

Water reform is needed

In her article in the New Zealand Herald ('Send Hide's water bill down plughole' – Wednesday 13 January) Maria McMillan argues that Rodney Hides' proposals to reform the Local Government Act to allow for greater private sector involvement in municipal water management should not proceed.

In essence she argues that the proposed changes would amount to privatisation of water, which is a bad thing, because the profit motive increases the price of, and decreases the quality of water and wastewater services.

She is wrong on both counts.

The intention of the changes is to provide local government with more flexibility in managing water services than is currently allowed in the Act. They are sorely needed.

Reform will allow for extension of the current 15 year limit on contracts between territorial authorities and private sector interests to 35 years, repeal of the current requirement that overall management of water services be retained by local government organisations, and removal of restrictions on build, own, operate and transfer schemes.

Current restrictions on private contracting were placed in the Act quite recently, in 2002, not for reasons of good public policy, but rather for political purposes.

Let's put the privatisation bogey to bed first.

Prior to 2002 there were no restrictions on ownership of these assets. Despite this there has not been one single example of privatisation of reticulated municipal water schemes since the 1870's when they were first installed in New Zealand.

There is a very good reason for this. As Maria McMillan points out these assets lend themselves to being natural monopolies like the electricity grid, and there is simply no appetite for their privatisation in New Zealand.

Water New Zealand represents 1500 water experts from across both the private and public sector. If any representative group had a feel for any mood for privatisation it would be ours, the majority of whom come from the private sector. Our policy, fully supported by these members is that ownership of these assets be retained in public hands.

Private ownership should not however be confused with water asset operation and management. The fact is that some smaller territorial authorities simply don't have the in house capacity and expertise to manage and operate their water infrastructure, and therefore contract it out.

Successful local examples include United Water, DownerEDI and CityCare's contracts with various Councils across New Zealand. Additionally few local authorities have the capacity to plan, design and build new water infrastructure. This activity is pretty well all contracted out. The point is that contracting out isn't privatisation.

Importantly, the Act requires that pricing be retained in public control, and there is no proposal to change this.

Insertion of the 15 year contracting limit into the Act in 2002 effectively killed off any further build, own, transfer contracts, such as the existing Moa Point wastewater plant in Wellington.

Of more importance to New Zealanders shouldn't be debate about what does or does not constitute privatisation, but rather how we are going to fund our water infrastructure going forward.

Because we've got a problem.

Analysis of long term council community plans for the period 2009 -18 indicates pretty significant increases in capital and operating expenditure in the provision of water services across New Zealand.

Department of Internal Affairs commissioned analysis forecasts total expenditure will be \$28.46 billion over this period, made up of \$11.46 billion of capex. and \$17 billion of opex. The capex figure now stands 30% higher than estimates from the same plans for the 2006 – 15 period, indicating an increasing infrastructure deficit. Unless this deficit is addressed, water infrastructure will deteriorate.

By international best practice standards water sectoral infrastructure in New Zealand is characterised by under investment, fragmentation of systems, costly inefficiencies, outputs of highly variable quality potentially impacting on public health, outmoded technology, and diverse environmental impacts.

With a few exceptions such as in Auckland, urban water demand isn't being properly managed using proven, simple effective tools such metering and volumetric charging.

In July 2009 the Government announced that it would defer for three years mandatory implementation of standards for drinking water, in response to concerns expressed by councils that the cost of upgrading water infrastructure, particularly for smaller authorities, would be prohibitive.

Subsidy schemes that previously helped smaller communities fund reticulated schemes are under review.

It is clear that continuation with the status quo will not address the challenges associated with water management in New Zealand.

Rodney Hides' proposals to remove barriers to water infrastructure development also need to be considered in conjunction with other current public policy initiatives.

These include further reform of the Local Government Act to focus councils on core public good activities and benchmarking of their performance, along with changes to the Resource Management Act. At present the Land and Water Forum is considering options for revised governance arrangements for water generally, along with its allocation and quality in natural waterways. These will inform

second stage RMA reforms during the term of the current Parliament. It is clear in an increasingly resource constrained world, New Zealand's abundance of water and biological economy is going to place us well strategically going forward.

Getting the municipal water infrastructure bit right should be one of the easier bits to fix. Provided suppliers have the tools they can do it.

Ends

878 words

Murray Gibb

Chief Executive

Water New Zealand