

Three Waters Reform

Workshop 2 – 1 September 2021

Workshop Agenda

- Workshop outcomes
- Independent analysis Q&A (Ian Dickson)
- Holistic approach to 3 waters reform (Tuhura Partners)
- Key concerns / benefits of reform
- Next Steps

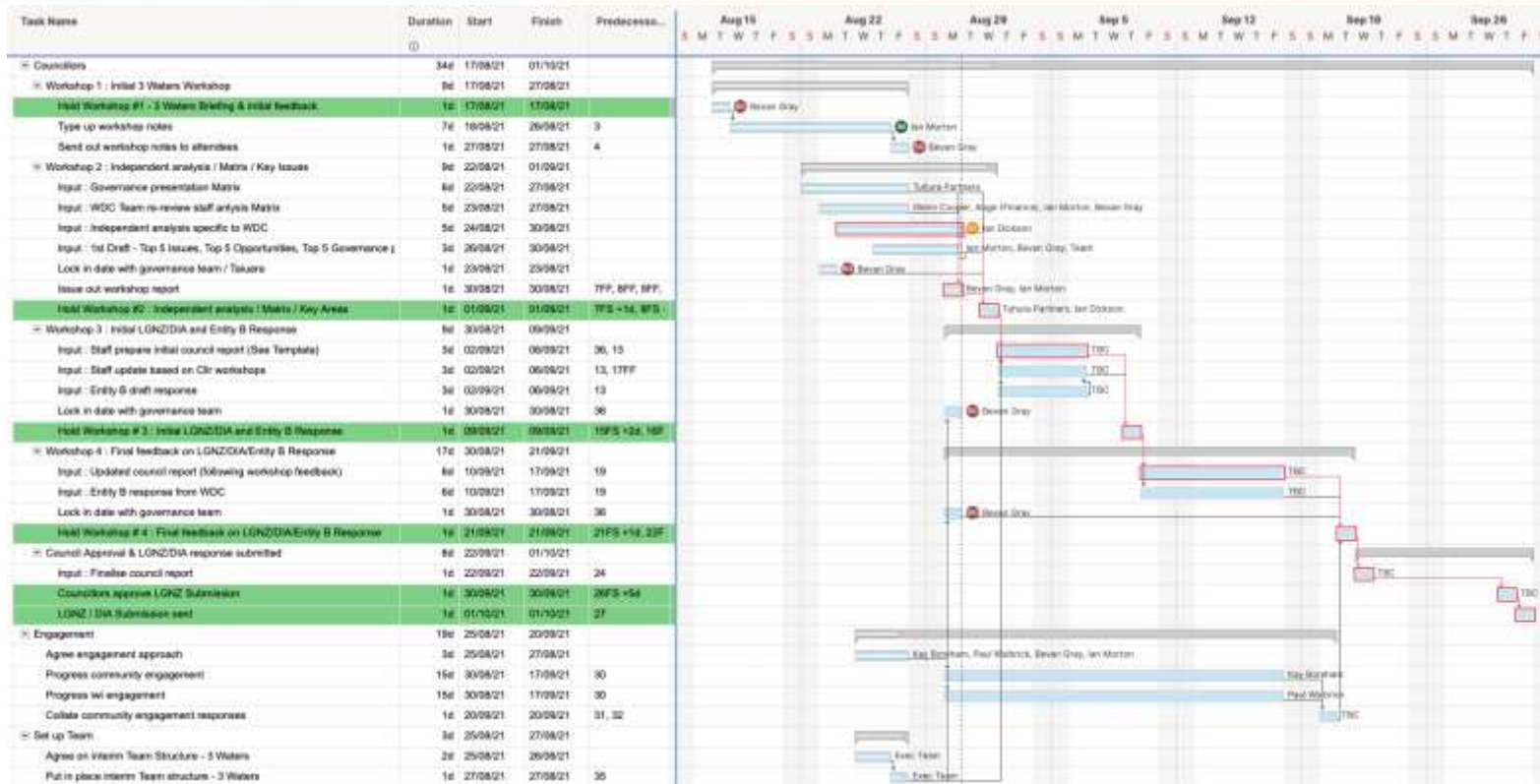
Reminder – What is Due by 1st Oct ?

- Understand the reform package, to understand how this will affect our council and local communities
- Identify issues of local concern & provide feedback on how proposal could be strengthened

Plus specific feedback on

1. Ensuring all communities have both a voice in the system and influence over local decisions. This includes assurance that water service entities will understand and respond appropriately to communities' needs and wants, including responding to localised concerns.
2. Effective representation on the new water service entities' oversight boards so that there is strong strategic guidance from, and accountability to, the communities they serve, including iwi/mana whenua participation. This also covers effective assurance that entities, which will remain in public ownership, cannot be privatised in future.
3. Making sure councils' plans for growth, as reflected in spatial plans, district plans or LTPs, are appropriately integrated with water services planning. This includes that planning and delivery of water infrastructure investment is integrated with transport and other related infrastructure.

8 Week Timeline....



Independent Analysis

Ian Dickson

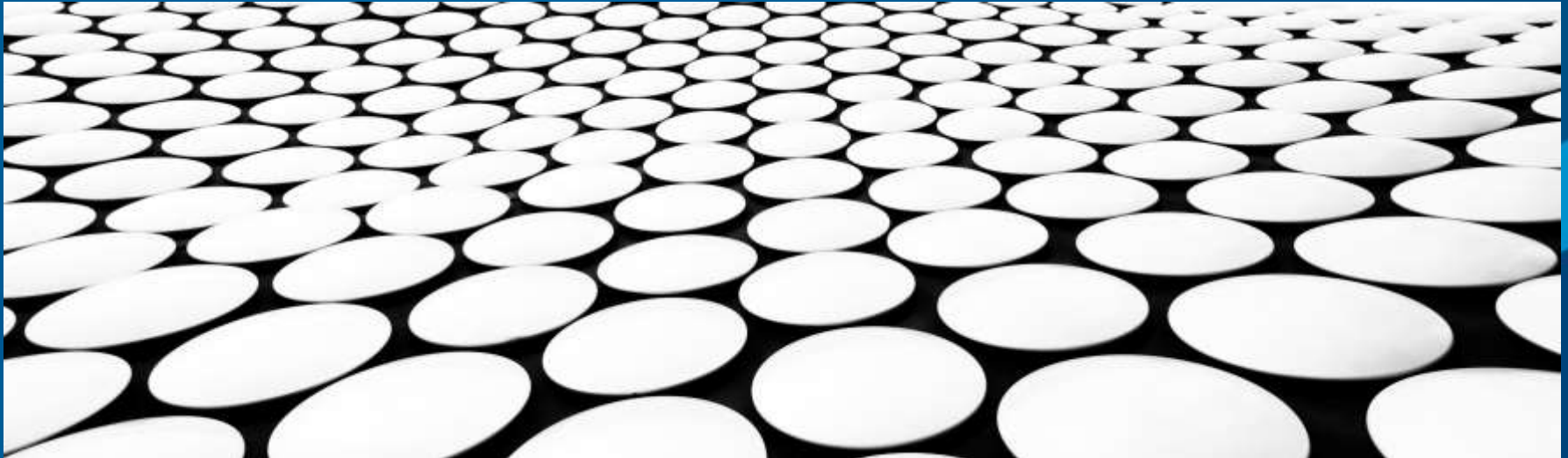
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Whakatane district council

3W Reform workshop

1 September 2021



AGENDA

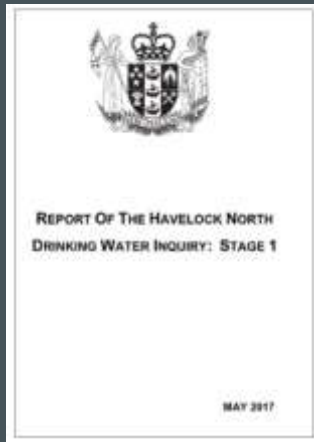
The purpose of this workshop is to update councilors on the DIA/WICS financial model and Discuss some of the impacts of the proposed reform on the whakatāne District and WDC.



BACKGROUND



background



- August 2016 gastroenteritis outbreak traced to contamination of drinking water supplied by bores on the outskirts of Havelock North.
- This raised serious questions about the safety and security of New Zealand's drinking water.
- Inquiry said Drinking Water Standards only part of the story.
 - Safe drinking water sourced from an aquifer depends on the security of the source aquifer from contaminants.
 - Also depends on the water supplier being aware of and managing the risks of contamination, and competent local authority administration.
- Inquiry found that the District Council and Hawke's Bay Regional Council failed to adhere to the levels of care and diligence necessary.

Background

response to inquiry



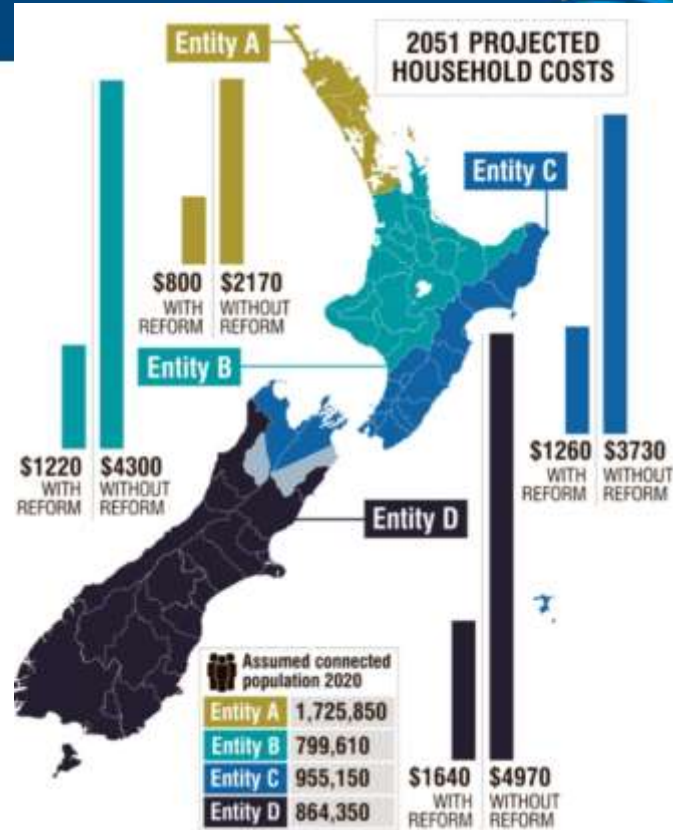
Essential message is :-

- Investment needed to meet DWS and population growth is \$120 billion to \$180 billion over 30-40 years.
- This is unaffordable for most communities.
- NZ's level of capital investment in 3W provision needs to match that of Scotland.
- NZ current position aligns with Scotland's in 2002.



Whakatāne District is assigned to “entity “B”

Hamilton, Hauraki, Matamata-Piako, New Plymouth, Ōpōtiki, Otorohanga, Rangitikei, Rotorua Lakes, Ruapehu, South Taranaki, South Waikato, Stratford, Taupo, Tauranga, Thames-Coromandel, Waikato, Waipa, Waitomo, Western Bay of Plenty and Whanganui



DIA WICS FINANCIAL MODELLING



DIA WICS Modelling assumptions

“With Reform” efficiency
assumptions seem “too
good to be true”

Debt/revenue achievable?

“Without Reform”
unrealistically harsh

“Top-down” not usual
way to model such
situations

	Without Reform	With Reform
Operating efficiency	0%	<60%
Capital efficiency	0%	<50%
Debt/revenue	<2.5x	<7x



Financial modelling technical aspects

Peer reviews of modelling
generally unconvinced although
the government says other wise

FarrierSwier “indicative of general
direction of required investment”

BECA “understates required
investment”

Castalia “Implausible”

- Model poorly laid out so difficult to navigate.
- Significant parts are “black box”, I.e., unable to be replicated from stated assumptions.
- Key statistical relationships in econometric analysis have weak explanatory power, e.g., population as a cost driver.
- Key issues with Scotland as a comparator:
 - Comparable total and urbanised population but differences in land areas, major/minor urban size (more of the Scottish population live in urban areas outside the main centres).
 - Source of Scottish Water’s efficiency gains after 2002-06 are unclear. Why were they able to do it post amalgamation?

	Scotland	NZ
Population, m	5.4	5.1
Land area, m Ha	7.8	26.8
Urbanised, % pop	83	87
Major urban centres, % pop	32	51

Financial modelling technical aspects

Population density and
urbanisation

- WICS uses population density (pop per km²) to support its conclusion that Scotland is the right guide for the required level of investment.
- However, Scotland (32 percent) has a smaller % of its residents living in major urban centres than NZ (51 percent).

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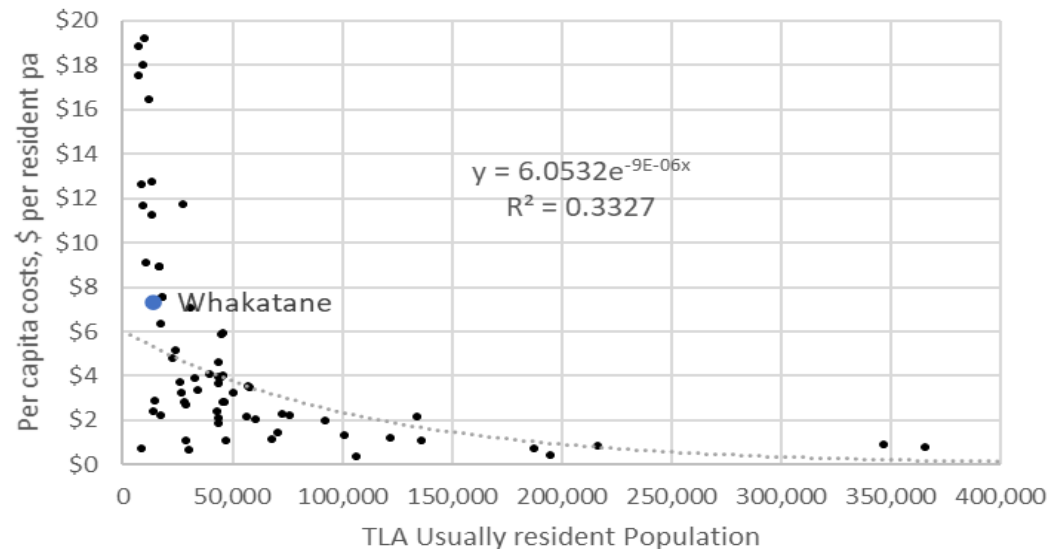
Are there economies of scale in water services?

NZ evidence says population only explains 1/3 of variation in per capital water delivery costs

WDC's water delivery costs are comparable with similar-sized TLAs

and

Far North District, Hamilton City Council, Kaikoura District, & Porirua City



- What explains the other 2/3 of variation in water services delivery costs?
- No strong evidence for strongly downward sloping per capita cost curve.
- Scale economies is a critical to the WCIS financial model not supported by evidence.

Financial modelling conclusions

Inadequate financial modelling undermines the strong conclusion drawn by the government that the financial modelling supports amalgamation of disaggregated water services into 3W entities.

- “Without 3W” model is implausible, especially assumption of no efficiency improvement.
 - LTPs have been largely disregarded
- “With 3W” modelling:
 - Unsubstantiated assumptions.
 - Low statistical reliability of key inputs e.g., relating to population and delivery costs.
 - Important contextual differences between Scotland and NZ.
 - “Black box”, results not reproducible for state assumptions.

AMALGAMATION



- Management of investment is at the core of the WCIS advice
 - Better procurement and asset management
 - Centralised procurement can have its benefits.
 - It can become a very bureaucratic and unresponsive. Too much data and not enough information can cause loss of focus and poor service.
 - Moreover, central government's track record on procurement is abysmal.
- The WICS model is fundamentally about the super regulator having control over investment decisions.
- WCIS advice to the government is two elements are crucial to 3W reform:
 - Intense cost consciousness and single-minded focus on a few non-conflicting objectives as the 3W entity level.
 - Heavy-handed regulation “Water Czar” able to over-rule the governors of the water entities if their strategic and operational decisions do not align.

WICS advice is quite a different operating method from anything seen in Aotearoa New Zealand in forty years. The approach:

- Overturns the principles of local government Local Government Act 2002.
- Centralises power in a manner usually reserved for the response to national emergencies.
- Is contrary to the public and parliamentary expectations about how government agencies behave.
- Is not supported by the financial modelling

CONSTITUTIONAL MATTERS



Constitutional matters

- WDC's 3W assets have a dual character:
 - Private property of the WDC.
 - Public property being also property controlled by an organ of state and a community.
- WDC's assets are constitutionally protected from confiscation without payment of fair compensation in accordance with the Principle of Equivalence.
- The government is proposing to remove from Council control \$220 million of net assets with \$22 million recompense
- Water privatisation can never be ruled out
- In countries such as the UK and New Zealand that lack a written constitution, the supremacy of Parliament means that future Parliaments cannot be bound by past legislation unless entrenched.
- Six entrenched provisions can only be changed by a vote of more than 75% of the House. The relate to:
 - the term of Parliament
 - Determines electoral boundaries
 - the division into general electorates
 - the 5% margin for the population of general electorates
 - the minimum voting age of 18
 - the method of secret voting.

ISSUES FOR WDC & THE WHAKATĀNE COMMUNITY



Issues for wdc & the Whakatāne community

WDC:

Loses \$270 million assets & \$46 million debt (\$224 million) in exchange for \$22 million.

Loses economies of scope in its own operations, \$1 million offered.

Loses obligation to fund LTP in respect of 3W

Day-to-day operational control of 3W operations

Strategic control of 3W investment decisions and related council activities.

- WDC 3W assets are not aged.
- WDC 3W operational costs are in line with other similar-sized councils and some larger urban areas.
- Unclear what scope exists for efficiencies in WDC 3W services.
- Financial modelling provided is too compromised to provide a basis for Councillors to have confidence in it.
 - Very difficult to assess the balance of benefits and disbenefits for the Whakatāne Community.
 - 8 weeks is not enough time to adequately assess and deliver meaningful feedback.

Holistic Approach to 3 Waters Reform

Tuhura Partners

Holistic Approach to 3 Waters Reform

Tuhura Partners

3 Waters Council Impact Assessment Whakatane District Council

Elected Member Workshop



Content

1. Purpose
2. Overview of Water Reform for Entity B
3. Key Council Stats
4. Overview of Council Impact Assessment
5. Results
6. Discussion
7. Wrap-up & next steps



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LGNZ.**
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Purpose of this workshop

To bring the national and regional case for change into a locally relevant perspective

To highlight your key threats and opportunities (risk)

To support well informed elected members

To hear further perspective from you to feed back to the Entity
B view to LGNZ



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SOLID FOUNDATIONS

- * COLLABORATION
- * iwi PARTNERSHIPS
- * SUB-REGIONAL PLANNING
- * ALREADY WORKING TOGETHER ON WATER
- * MANY EXAMPLES OF INNOVATION



GOVERNMENT'S CASE

THE GOOD,
THE BAD,
AND THE UGLY



- * HIGH COSTS
- * HUGE DEFICIT
- * REGULATION TAKES OVER
- * MASSIVE CAPEX INCREASES
NEEDED
- * NOTHING LEFT FOR OTHER
THINGS
- * HUGE ANNUAL RATES
INCREASES

GOVERNMENT SEES REFORM AS THE SOLUTION



- * NEW ENTITIES HAVE
X3 INVESTMENT
- * CAPEX FUNDED BY
SAVINGS
- * PRICES REMAIN
MODEST

BASED ON WICS

ASSUMPTIONS

- * 30-YEAR FORECAST
- * ECONOMIC DEPRECIATION
- * 50% SAVINGS
- * 250% DEBT CAP
- * COSTS, NOT RATES
- * HARMONISATION



ARE THE SAVINGS REALISTIC?



"PUSH THIS BUTTON TO
MAKE SAVINGS"

- * EQUATES TO 1.5% PA
- * WATERCARE TARGET
- * SENSITIVITIES
- * FRAGMENTED
SYSTEM

SOBERING FACTS

Average age of workforce

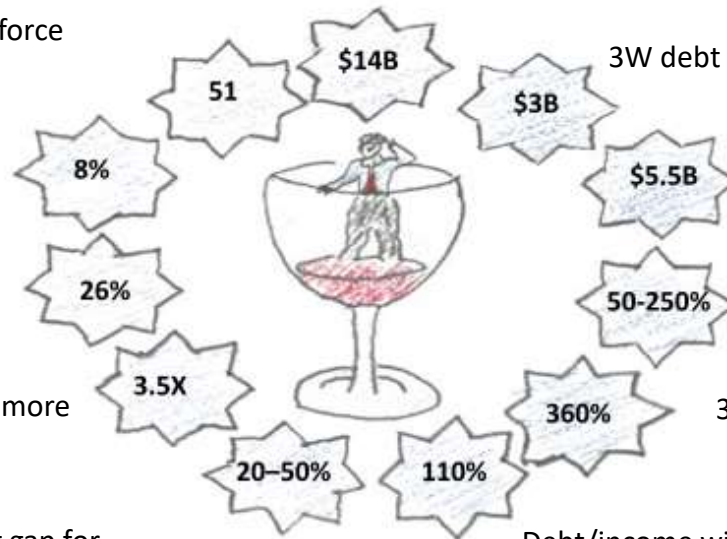
Perhaps 15-20,000 private schemes..
Only 63 registered today, 8% compliant

26% municipal DWS non-compliant.
60% non-compliance outside big 4

Wide variation in rates – 3.5x more for most expensive council

20% - 50% funding gap for renewals, particularly stormwater

Asset replacement value



3W debt \$1.4bn 2021, rising to \$3b 2031

Planned investment to 2031

LTP forecast 3W rates increases

3W debt/income 300% 2021, rising to 360% 2031

Debt/income without 3W 70% in 2021, rising to 110% by 2031

BUT THIS REALLY ABOUT PEOPLE



GOVERNMENT
— do it to them
or with them?

REGIONAL
COUNCILS — do we
help or hinder?

ini — can we
be involved?

WORKFORCE
— do I have a
job?

COUNCILLORS
— do we have a
role?

MATRIX - BALANCED APPROACH

SERVICE/ENVIRONMENT



MONEY



COMMUNITY
IMPACT
ASSESSMENT



PEOPLE



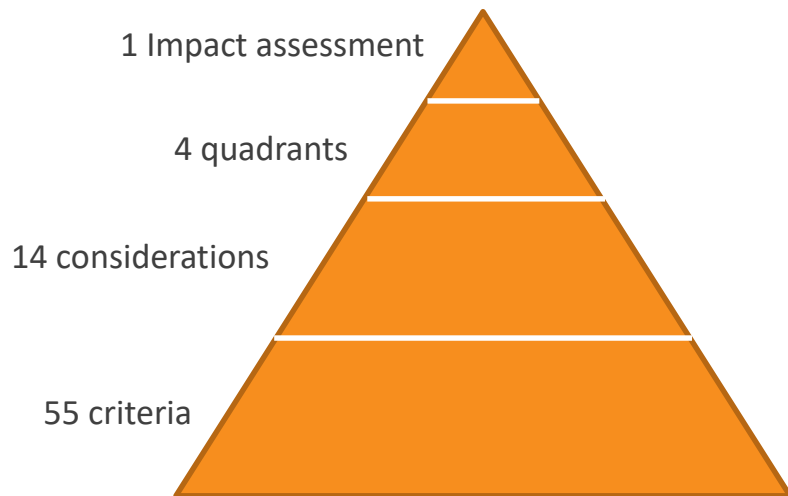
WELLBEING

LGNZ Framework



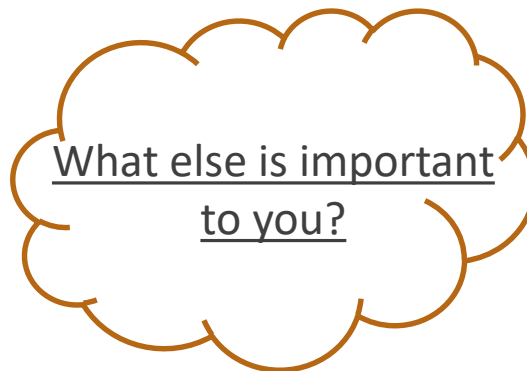
Three tools to assist in impact assessment

Impact Matrix



LGNZ Feedback Areas

- Community voice
- Effective representation
- Integrating planning and delivery for growth



What's going well in Whakatane?

Consents in place for wastewater treatment

Modest rates and total borrowing levels but challenges coming over LTP

Strong relationships with iwi/maori

Workforce morale is good with career opportunities available



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What's challenging for Whakatane?

Drinking water compliance (17.1% municipal water schemes non-compliant)

Wastewater performance challenges which the LTP plans to address but not until 5-10yrs time

Stormwater is the poor relation – investment and catchment plans presents challenge in the long term

While not currently a council responsibility, access to compliant clean drinking water for marae

Achieving best practice and efficiency savings in asset management, ICT and procurement



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What are the opportunities with reform?

New WSE will target rapid improvement in drinking water compliance and stormwater

Whakatane residual debt levels 1/3 of current forecast

Wastewater investment requirements increase debt levels and future liability for rate payers at an individual scheme level. Reform addresses the challenge between wastewater service level requirements and funding.

Achieving efficiencies helps avoid significant rates increases

New WSE will remove significant unknown risks from council – private supplies, climate change, rising standards and growth

The new WSE faces the new water and economic regulations, not the Council



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Reform creates new challenges...

Community is critical and continual delivery of placemaking outcomes is at risk

Uncertainty of impact on support services staff under reform

Impact on local jobs and maintaining healthy supply chain

Uncertainty of local governance impacts



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Other financial considerations

‘Better off’ grant c\$22.6 million (approx. 28% of 2020 full council revenue)

Costs of transition to be met by DIA (detail required)

‘Stranded overheads’ to be met by new water services entity, up to \$500m nationally

Estimated \$656m* additional capex in Whakatane water services over 30 years (\$15.4bn additional capex for WBOP per Deloitte modelling), approx. 8.2 times 2020 council revenue

Estimated +36 new jobs (839 additional WBOP jobs)


* assume Whakatane gets its 4.3% population share



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What does
the analysis
show?

Driver	Current		Reform
Service standards	Current service level challenges, with plans to address through LTP based on known requirements		Regulation lifts the bar on all 3W and new Water Service Entity (WSE) will have capacity to invest accordingly
Private Supplies	Has not been a focus for Council and with new regulations is a significant, unknown risk		This will be a focus for the WSE but will require time
Ability to sustainably invest in community	Manageable total Council debt levels but doubling through LTP; borrowing continues to be heavily dominated by 3 waters.		More investment in 3W by WSE, with increased borrowing capacity. Residual Council debt 1/3 of current LTP forecast
Ability to control community wellbeing	High ability to integrate community outcomes		Potential for more investment to be delivered, but how responsive will the new entity be to community concerns?
Resourcing and cost	Below average costs now but limited capacity to deliver efficiencies		Increased investment requirements but significant opportunities for scale efficiencies

Analysis Summary

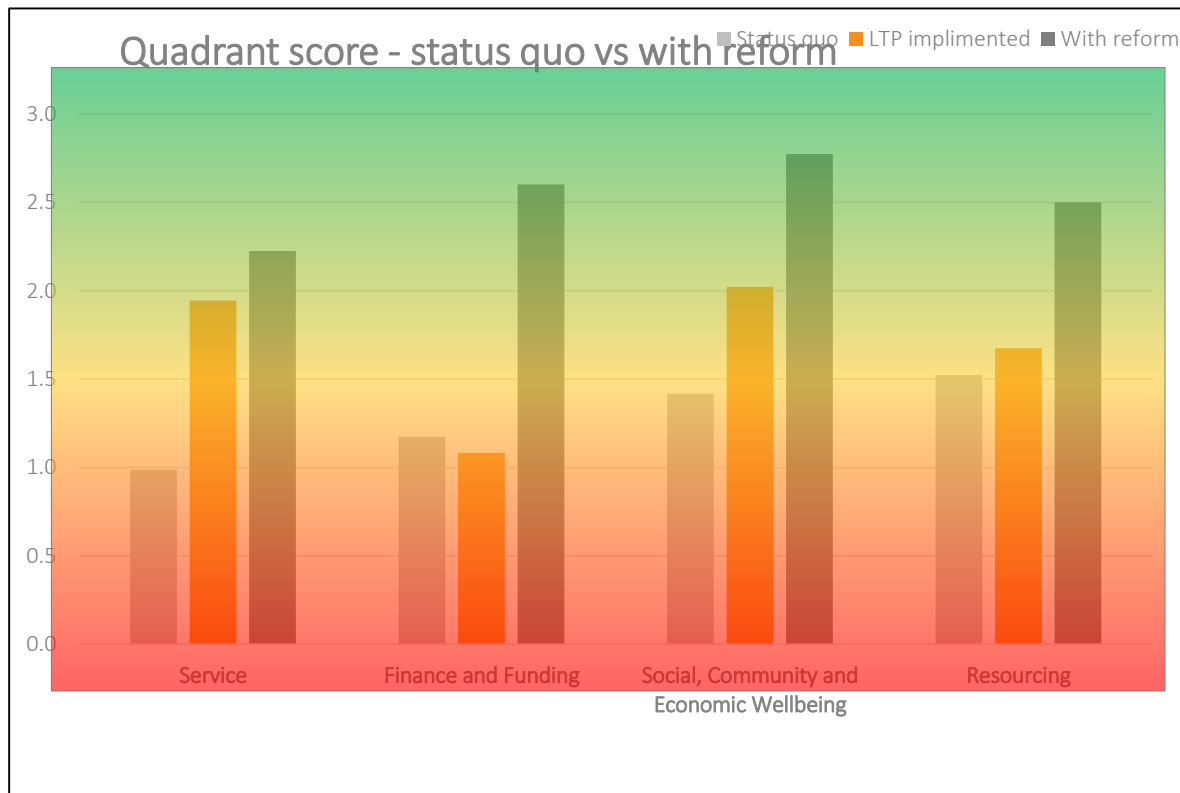
WITHOUT REFORM - STATUS QUO	
Service	Finance
Resourcing	Community

WITHOUT REFORM - IN 10 YRS	
Service	Finance
Resourcing	Community

WITH REFORM	
Service	Finance
Resourcing	Community

SUMMARY SCORING KEY			
Score	Colour	Quality	Risk
3	Dark green	Much better	Significant opportunity
2	Light green	Better	Opportunity
1.5	Yellow	Neutral	Neutral
1	Orange	Worse	Threat
0	Red	Much worse	Significant threat

Analysis Summary



Discussion

Local Concerns....

- Confidence in the accuracy of data – needed to enable us to have an informed conversation with our community on a sound analytical basis
- Scope of the Three Waters Reform – needed for clarity about achieving the outcomes for this reform, and assessing impacts on the Council as an organisation
- The governance arrangements to allow the strategic direction of Council to be realised – needed to ensure our priorities and planning are supported by Entity B (especially Spatial Planning and growth related work)
- Iwi and hapū voice – needed because it is appropriate as a good Treaty partner and to protect the mauri of water; support iwi/hapū aspirations.
- Uncertainty around relationship with broader Reform programme – needed to provide confidence that the programme of reform has complimentary outcomes that will benefit us.
- Clarity that reforms will ensure delivery of services at a local level that provides local jobs (3 waters staff / contractors and indirect staff) and maintains levels of service for our district, which has a large land area.

Potential Benefits.....

- Ratepayers will pay less for their water services through efficiency savings generated by the Reform process. While noting it may not be as high as stated in dashboards – it will still be significant.
- Improved Drinking water / Waste water standards for our community, based on the significant up front investment the Entity will be able to make, while taking on the responsibility for future standards improvements mandated by Taumata Arowai / NPSFM
- Councils financial position will be improved with council debt transferred over to entity B
- Three Waters staff will have improved career opportunities / training & development / tools
- Increased investment in Three Waters funding in our local area will have a positive economic outcome for Whakatane
- The Entity will enable improved asset management, data, ICT systems and information for future decision making

Principles for Governance...

- Is the Entity structure designed to ensure:
 - Governance pathways for local and hapū, whānau iwi, aspirations to be delivered.
 - Open & transparent reporting against local needs

Next Steps....

