

# Three Waters Reform Programme

A proposal to transform the delivery of three waters services

## 1. BACKGROUND

Over the past three years central and local government have been considering solutions to challenges facing the regulation and delivery of three waters services. This has seen the development of new legislation and the creation of Taumata Arowai, the new water services regulator.

Both central and local government acknowledge that there are broader challenges facing the delivery of water services and infrastructure, and the communities that fund and rely on these services. There has been regulatory failure, underinvestment in three waters infrastructure in parts of the country, and persistent affordability challenges.

Iwi/Māori also have a significant interest in te mana o te wai. Both central and local government acknowledge the importance of rights and interests under the Treaty of Waitangi and the role of the Treaty partners in progressing these issues.

Additional investment is required to increase public confidence in the safety of drinking water, and to improve environmental outcomes. The reform of three waters services will also support increased sustainability and resilience of communities to natural hazards and climate change.

## 2. CHALLENGES

**THE EXISTING INFRASTRUCTURE DEFICIT**

Quantifying the precise infrastructure gap remains challenging. The Office of the Auditor General (OAG) has raised concerns about relevant and reliable information about assets remaining a challenge.

**UNGRADED ASSETS**

Across our water networks

Potable & wastewater

45%

Stormwater categorised as upgraded

52%

**RENEWAL GAPS**

A more recent analysis highlights the extent of the reinvestment challenge and the “renewals gap”.

Water supply

82%

Wastewater

67%

Stormwater

52%

While unquantified in New Zealand due to limited asset quality data, experience from places like Scotland that have undertaken significant water services reforms indicates the bulk of asset replacement value (potentially up to 80%) and the accumulated infrastructure deficit likely lies in renewal of pipes rather than treatment plants.

### FURTHER RESEARCH COMMISSIONED BY DIA FOUND:

**\$309-\$574 million**

Estimated cost for upgrading networked drinking water treatment plants to meet drinking water standards, with an additional annual operating cost of \$11-\$21 million.

**\$3-\$4 billion**

Estimated cost for upgrading wastewater treatment systems that discharge to coastal and freshwater bodies to meet national minimum discharge standards, with an annualised operating cost of \$126-\$193 million.

## 3. OBJECTIVES

- A** Significantly improving safety and quality of drinking water services, and the environmental performance of wastewater and stormwater systems.

**B** Ensuring all New Zealanders have equitable access to affordable three waters services.
- C** Improving resource coordination and unlocking strategic opportunities to consider national infrastructure needs at a larger scale.

**D** Increasing resilience of three waters service provision to both short- and long-term risks and events, particularly climate change and natural hazards.
- E** Moving three waters services to a financially sustainable footing, and addressing the affordability and capability challenges faced by small suppliers and councils.

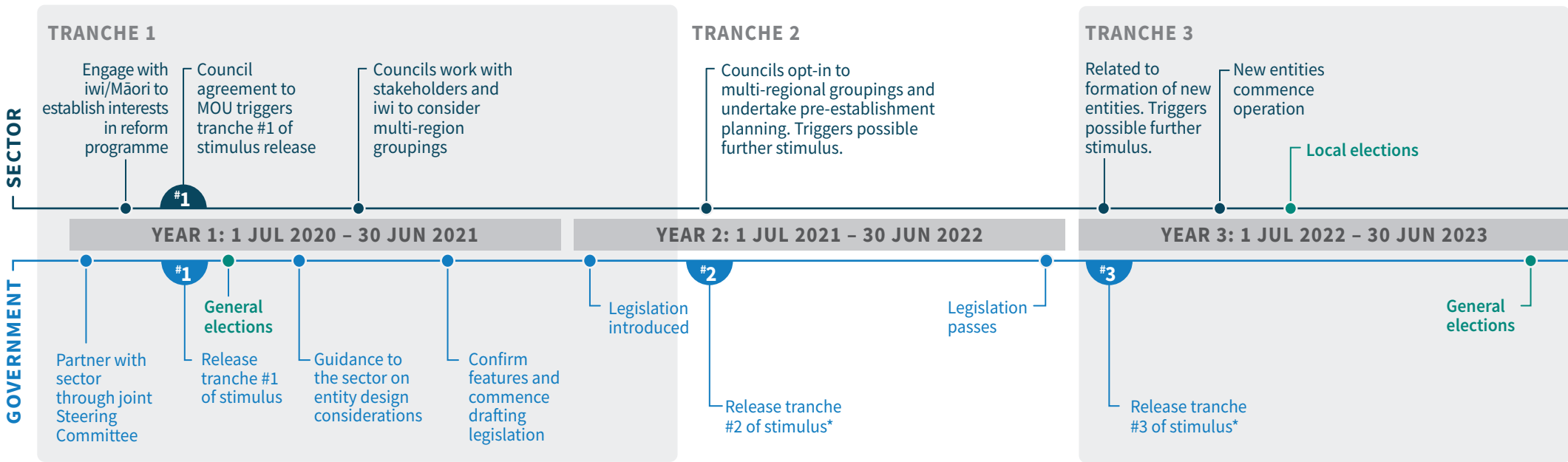
**F** Improving transparency and accountability in cost and delivery of three waters services, including the ability to benchmark performance of service providers.

## 4. KEY FEATURES

- Design features of the proposed reform programme should examine, as a minimum:
- A** Water service delivery entities that are:

  - of significant scale (most likely multi-regional) to enable benefits from aggregation to be achieved over the medium- to long-term;
  - asset-owning entities with balance sheet separation, to support improved access to capital, alternative funding instruments and improved balance sheet strength; and
  - structured as statutory entities with appropriate and relevant commercial disciplines and competency-based boards.
- B** Delivery of drinking water and wastewater services as a priority, with the ability to extend to stormwater service provision only where effective and efficient to do so.
- C** Publicly owned entities, with a preference for collective council ownership.
- D** Mechanisms for enabling iwi /Maori and communities to provide input in relation to the new entities.

## 5. INDICATIVE REFORM PATHWAY



## 6. PROPOSED PROCESS

**An opt-in reform and funding programme to:**

- Stimulate investment, to assist economic recovery through job creation, and maintain investment in water infrastructure renewals and maintenance.
- Reform current water service delivery into larger scale providers, to realise significant economic, public health, environmental, and other benefits over the medium- to long-term.

**Progressed in phases:**

- Three phases of reform with three tranches of investment proposed (as set out above). The first phase of the programme includes a Memorandum of Understanding between central and local government to progress the reform in partnership. Reform will be guided by a joint Steering Committee at key stages.

**Memorandum of understanding:**

- Non-binding MOU between each Council and Government.
- Does not commit Councils to reforming water services or transferring assets.
- Enables Councils to access funding for three waters through an associated Funding Agreement and Delivery Plan.

## 7. FUNDING AND IMPACT

Government funding		\$761 million
Jobs protected or created	(direct)	2,288 jobs
	(direct, indirect, induced)	7,230 jobs
GDP increase	(direct)	\$236 million
	(direct, indirect, induced)	\$800 million

**ALLOCATION OF FUNDING**

First tranche funding provided as a grant to Councils who opt-in to participate in the reform process.

Allocation is based on a simple formula applied on a nationally consistent basis.

Future additional funding will be subject to Government decision-making and reliant on progress against the reform objectives.

**INDICATIVE ALLOCATION SUBJECT TO CONFIRMATION**

**LEGEND**

- Metropolitan Councils (50%)
- Provincial Councils (37%)
- Rural Councils (13%)