

Three Waters Reform

Report to Council
8 September 2021

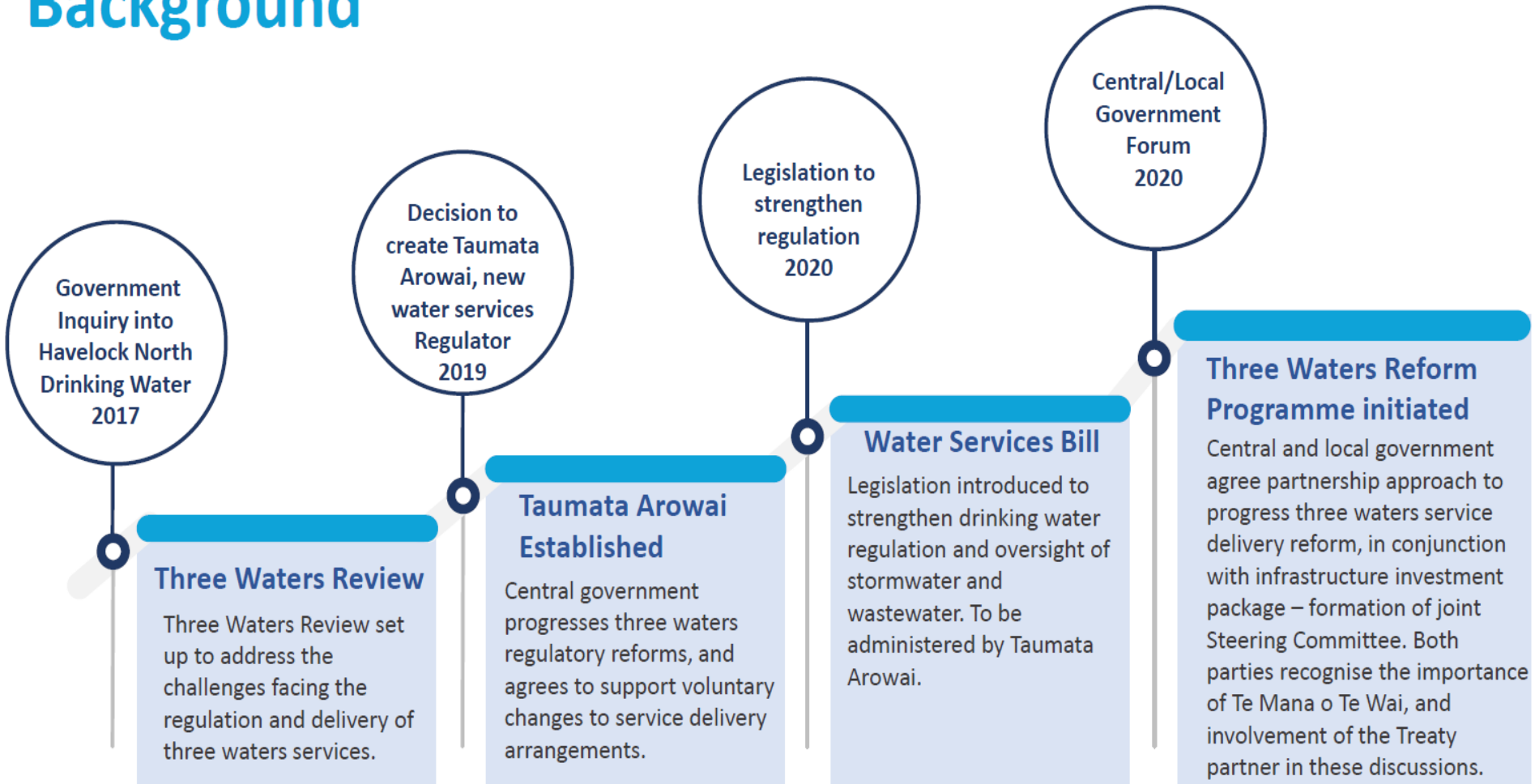


Purpose of report

Update Council on:

- the Government's 30 June 2021 and 15 July 2021 Three Waters Reform announcements, which change the reform process previously outlined in 2020
- the specific data and modelling Council has received to date
- the implications of the revised Three Waters Reform proposal for Council and alternative service delivery options
- next steps (including uncertainties).

Background



A new system for water – change is coming

3 pillars of the Government reforms

- **Regulatory reform** – Water Services Bill
 - drinking water standards
 - environmental regulation
- **Taumata Arowai**
- **Service delivery reform** (Water Service Entities) – the focus of today
 - Economic regulator

Government case for change

Scale of the challenges require comprehensive change

- 67 councils owning and operating majority of drinking water, wastewater and stormwater
- Current state of assets and failures – quality and infrastructure challenges
- Affordability: investment requirement for New Zealand's three waters services over the next 30+ years of between \$120bn - \$185bn without reform
- Regulation: complying with safety standards and environmental expectations
- Resilience: to natural hazards and climate change into three waters networks
- Scale enables efficiency gains

Challenges for Lower Hutt

Population
growth

Ageing
assets

Climate
change

Increasing
environment
& freshwater
quality
standards

New water
quality
regulation

Ongoing
stresses
from
earthquakes

Looming challenges for Lower Hutt

- Community expectations for improved fresh water quality
 - Whaitua process and recommendations
 - Regulation (NPS and RPS)
 - Global consent process
 - Number and frequency of overflows
- Water Quality Regulation
 - Increased requirements and costs
- Water usage/conservation – water meters and new storage
- Ageing networks and Growth
- Affordability and Do-ability

Proposed reform model

High level design as agreed by Cabinet

- 4 new water service entities (WSE)
- Responsible for three waters = drinking water, wastewater, stormwater
- Own and operate three waters infrastructure
 - Transfer of ownership and debt
 - Assets remain in public ownership
 - Balance sheet separation to enable borrowings
 - Councils have no 'shareholding' interest and no financial recognition

Proposed reform model cont.

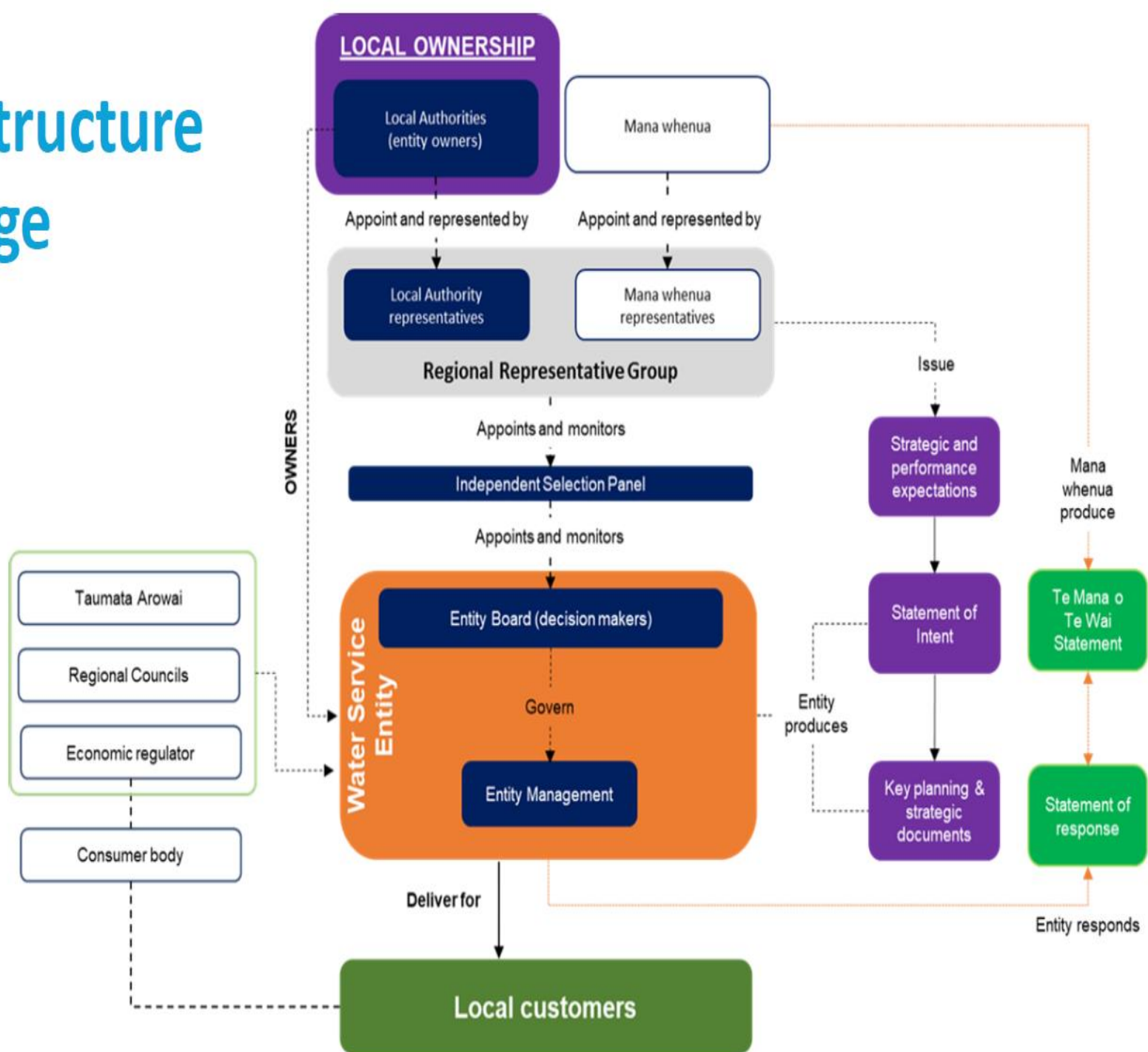
- Independent, competency based governance model
- Suite of mechanisms to protect and promote iwi/Māori rights and interests and protect from privatisation
- Economic regulatory regime to protect consumer interests and provide strong incentives for performance
- Consumer body

Iwi / Māori rights and interests

Intent to provide step change in the way Iwi / Māori rights and interests are recognised

- Recognition of Treaty of Waitangi and Te Mana o te Wai
- Mana whenua representation on governance
- Te Mana o te Wai statements
- Entity boards required to have:
 - Treaty of Waitangi, mātauranga Māori, tikanga Māori, and Te Ao Māori competencies
 - specific expertise in kaitiakitanga, tikanga and mātauranga Māori in delivering water services
- Entities will fund and support capability and capacity of mana whenua to participate in its activities

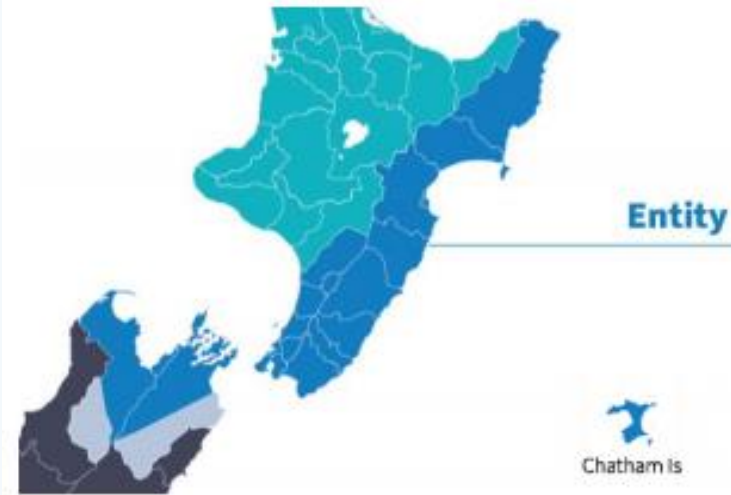
Entity structure on a page



Key benefits anticipated

- **Affordability:** balance sheets separate from councils enables borrowing
- **Efficiencies:** in the range of 45% over a 30 year period could be achieved
 - = Roughly 2% / year efficiency gain
 - Capability
 - Procurement
 - Governance
 - Scale
 - Economic regulation
- = **Lower costs** for communities

Entity C



Carterton Central Hawke's Bay Chatham Islands Gisborne Hastings Horowhenua Kapiti Coast	Lower Hutt Manawatu Marlborough Masterton Napier Nelson Palmerston North	Porirua South Wairarapa Tararua Tasman Upper Hutt Wairoa Wellington
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Entity C

Connected population (2020)	1.0m
Average household cost (2051, real)¹	
With reform	\$1,260
Without reform	\$3,730

Confidence in evidence base

Reasonable confidence that the Government's evidence base is directionally correct

- Government's evidence built upon high level WICS analysis based on council data
- Peer review – FarrierSwier and Beca
- Inherent challenges in data quality, forecasting and modelling over 30 years
- Massive investment required
- Unaffordable for councils under current funding settings
- Efficiency gains may be overstated but broadly reasonable

Confidence in benefits

Benefits will depend on a range of factors and whole of system reforms

- Councils opting in
- Effective governance
- Increased sector capability and capacity
- Regulatory compliance and enforcement for water quality
- Effective economic regulation
- Borrowing and funding

Implications for Hutt City

It is proposed that all of Wellington is part of “Entity C”

- Entity C - boundaries based on scale, water catchments, rohe/takiwā, communities and workforce
- The boundaries will be subject to further engagement
- Potentially 22+ councils
- Mana whenua will have a joint oversight role
- Councils and iwi/Māori would appoint a regional representative group which oversees the Board of the entity

Package for local Government

Two parts of investment plus financial support for transition

‘Better off’

- \$2 billion total. \$1 billion Crown funding and \$1 billion from the new water services entities
- For supporting communities to transition to a sustainable and low-emissions economy, including by building resilience to climate change and natural hazards; and / or
- Delivery of infrastructure and/or services that:
 - enable housing development and growth, with a focus on brownfield and infill development opportunities where those are available,
 - support local place-making and improvements in community well-being.

Lower Hutt allocated \$38,718,543 “Better off” funding

Package for local Government

‘No worse off’

- \$500 million estimated. From new water service entities
- Ensure that no local authority is in a materially worse position financially to continue to provide services to its community as a direct result of the reform
- Up to \$250 million provision to support councils to meet the unavoidable costs of stranded overheads associated with the transfer of water assets, liabilities and revenues
 - \$50 million of this for Auckland, Christchurch and [Wellington Water](#) councils based on 2 years of stranded costs
- Remainder to address adverse effects of impacts on the financial sustainability of territorial authorities

Transition support

\$296 million to support transition process

Responding to the reforms

8 week process

Purpose of the 8 weeks – enable councils to

- Understand the information on case for change and proposed reform model
- Understand local impacts
- Identify issues and provide feedback – how to improve the proposals
- Not expected to undertake formal consultation
- Not expected to make formal decisions
- Too early to make a decision on opting-in or out

Government will not make further decisions during this engagement period

Current challenges

Key issues for Hutt City

- Network condition
- Capacity
- Maintenance costs
- Whaitua and community expectations
- Climate change
- Resilience
- Storm water

Initial assessment of financial impact

Should the reforms proceed as proposed, a due diligence process will be undertaken to assess the actual assets, debt and revenue at the point of transfer on 1 July 2024

High level assessment of financial implications

- Costs for water will increase. However lower increases under a reform model
- Debt headroom not a driver for change based on current LTP but LTP does not fully allow for future growth costs
- Around \$71m of revenue and \$104m of debt transferred – increase debt ratio to 206%
- Off-set by ‘no worse off’ payment

PwC review of financial impact

PwC has been engaged to support our understanding of the government's forecast future costs of three waters.

The government engaged WICS to prepare forecast average cost per household in support of the reform proposals.

WICS' forecast used RFI data and international benchmarks to compare forecast future costs under both 'reform' and 'no reform' scenarios.

WICS modelling for HCC	Current cost	Forecast FY51 'Reform' scenario	Forecast FY51 'No reform' scenario
Average Household cost	\$880	\$1,260	\$2,380

PwC review of financial impact

Comparison of WICS modelling and HCC 2021 LTP

Metric	WICS FY31	HCC FY31	WICS FY51	Est. HCC FY51
Average Household cost ('No reform')	\$2,165	\$1,767	\$2,380	\$1,861

The average cost difference (~\$400) reflects higher forecast capital Investment used by WICS (\$932m) compared with the 2021 LTP (\$489).

WICS higher capital expenditure is driven by standardised Level of Service enhancements calculated across all councils based on population, land area and density.

At a high level (based on the increased level of capital investment forecast in the WICS modelling) the estimated average cost per household in FY31 (and FY51) under the 'no reform' scenario does not appear unreasonable.

Alternatives

Four feasible alternative options have been considered at a high level

- Option A – Government reforms proposal
- Option B – Wellington Water model at higher level of service (effectively the status quo or do minimum option)
- Option C – asset transfer to an enhanced Wellington Water type model
- Option D – Council delivery of water services
- Under all options except the Government proposal, Council bears the risk of meeting the new water standards, environmental requirements and achieving compliance.

Key issues

Recommend further information and guidance is sought in relation to:

- the proposed boundaries and rationale for these;
- plans for consultation with mana whenua and communities;
- ensuring that communities have a voice in the system and influence over local decisions;
- prioritisation of investment, particularly ensuring integration with spatial and local planning, including growth planning;
- effective representation on the new water service entities' oversight boards;
- the criteria and conditions that will be associated with the Government funding packages for 'better off' and 'no worse off';
- integration with other local government reform processes;
- the scope of the stormwater role that entities will play, including in relation to growth and development planning, asset management and maintenance;
- how councils will be involved in holding future entities accountable for performance and customer service levels.

Community feedback

While we have not consulted with the community at this time, initial feedback has included:

- Understanding of the challenges and investment required
- Want more information on aspects of the reforms
- Perception that these are communities assets
- Desire for community consultation

Next steps and recommendations

Next steps in the process

- Noting paper
- No decisions from Council required at this time
- Ongoing alignment with other councils in Wellington region and Entity C area
- Further engagement with LGNZ and DIA
- Seek feedback from Government based on issues noted above by 30 September
- Government will make decisions after 1 October – this process and timeframes remain unclear