

State of Play

3 Waters Reform Options

Industry Consultation



Presenters

- John Pfahlert – CEO
- Jim Graham – Principal Advisor Water Quality
- Noel Roberts – Technical Manager

Introduction to Water New Zealand

Purpose of Workshop

- Update you with progress on Havelock North and DIA 3 waters review
- Look at the drivers for change
- A new regulator
- Aggregation of suppliers
- Seek your views
- Next steps and opportunities for further engagement
- Ask questions at the end of each section

How did we get here?

- Need to accept there are systemic problems with sector
- Water New Zealand doesn't have an "agenda"
 - ... other than wanting to improve sector performance
- No fixed "solution" we are trying to sell
- Need to work with Government and elected officials to identify new way of operating

How did we get here?

- Various studies/reports by Treasury, LGNZ, Auditor General over last five years highlighted variability in performance in managing 3 waters assets
- Eg: underspending by Councils of capital expenditure
 - 2016/17 \$4.8b budgeted
 - Spent \$3.8b

Drivers for Change

- Preliminary DIA investigation second half of 2017
 - Governance
 - Funding/affordability
 - Capacity and capability
 - Risks to human health

DIA 3 Waters Review

- Announced July 2017 under National Government
- Cross-agency work programme (led by DIA) to develop the options and recommendations needed to create a strong and sustainable three waters system
- Involves four inter-related work streams:
 - effective oversight, regulatory settings and institutional arrangements
 - funding and financing mechanisms
 - capacity and capability of decision-makers and suppliers
 - information for transparency, accountability and decision making

Drivers for change - governance

- Standard of governance is variable (especially understanding of technical issues) – but strength of governance generally correlates with scale
- The separation of governance and management is generally blurred, which weakens accountability
- Governance agenda sometimes driven by council officers, rather than elected members
- Councillors may not have mix of technical and risk management skills to make critical decisions on delivering best practice governance of water assets

Drivers for change - governance

- Professional governance of 3 waters is below that of other infrastructure assets (such as electricity and gas) despite equal or greater challenges
- The standard of governance matters less in a stable context with few critical decisions and risks to manage – but councils are facing a range of challenges and risks, placing an increasing emphasis on effective governance and decision making

Drivers for Change

- Increasing community expectations and regulatory requirements for water quality, treatment and management
- National directions on fresh and coastal water quality
- Providing infrastructure to support housing and development, especially in high-growth areas
- Replacing ageing assets
- Responding to climate change
- Infrastructure resilience issues
- Declining rating bases in some areas – affordability issues
- High seasonal demand on infrastructure due to tourism

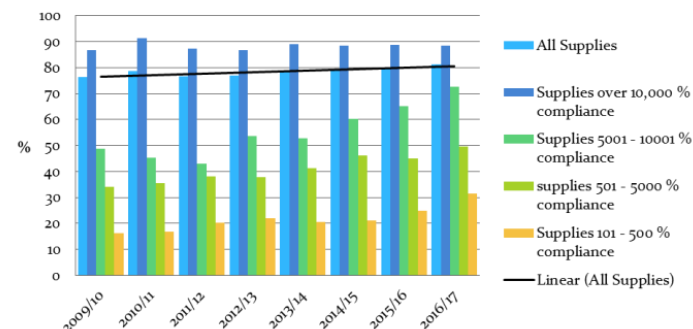
Drivers for Change

- Risks to human health and the environment in some parts of the country
- Capacity, capability and sustainability challenges – particularly outside large scale organisations
- Variable asset management practices, and a lack of good asset information to support effective decision making

Drivers for Change

- Low levels of compliance, monitoring and enforcement of drinking water and environmental regulations
- Minimal central government oversight and poor connections
- Lack of protection, transparency and accountability for consumers, compared with other infrastructure sectors and overseas water systems

DWSNZ Compliance for all supplies



Havelock North

- 12 August 2016 – campylobacter outbreak
- August 2016 - Independent Inquiry announced
- Water New Zealand was an observer at Inquiry into first stage – what went wrong?
- Detailed submissions made to second stage by Hrudehy and Water New Zealand

Havelock North

- Involved wide industry consultation

Our submissions focussed on:

- mandatory water treatment
- training, qualifications and certification of staff
- need for an independent DW regulator
- need to examine system of current water delivery - aggregation

Havelock North

- Workshop at Conference 2017 - six international experts
- Inquiry reported to Government November 2017 - 51 recommendations
- Water New Zealand roadshow February 2018
- Government said it would respond February, then May, then August
- Substantive response - October 2018
- Bill introduced to shorten consultation on DWSNZ

DIA 3 Waters Review

- Several Cabinet papers – you have link
- BECA Report into upgrading water systems
 - Up to \$500m to upgrade existing WTP's to meet DWSNZ
- GHD/Boffa Miskell report into meeting NPSFM
 - Up to \$2.1b of capital upgrade to meet NPSFM

DIA 3 Waters Review

- Currently no estimate of cost implications for:
 - wastewater discharges to marine environment
 - challenges of sludge handling
 - upgrading stormwater systems to meet NPSFM
 - climate change effects

Resilience Planning

- Alpine Fault 8
- Mt Taranaki
- Wellington fault

DIA 3 Waters Review

- Cabinet Paper expected in October
- Big issues:
 - Independent regulator
 - How to structure service delivery
 - Should treatment be mandatory?
- Govt decisions will be high level/in principle
- Expect formal consultation 2019
- Legislation late 2019?

Question on Drivers

Establish a Drinking Water Regulator

Recommendation from the Havelock North
Inquiry, Stage 2.

Recommendation 9:

A dedicated drinking water regulator which can oversee all other reforms should be established early and promptly



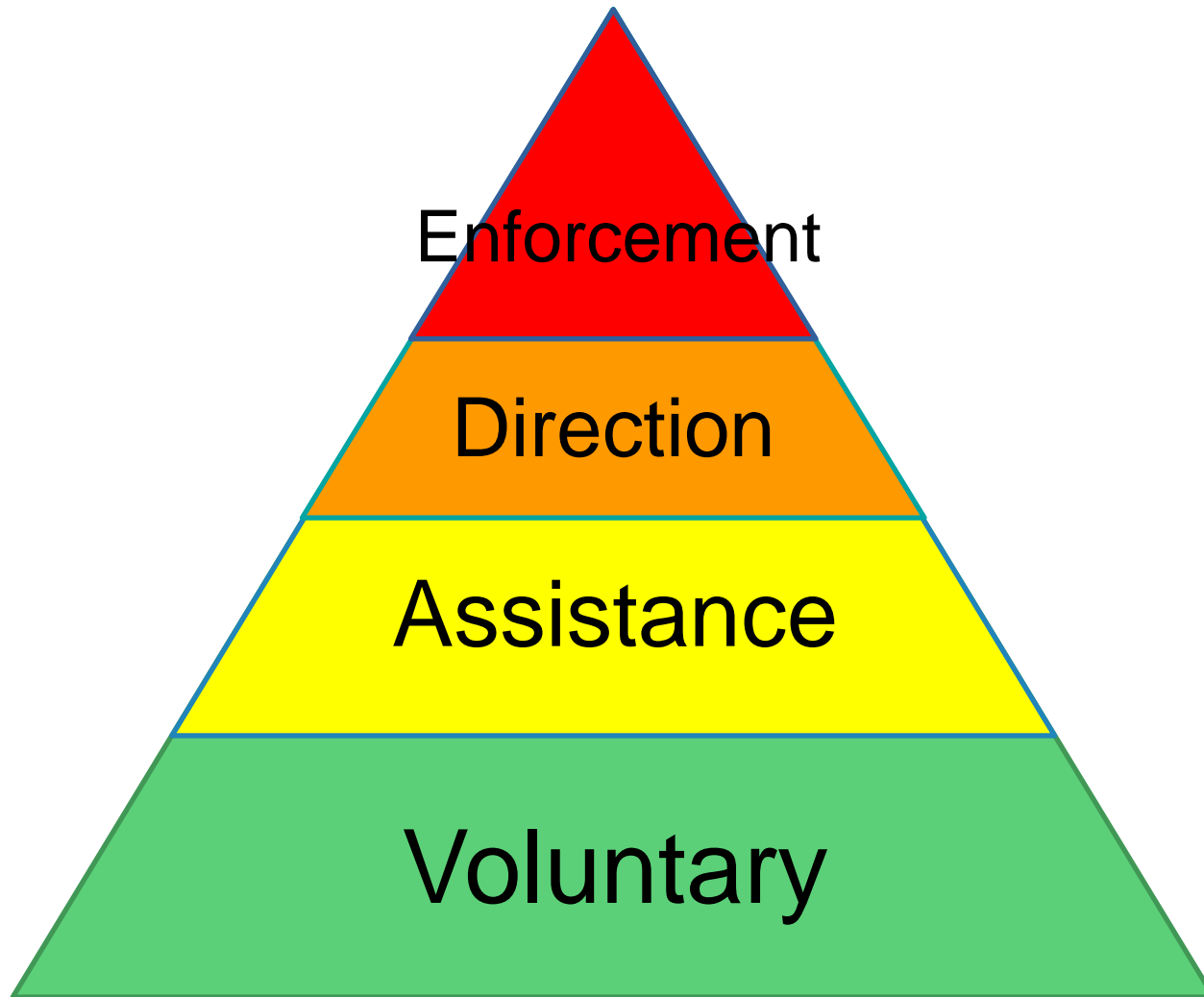
REPORT OF THE HAVELOCK NORTH
DRINKING WATER INQUIRY: STAGE 2

DECEMBER 2017

Why do we need a new drinking water regulator?



What kind of approach is required for a new drinking water regulator?



What kind of approach is
required for a new drinking
water regulator?



What might a new drinking
water regulator look like
and what might it do?

Stand-alone or in what
organisation should a new
drinking water regulator be
located?

Who should set drinking water standards?





What drinking water
supplies should be
covered by the standards
and the Health Act?



Should a new drinking
water regulator also be a
wastewater regulator?



What about regulation of stormwater?



How could a new wastewater regulator be set up?

What about economic or financial regulation?



Questions on Regulator

Aggregation

“... compelling case for dedicated and aggregated suppliers being established as an effective and affordable means to improve compliance, competence and accountability...”

What does the public care about?



What outcomes do we expect from a water utility?

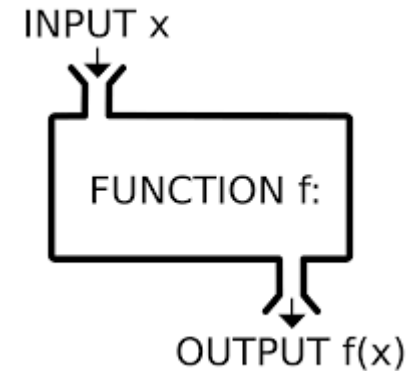
- Well funded infrastructure
- Highly competent and capable staff
- Fully compliant with NZDWS
- Transparent costs and governance
- Customer-focused and meeting LoS
- Consistency of service delivery
- Meeting wastewater and stormwater consent conditions
- Keep up with best practice and international developments

High Level of Competency



Functions

- Plan for demographic change
- Invest in and maintain infrastructure
- Undertake renewals / upgrades
- Maintain resilience
- Collection, treatment and delivery of drinking water
- Collection and treatment and disposal of waste water and solids
- Manage and operate stormwater infrastructure
- Recruit and retain staff



What services might be aggregated?

Drinking water supply service

or

Drinking water supply and wastewater

or

Drinking water supply, wastewater and stormwater

Management only or asset owning

Options – Status Quo



Options – Status Quo

Advantage

Minimises disruption

Retains local government control

Politically easy for central government

Disadvantage

Ongoing recruitment and retention issues

Competence and capability challenges

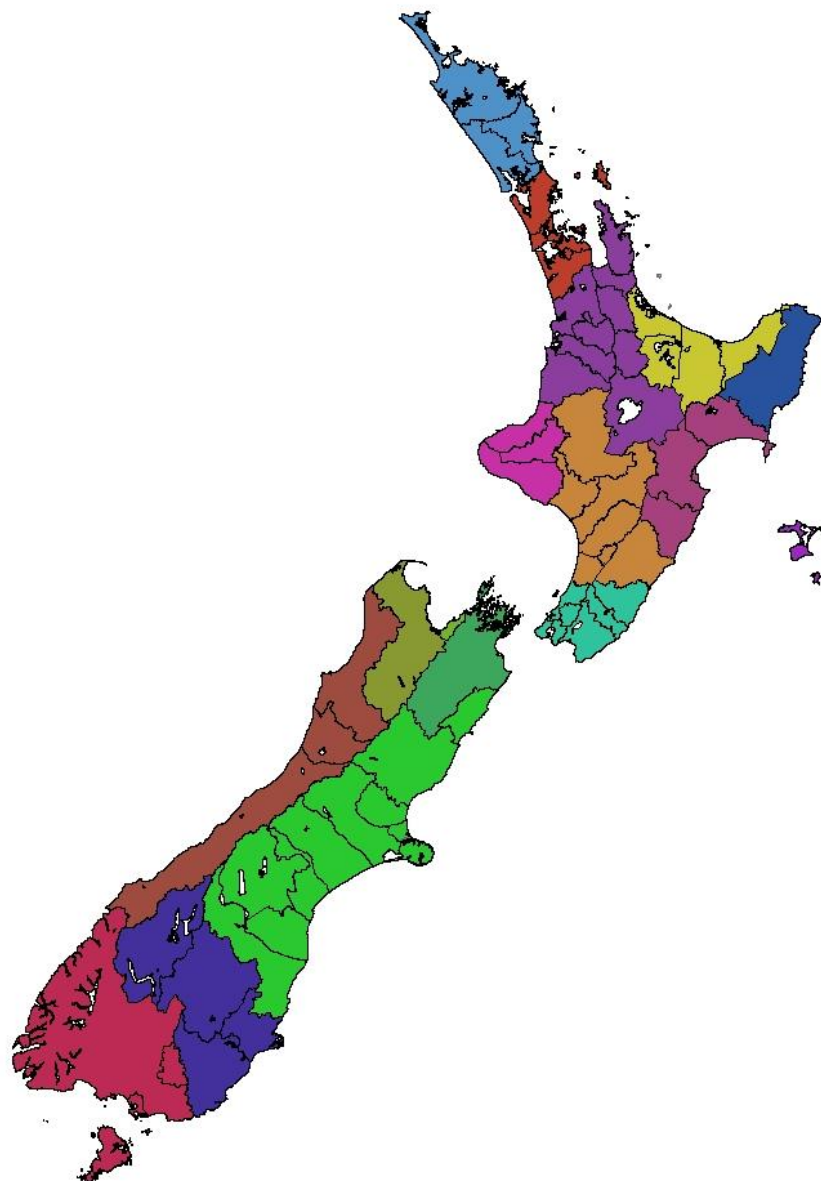
Affordability and funding issues remain

Issues with governance remain. Variable asset management practises

3 waters need to compete for funding with other council services

Uneven compliance with standards and levels of safety

No service level improvement for customers



Options - Regional

Options – Regional

Advantage

Some improvement over current regime in terms of scale and possibly governance

Improved ability to fund infrastructure, recruit and retain staff

Retains some local control – less disruptive to staff at TLA's

Perhaps better integration on catchment management issues and first barrier protection

Disadvantage

Critical mass issues remain for most entities

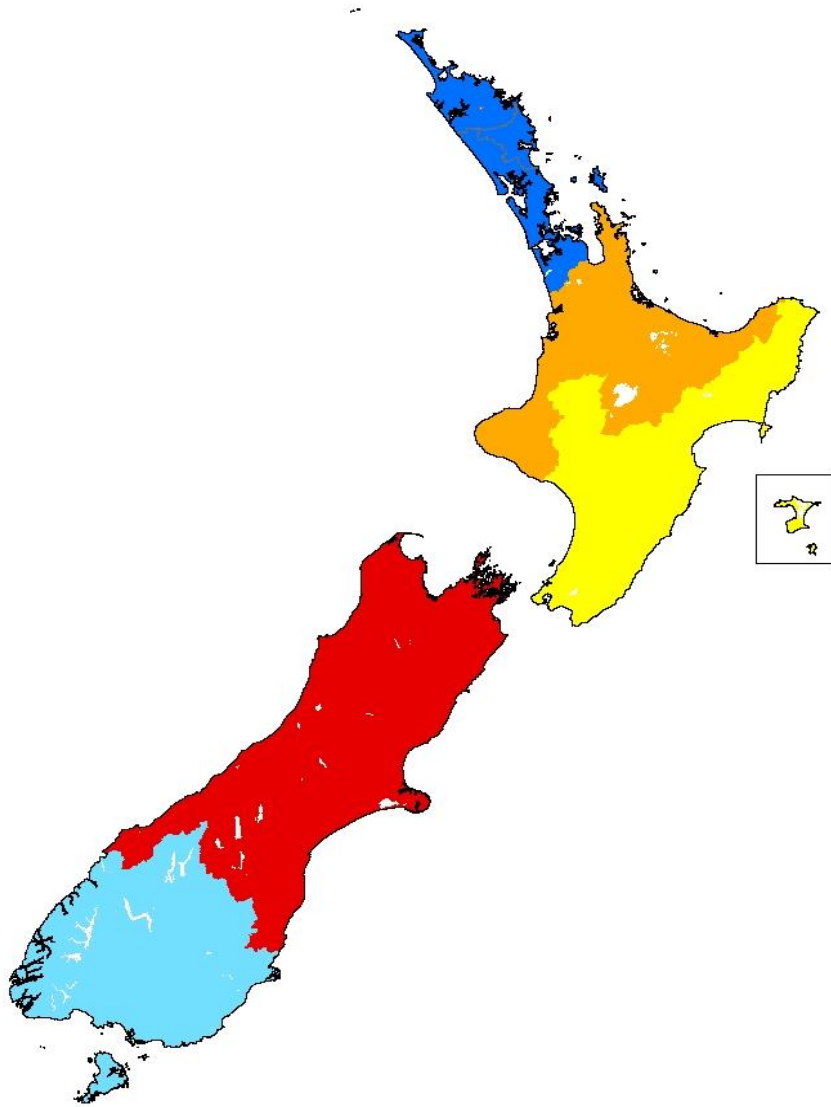
Governance remains with elected officials

No experience with operating 3 Waters

Not all areas will have sufficient urban population to fund rural area needs

Variable asset management and standards compliance remains

Options – Super Rugby



Options – Super 12

Advantage	Disadvantage
Has critical mass / efficiency of scale	Significant staff disruption during transition
Ability to retain and recruit staff	Difficult to sell politically
Independent board of governance – less likelihood of political interference	Substantive loss of control to local government
Opportunity for significant improvement on status quo for all regions	Uneven geographical benefits
Ability to cross subsidise - if asset owning	Doesn't speak to localism
Higher level of service to consumers	Risk of privatisation by future governments
Better disclosure and visibility to central government of risks and costs faced by the sector	

Options – One Entity



Options – One Supplier

Advantage	Disadvantage
Independent board of governance	Complete loss of local control
Reduced opportunity for political interference	Possibility of stranded overheads
Has critical mass and ability to deliver consistent outcomes	Significant staff and Council disruption
Focus on customers and equal levels of service across NZ	Politically unacceptable?
Universal charging with lower average cost to consumers	
Ability to cross subsidise from wealthy to poor communities	
Council water-related debt transfers to new entity	

How would the public be affected?



Residuals?

- Public health services
- Local authorities

Questions on aggregation?

Next Steps

- Water New Zealand has set up a reference group
- Water New Zealand formal submission mid-September
- Cabinet paper in October
- Expect high level decision only
- Government consultation early 2019

Feedback by 10 September

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