

OPEN

MINUTE ITEM

ATTACHMENTS

**Ordinary meeting of the
Nelson City Council**

Te Kaunihera o Whakatū

**Thursday 26 August 2021
Commencing at 9.00a.m.
Council Chamber**

Civic House

110 Trafalgar Street, Nelson

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Nelson Citizens Alliance
Public Forum, Council, 26 August 2021

THREE WATERS: 3-W

Henry Hudson

Preamble

I provide some details to provide background for a fact based discussion. Clearly, I cannot elaborate on these points, or even go through these points, in the few minutes Council allocate for submissions.

I will highlight a few points based on the headings below, and invite you follow up on these points before you decide about how to progress this discussion on NCC three water (3-W) assets.

I outline sources of information.

Major topics addressed:

1. Case for change
2. NCC assets
3. Support package – steal or a deal?
4. Ownership
5. Governance
6. Decision making process
7. Efficiencies?
8. Unknown costs
9. What does this mean - an analogue
10. Conclusions

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Primary sources of information:

<https://www.dia.govt.nz/Three-Waters-Reform-Individual-council-models-and-slidepacks>

This information is still not available on the NCC website (accessed 25 August 2021):

<http://www.nelson.govt.nz/services/water-and-wastewater/three-waters-reform/>

“As part of the reforms, Council completed a comprehensive request for information (RFI). A copy of Council's RFI will be available shortly.”

This is unfortunate, because we have to search for facts, and the reality is that there is a huge disparity between the asset valuation provided by NCC to the government and NCC reports:

- NCC report a depreciated replacement value for 3-W assets of \$585 million; and Lindsay Hay refers to NCC reported gross revenue from water of \$12 million and after expenses \$4.5 million net income.
- Three water asset valuation provided by NCC are ~\$997 million to ~\$1,994 million; with 3-W revenue of ~\$29 million and expenditure: of ~\$16.5 million for a net income of ~\$12.5 million.

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I cannot access a breakdown of the asset valuations; but the government request for information came with immensely detailed guidelines to provide an accurate assessment of asset value.

To provide an idea of why there is a huge difference, consider the cost of water supply dams.

- ~\$18 million NCC depreciated replacement of the Maitai Dam
- ~\$158 million expected cost of Waimea Dam (Feb 2021) (i.e. almost 9 times as much)

There are several quotes from these sources:

[https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/Three-Waters-Reform-Programme-March-Engagement-slides.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/Three-Waters-Reform-Programme-March-Engagement-slides.pdf) and

[https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/three-waters-reform-programme-frequently-asked-questions.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/three-waters-reform-programme-frequently-asked-questions.pdf)

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1. "Proven case for change"

- Tragedy of 4 deaths and illness in Havelock North in 2016 is unprecedented in NZ
- Some local authorities require a lot of help to attain reasonable 3-W standards, but this could be more effectively achieved by targeting the needy
- Many local authorities, including NCC, are well positioned
- Reform is to meet existing drinking water standards and RMA requirements for discharges
- NCC problems identified and planned prior to 3-W complying with P 33: *"The new water services entities we design will need to operate in a future regulatory system, just as councils would."*
- p 10: *"The reforms are not aimed at privately owned water schemes but is cognisant that these schemes are a large part of rural water provision."*
- The reforms are not directed at agricultural runoff or individual household water supplier (e.g. well, roof, stream supplies).

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2. Support Package for NCC assets

- Information from governments 3-W website – not yet reported on NCC website
- NCC would receive from government a “support” payment of ~\$21 million paid in July 2024
- Government would write off NCC debt of ~\$39 million (subject to verification of 3-W spending)
- NCC 3-W assets transferred to a new Entity with no compensation
- NCC has no shareholding in the new Entity C – so the concept of “local ownership” is meaningless

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3. Support package: a steal or a deal?
 - NCC gets a few cents on the dollar for 3-W assets:
 - NCC figures to DIA 3-W: ~\$997 million to ~\$1,994 million
 - NCC loses 3-W annual surplus ~\$12.5 million:
 - Revenue: ~\$29 million Expenditure: ~\$16.5 million
 - Accept 3-W proposal support: NCC receives ~\$21 million in July 2024
 - Reject 3-W proposal: NCC keeps its surplus of ~\$37.5 million by July 2024
 - Reject 3-W: could pay off 3-W debt in 3 or 4 years from current operating surpluses
 - Conclusion: NCC is far better off without the “support” of the 3-W proposal

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4. Ownership

- Transfer of Council assets to one of four companies (Entity A, B, C and D)
- Councils do not have a shareholding so claims of local authorities remaining “owners” is a fiction
- *“The Government has set a minimum design feature that the new entities would be ‘asset-owning’ entities. This would mean both the infrastructure assets and their associated debt would be transferred to the new entities.”*
- *“Local authority and mana whenua involvement in the appointment (and removal) of the board.”*
- *“Ability to make independent pricing and charging decisions that reflect the long term nature of the underlying assets and cost to serve.”*
- *“Mechanisms to protect and promote iwi/Māori rights and interests”*
- *“Māori have rights and interests in water, which need to be addressed. These are not to be undermined through waters reforms.”*

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5. Governance

- Transfer of Council assets to one of four companies (Entity A, B, C and D)
- Four regional entities, each with 10 to 12 board members:
 - Half from local councils in proportion to their relative asset contributions
 - Half representing iwi in the entity
- Board members selected (Minister Mahuta) to *“ensure that the Board is adequately competent both as a Treaty partner, and with expertise in accessing matauranga Maori, tikanga Maori and Te Ao Maori knowledge to inform the water entities activities.”*

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6. Decision making Entity C:

- Local council membership determined by asset value
- In Entity C Nelson and Tasman are among 21 councils, including Wellington, the Chatham Islands and extending up the east coast of the North Island
- There are numerous iwi within each of these 21 councils – unclear how board members are selected for iwi
- Seats at the table will be determined by asset value (ranking – high range value)
 - 1. Wellington CC 28%
 - 2. Lower Hutt CC 18%
 - 3. Porirua CC 10%
 - 4. Nelson CC 7%
 - 5. Upper Hutt 6%
 - 11. Tasman DC 3%
- Nelson CC probably would not get a board seat; and Tasman DC certainly would not
- Uncertain how Nelson or Tasman DC iwi would be represented, given the large iwi population in the other parts of Entity C (East Coast, Hawkes Bay, Wellington...)
- Constrained by government oversight, with 50% voting by Councils 50% voting by Māori, with a 75% majority for decisions effectively giving a veto to either party
- Unclear how Nelson CC could convince the 20 other Councils and numerous iwi that Nelson had higher priorities to improve an already good system over areas with limited services

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7. Efficiencies/Costs

- Businesses reduce costs in three ways:
 - Reduce services
 - Reduce staffing costs
 - Increase efficiency
- Services:
 - Meant to improve and be extended
- Staff:
 - Minister Mahuta claims thousands of new jobs with 3-W
 - Mayor Reese claims no NCC staff will be laid off with 3-W
 - NCC probably need additional staff for vastly increased consultation with other Councils and iwi
- Efficiency:
 - Modelling based on the England, Wales and Scottish experience
 - Efficiencies gained in England and Wales with privatisation
 - *“When Scottish Water was formed, it was very inefficient when compared to the privatised companies in England and Wales”* [is 3-W replicating this model?]
 - *“Analysis suggests that entities require between 500,000 and 1,000,000 connections in order to fully realise these efficiencies.”*
 - Largest within Entity C is Wellington with 222,600 connections which is far less than required for the efficiency gains modelled

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- Consequence:
 - NZ is not going private like England and Wales where efficiencies were gained
 - Our experience in amalgamating services – such as Unified Auckland – for efficiencies have proven grossly over-optimistic
 - New overhead costs will be phenomenal if Auckland region Watercare Services is anything to go by
 - Very unlikely we will gain efficiencies by a new bureaucracy based in Wellington:
 - How will road repairs and stormwater upgrades be coordinated
 - How do you separate drainage swales and streamside parks from stormwater management ...?
 - Quite likely that our city and region will lose local expertise and capability for 3-W infrastructure as has occurred for state highways under new directions from Wellington

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8. Unknown costs:

- A lot of the figures espoused by Minister Mahuta are based on dubious modelling assumptions such as uniform costs per household across the region
- Iwi aspirations - He Puapua has “...provisions to make co-governance and co-management of freshwater bodies compulsory” – and “receive royalties for the use of natural resources such as water.”
- Presently no one owns water and there is no price on water, but there is provision for iwi charging for water.
- There is a huge potential unknown cost
“Iwi and Māori aspirations... have not been incorporated into our modelling.”
- Minister Mahuta talks about average household bills for water services, specifically excluding water charges
- Assurance must be sought that iwi or the entities cannot charge for the consumption (e.g. drinking water, irrigation, food processing) or use of water (e.g. hydropower, recreation).

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9. Deal or no deal – an analogue

- You will transfer your house to “them” for a few cents on the dollar value
- You will rent the house from “them” at fair market value
- You will lose any revenue (e.g. room-mate, renting your garage)
- You will pay all costs plus a handling charge to “them”
- You will pay unspecified additional costs for iwi aspirations
- You will request “them” to make renovations (e.g. new baby add bedroom)
- They will judge the merit of your renovation request against all the others
- They promise not to sell your house (privatisation).

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10. Conclusions

- Substantial central government support of 3-W infrastructure is required for select local authorities and locations, but this does not include NCC who have matters well in control and can meet required standards with current plans
- It would be far more effective to target places with real need, without adding whole new layers of bureaucracy and costs
- Central control is likely to result in less responsiveness, accountability, and responsibility
- NCC and local iwi may have no direct representation on the governing Entity
- Full disclosure is required to make an informed decision not government spin <https://www.rnz.co.nz/national/programmes/checkpoint/audio/2018802004/major-overhaul-of-country-s-water-systems-met-with-unease>
- NCC must join other councils in calling for a pause in three waters reform <https://www.stuff.co.nz/the-press/news/126157817/serious-concerns-canterbury-councils-call-for-pause-to-three-waters-reform>
- The pause is required because there is no mandate, and it is undemocratic, for NCC councillors to consider transfer of significant public assets without overwhelming public support demonstrated in an election or referendum