

# Three Waters Review

Infrastructure NZ

16 August 2018

New Zealand Government



Te Tari Taiwhenua  
Internal Affairs

# Overview

- Context and background
- Key findings
- Unpicking the issues
- Clarifying the scope of this stage of the Review
- Outcomes – what and how?
- Next steps

# Three waters

- Aotearoa New Zealand’s drinking water, wastewater, and stormwater services are collectively described as the “three waters”.
- A social and economic enabler, fundamental to the wellbeing of our communities and the quality of our environment.
- The need to recognise Te Mana o te Wai – the cultural value of water and water bodies to mana whenua.
- A vast and diverse sector, large number of providers, large number of assets across a wide geographic spread, heavily influenced by topography and natural features such as drinking water sources and discharge options.
- Primarily owned and provided by local authorities.
- Multiple Ministerial portfolios and government agencies. Key departments include: Internal Affairs, Environment, MBIE and Health.
- One of NZ’s core infrastructure sectors – very large investment: the combined local government assets have a \$51.4 billion replacement value, with \$12.8 billion planned expenditure from 2016 – 2025.

# Origins of the Three Waters Review

- Ministers agreed in October 2016 to ‘have a look’
- Review formally established in mid-2017 to:
  - look into the challenges facing New Zealand’s three waters system; and
  - develop options and recommendations for system-wide performance improvements.
- Cross-government initiative – led by Department of Internal Affairs
- Initial work ran in parallel to Inquiry into Havelock North Drinking Water.
- Three Waters Review ‘key findings’ provided to new Minister of Local Government and broader group of interested Ministers in November/December 2017.
- Three Waters Cabinet paper in April 2018 – agreement to further work.
- Interconnected with work to respond to the Havelock North Inquiry’s other recommendations, and broader work (such as Inquiry into Local Government Funding).

# Key findings and unpicking the issues

# **Our key findings point to a range of national and local issues, covering both the three waters regulatory regime and service delivery**

**Risks to human health and the environment in some parts of the country**

**Low levels of compliance, monitoring and enforcement of drinking water and environmental regulations**

**Minimal central oversight and poor connections across the system**

**Lack of protection, transparency and accountability for consumers, especially compared with other infrastructure sectors and overseas water systems**

**Affordability issues, driven by a range of funding pressures and financial challenges**

**Capacity, capability and sustainability challenges – particularly outside large scale organisations**

**Variable asset management and governance practices, and a lack of good asset information to support effective decision making**

# Regulatory

- Widespread systemic failure of water suppliers to meet the standards required to ensure the safe supply of drinking water – Havelock North Inquiry
- Questions about whether the current regulatory regime is providing good environmental outcomes in respect of water services – patchy data giving scope for debate on performance and ‘facts’
- Issues with compliance, monitoring and enforcement (CME)
- A complex regulatory environment, with poor connections between regulatory functions and minimal central oversight of the three waters system
- A lack of information to allow consumers and other interested parties to assess the performance of three waters services – and a lack of transparency about the prices they are paying for those services
- Three waters networks have strong natural monopoly characteristics but no economic regulation regime to protect water consumers

# The three waters system has a complex regulatory environment, and many organisations have a role in regulation, monitoring and/or service delivery

National

**Ministry for the Environment** sets the national environmental direction under Resource Management Act, through tools such as the National Policy Statement for Freshwater, national environmental standards, and regulations

**Ministry of Health** responsible for national level regulation of drinking water, including setting standards, appointing drinking water assessors, and reporting annually on compliance

**Department of Internal Affairs** provides policy advice on Local Government Act 2002 & Fire and Emergency NZ Act

**Controller and Auditor General** conducts annual audit of local authorities, and ad hoc inquiries

**Ministry of Civil Defence and Emergency Management** has national level responsibility for civil defence emergencies  
**Fire and Emergency NZ** is the national fire service

**Water New Zealand (NGO)** sector organisation that conducts an annual performance review of local authority services

Regional

**16 regional & unitary authorities** have responsibility for regional environmental planning, issuing consents, monitoring compliance and enforcement

**36 Drinking Water Assessors**, employed by **20 DHBs** provide regional level inspection for compliance with standards and water safety plans

**Local authorities and lifeline utilities** provide regional level civil defence emergency planning and response

Local

**67 territorial & unitary authorities** provide drinking water, stormwater, and wastewater services to their communities, meeting planning and reporting requirements under the Local Government Act  
**600,000 people** on very small, tanker & self-supplied drinking water  
**270,000 people** on private wastewater systems (e.g. septic tanks)

# Funding challenges: drinking water and wastewater infrastructure upgrades

- Mandatory compliance with the Drinking Water Standards and mandatory treatment carries significant costs (Beca research)
  - estimates of at least \$309 to \$574 million in capital costs
  - estimated annual operating costs of \$11 to \$21 million
  
- Councils are facing even bigger costs for wastewater infrastructure upgrades to meet the National Policy Statement for Freshwater Management (draft GHD and Boffa Miskell research)
  - estimates of at least \$1.4 to \$2.1 billion in capital costs
  - estimated annual ongoing operating costs of \$60 to \$90 million

## Funding challenge summary

Cost pressure	Capex (\$m)	Opex (\$m)
Drinking water	\$309 - \$574	\$11 - \$21
Waste water (discharge to fresh water, 40%)	\$1,400 - \$2,100	\$60 - \$90
Waste water (discharge to coastal, 60%)	➡	➡
Waste water (overflows)	⬆️⬆️	⬆️⬆️
Climate Change / Resilience / Adaptation	⬆️⬆️⬆️	⬆️⬆️⬆️
+ cost pressures from renewals, tourism, growth and housing/development		
Projected annual average spend (2015 LTPs)	\$1,952	-
2016 – 2017 Water and Wastewater spend	-	\$1,330

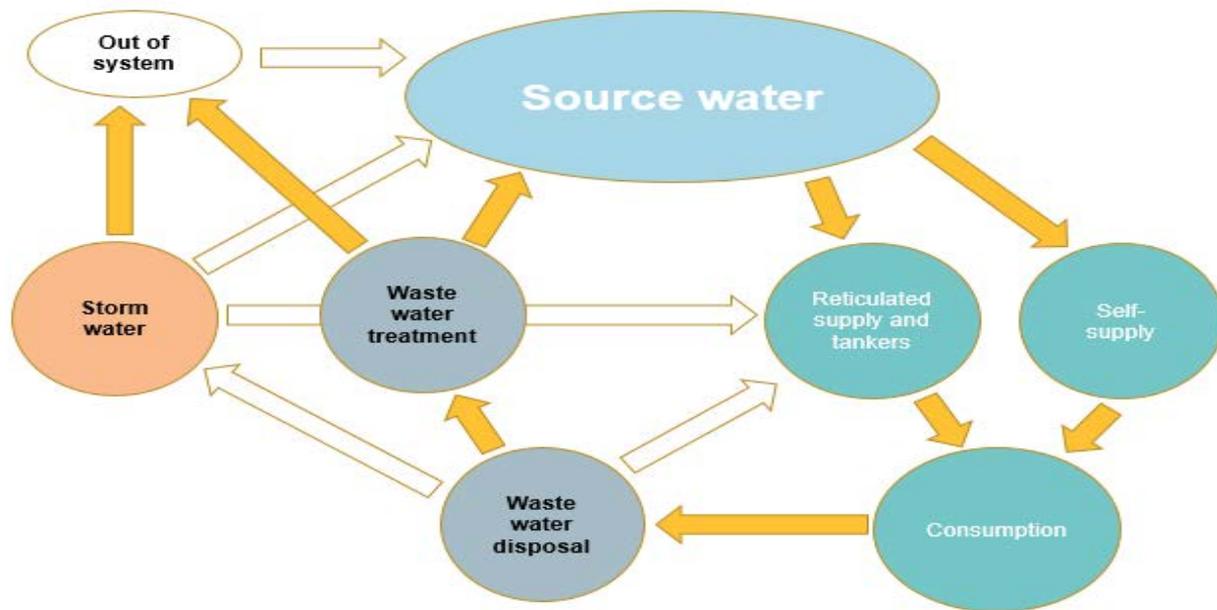
# Asset management and governance

- A lack of robust data means we do not have a comprehensive, reliable picture of the state of water assets, how much renewal/improvement is needed, or timing and costs
- Asset management capability across the system is mixed – and relatively low in some places
- Asset management ‘maturity’ is largely commensurate with the scale of the organisation
- The separation of governance and management is generally blurred, which weakens accountability
- Professionalisation of 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 a increasing emphasis on effective governance and decision making

# Clarifying the scope of the Review

## Taking a system-wide approach is essential

What happens in one part of the three waters system has implications for the quality and outcomes related to other parts of the system

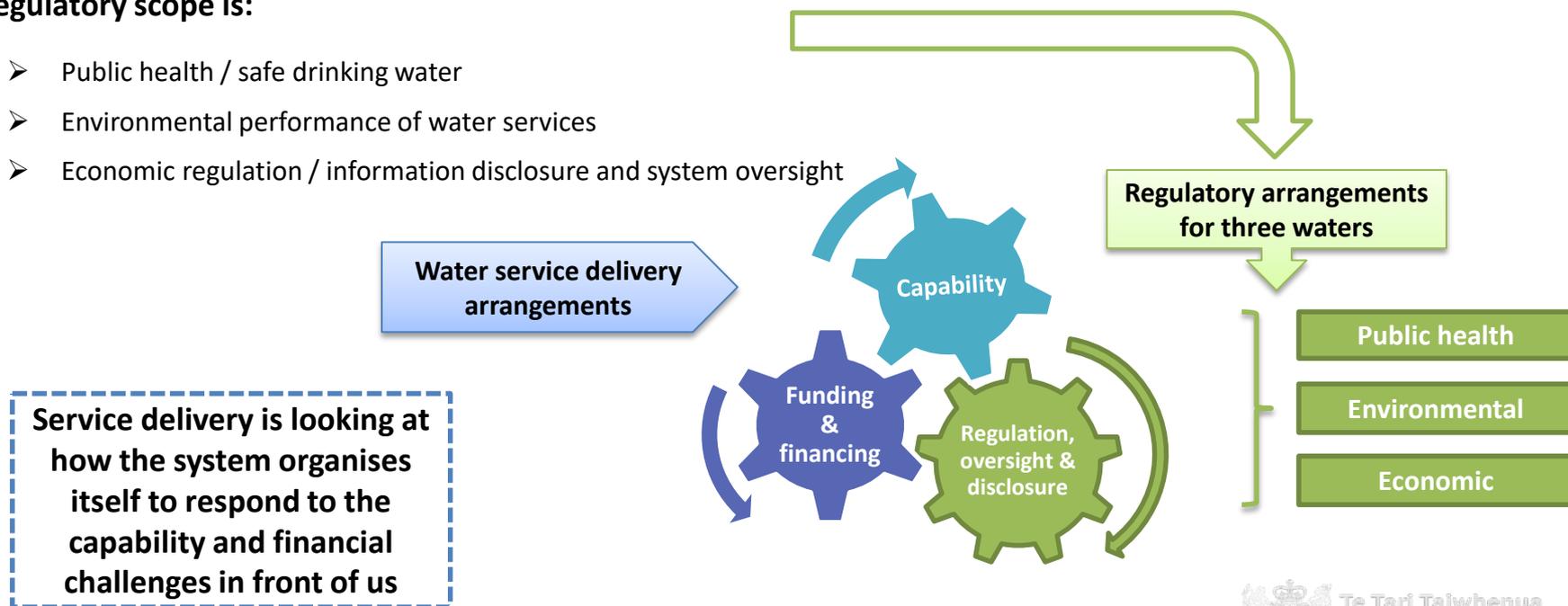


### Case for an improved regulatory framework across all three waters:

- NES for sources of drinking water has a strong relationship to provision of safe drinking water
- Potential to reinforce catchment approach and freshwater standards
- There are indications of regulatory weaknesses and performance in respect of waste water and stormwater
- There is little information to allow consumers to assess the value for money and overall performance of all 3 water services

# Clarifying the scope of this stage of the Review

- **The Government is taking a broad, system-wide perspective – covering:**
  - issues and options relating to the regulatory regime and service delivery arrangements
  - all three waters – drinking water, wastewater, and stormwater
- **Regulatory scope is:**
  - Public health / safe drinking water
  - Environmental performance of water services
  - Economic regulation / information disclosure and system oversight



# Outcomes – what and how?

# What outcomes is the Government seeking for the three waters system?

Specific outcomes are still being discussed with Ministers – but likely to relate to:

- ensuring safe, reliable, fit-for-purpose drinking water
- better environmental performance
- three waters services that contribute to the wider social (eg housing), environmental and economic outcomes that are important to New Zealand
- achieving the above outcomes in ways that are affordable for our communities

Broader goals relate to things like:

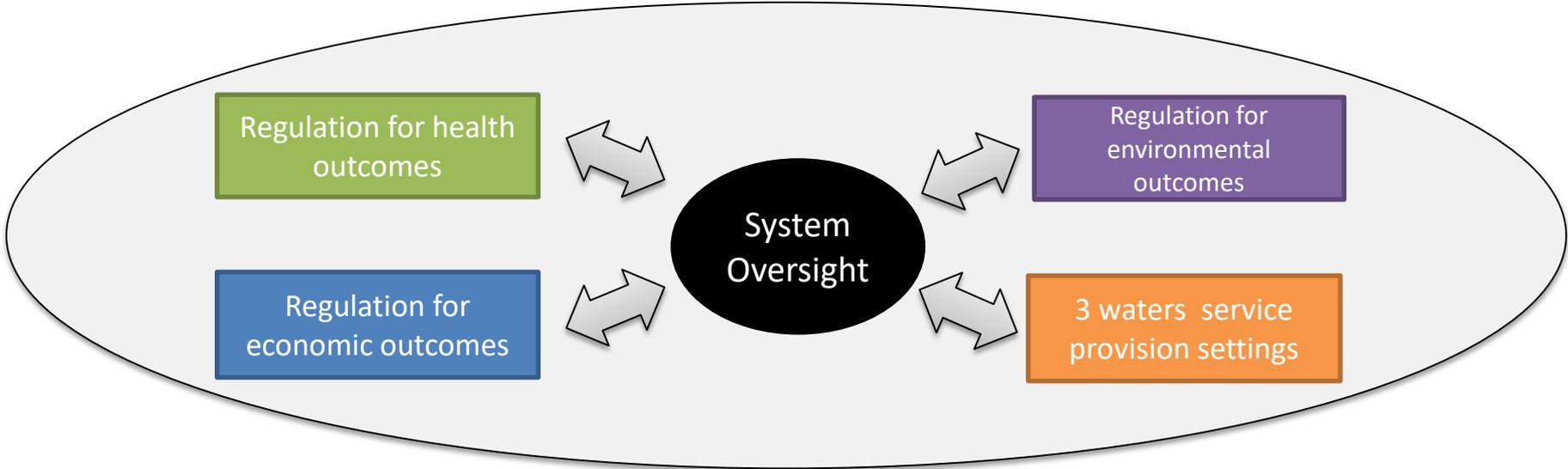
Delivering the water infrastructure needed to support growth

Protecting/enhancing our reputation as a tourist destination and export market

Continuity of water services in the face of climate change and natural disasters

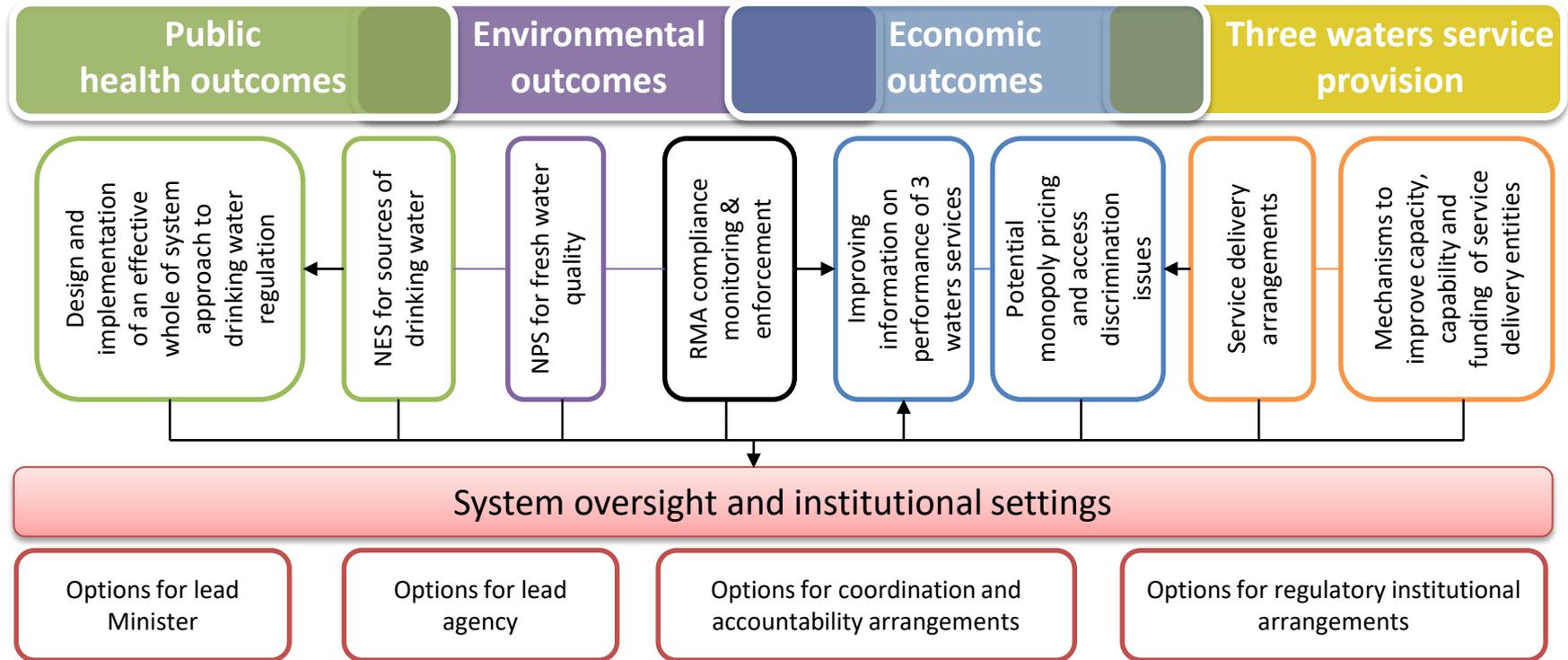
# What options are being explored?

An integrated regulatory system for three waters services



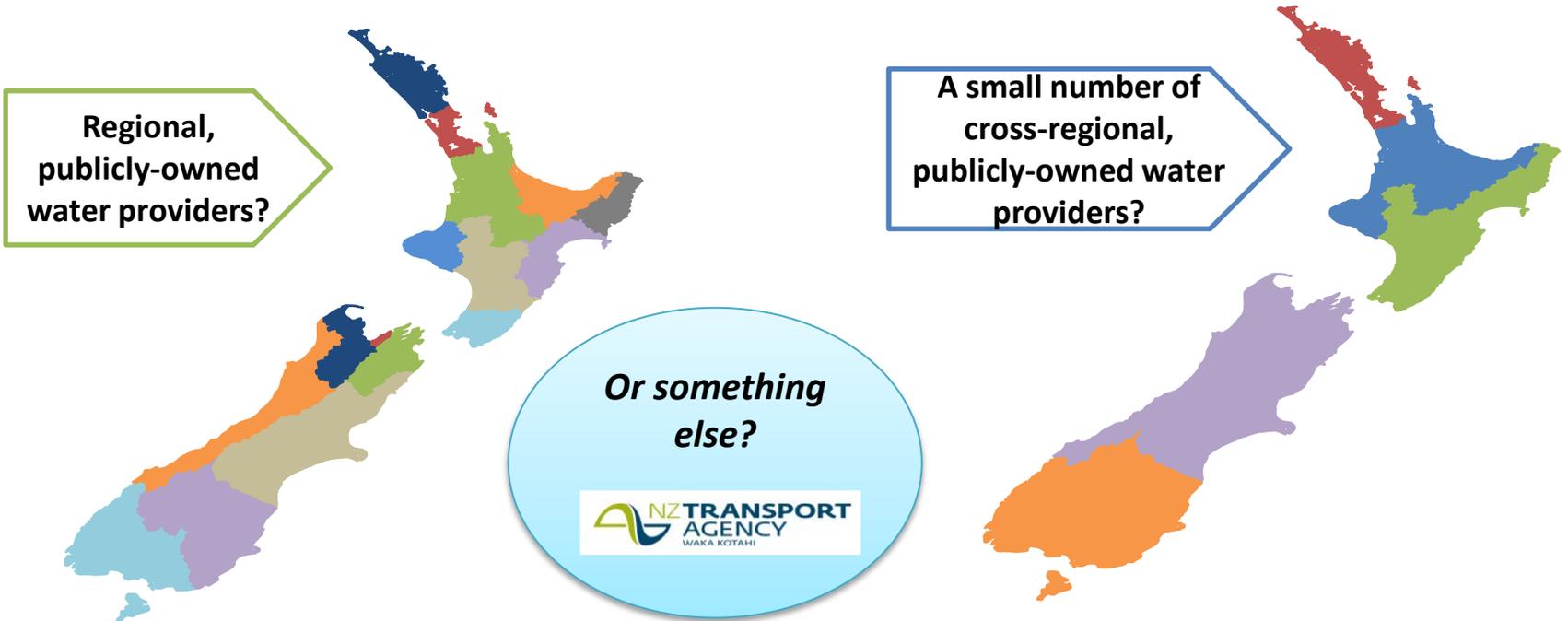
# The three waters system is complex and interdependent

Regulatory design will take time, and needs to happen at the same time as development of options for service delivery arrangements



# Service delivery options

The HNI recommended moving to a system of aggregated, dedicated water providers. If we were to consider a new model, what might the options look like?



## From the sector

- Mixed views
- Needs to be four not three waters
- Scale of the problem, diagnosis, data and evidence?
- Subsidising outside their boundaries
- Integration with land use and planning – core Council functions
- Penalising those that have invested - equity

**It is important that a wide range of voices and views are heard, including: industry, water users, businesses and Iwi/Māori.**

# Concluding

## Next steps

- This is an ongoing conversation
- Next milestone is Cabinet consideration of high level options in October 2018
- Will be further public engagement in 2019 on the challenges and options for how the system can respond to them
- Work on a future regulatory regime likely to seek government decisions in 2019. Clear priority is public health, safe drinking water

## In summary

- Key findings of the review to date show that our current three waters system has a number of challenges and the status quo is not sustainable.
- The Government is actively engaged in a conversation with the local government sector and associated communities on defining the challenges and scoping the solutions.
- The conversation includes which regulatory arrangements, service delivery models and funding arrangements are best suited for the delivery of three waters services.
- Continued public ownership of existing three waters assets is a bottom line.
- The work is at an early, high level conceptual policy stage and options and discussion will continue into 2019.
- Important that we hear all voices.

## Contacts

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