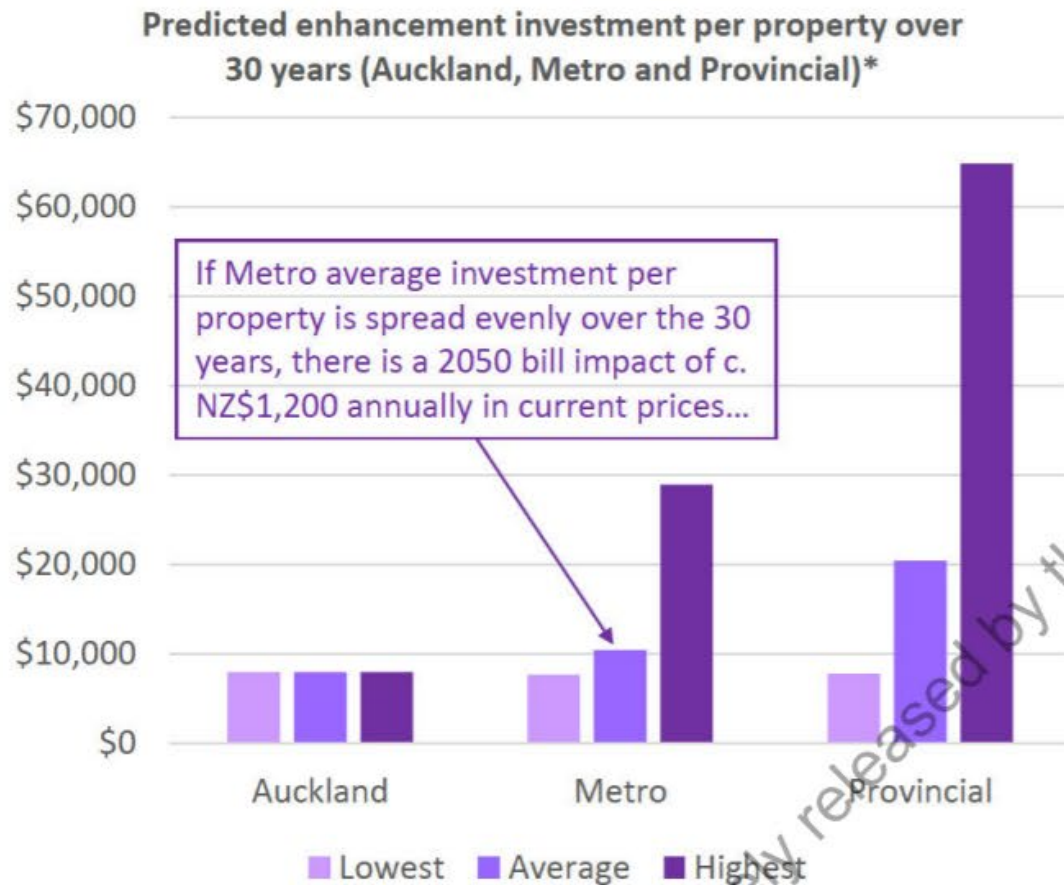
Key findings:

- Three water's asset values per connected person appear low - 50% lower than international benchmarking suggests – this impacts on the scale of current three waters underfunding
- Connection rates in NZ are very low relative to levels of urbanization (not only in rural areas)
- Significant variation in cost, price, quality & coverage of water service delivery across country, with relationship between them not well understood by providers or customers
- Councils' current three waters revenues not sufficient to cover full economic cost of providing sustainable service
- Aggregation can help reduce impact on price of improving service quality & coverage, by delivering scale benefits - financial, operating, capital and regulatory efficiencies
- Modelling estimates \$27-\$46bn of additional three waters investment is needed over 30 years to meet drinking water and environmental standards
 - This is over & above maintenance and renewals investment, but does not include investment required for population growth or seismic resilience

Key findings of Economic Modelling by WICS

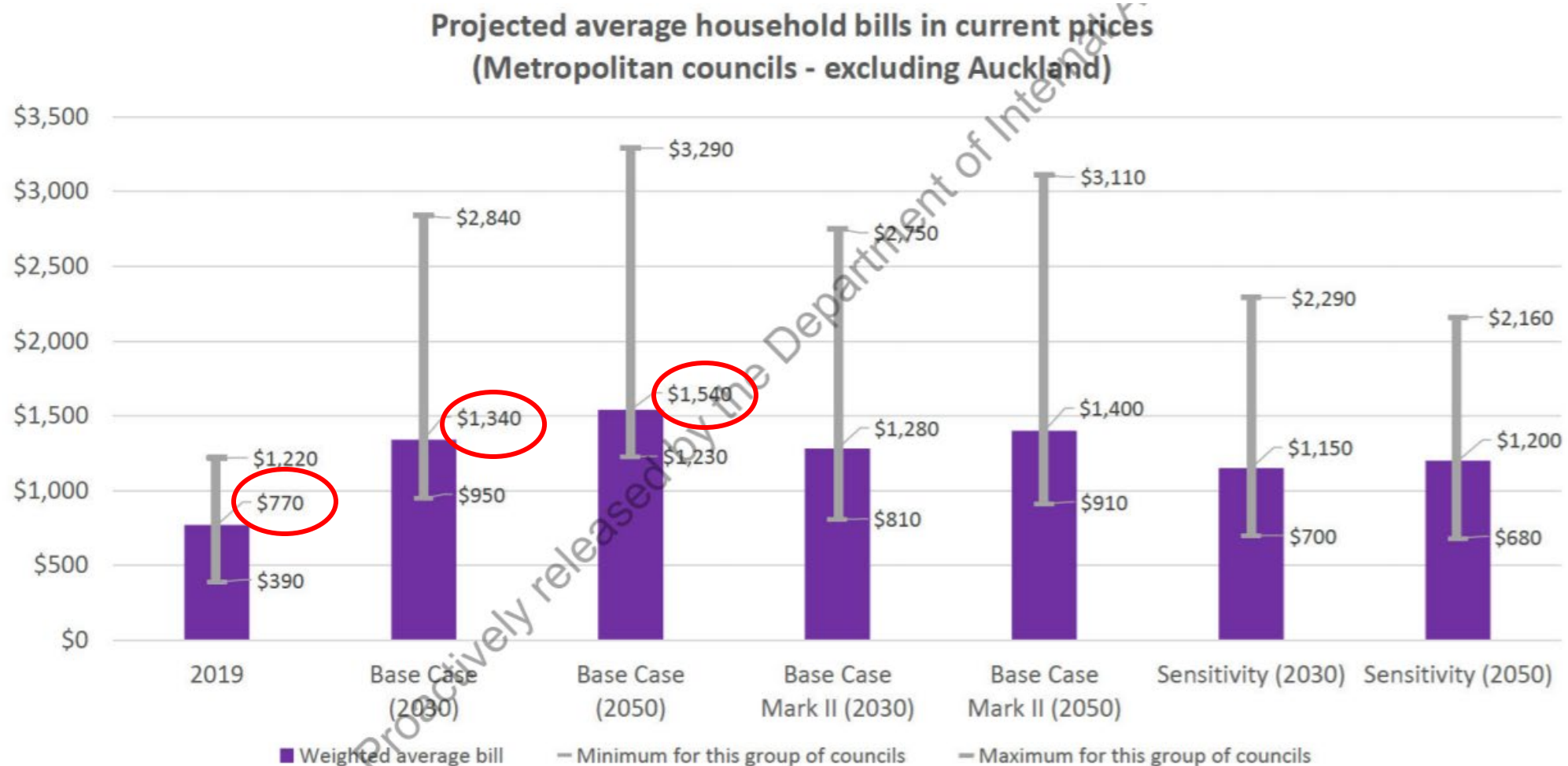
- Scale of enhancement investment needed

- WICS has used a relative urbanization model to predict total three waters “enhancement” investment likely to be needed **per property** over 30 years.



Key findings of Stage 1 Economic Modelling by WICS

- Projected average household bills – metro councils
with no aggregation



Comparing WICS Aggregation Scenarios



Scenario 1
- 4 entities



Scenario 3
- 8 entities



Scenario 5
- 4 entities



Scenario 9
- 2 entities

Average Household Water Bill for the Aggregation that Wellington Region is included in

	Actual HH Bill	Project HH Bill for Base Case – 95% HH connected		Project HH Bill for Base Case II – No change to HH coverage	
	Y 2019	Y 2030	Y 2050	Y 2030	Y 2050
No Aggregation (NZ average – not Wellington region specific)	Rural: \$1090 Provincial: \$820 Metro: \$770	Rural: \$3040 Provincial: \$1790 Metro: \$1340	Rural: \$3720 Provincial: \$1990 Metro: \$1540	Rural: \$2980 Provincial: \$1690 Metro: \$1280	Rural: \$3660 Provincial: \$1840 Metro: \$1400
Scenario 1	\$900	\$1300	\$1150	\$1050	\$900
Scenario 3	\$800	\$1150	\$1150	\$1100	\$1100
Scenario 5	\$780	\$1150	\$1000	\$1100	\$950
Scenario 9	\$790	\$1100	\$950	\$1050	\$900

*Values in this Table are approximate – derived from graphs in the WICS report

Key findings from WICS aggregation scenario analysis

- All councils can be better off through aggregation - but benefits could be reduced if entities are too small & can't achieve efficiencies
- Very substantial variation in levels of household bills could apply in amalgamated entities – so where lines are drawn is critical
- Whoever has Auckland is likely to enjoy (by far) the lowest level of bills
- Scenarios for eight & thirteen entities have higher bills and larger differentials in charges than the scenarios that establish larger entities
- Combination that produces most equitable bills across NZ is “north of the North Island and whole of the South Island” in one entity and “the rest of the North Island” in a second entity
- Two scenarios that produce lowest bills for households in the Wellington region are:
 - Scenario 9 - two entities, with Wellington region in a North Island only aggregation excluding Auckland and Northland
 - Scenario 5 - four entities, with Wellington region in Central New Zealand aggregation extending from Taranaki to Gisborne to Tasman, Nelson, Marlborough

3. Taking a regional approach

Regional Water Reform Project

Purpose:

- Provide a joined-up regional approach to the Government's Water Reform, that seeks to influence, shape and respond to the reform process (and its key decision points) in a timely and effective way.
- Help ensure Mayors/Chair/Councillors (and CEs) have best available information & advice to support their decision making on three waters reform.
- Optimise positive outcomes for the region regarding three waters



4. PWC Modelling

- Shareholding, control and debt

Next steps

- Briefings for Wellington region councils on water reform – February/March in advance of DIA engagement process
- Regional engagement by DIA with local government and Iwi/Maori – 19 March in Wellington