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Health Committee
Parliament Buildings
Wellington

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This submission represents the views of Infrastructure New Zealand as a collective whole and may not necessarily represent the views of individual member organisations.

Infrastructure New Zealand submission on the Taumata Arowai – the Water Services Regulator Bill

We support the establishment of a dedicated water regulator

We support the establishment of Taumata Arowai – the water services regulator.

New Zealand’s system for managing the water cycle is not working

The system for managing New Zealand’s water services is underperforming and requires urgent changes to see it succeed.

Most prominently, this was seen in the Havelock North drinking water crisis of August 2016, when over 5000 residents of Havelock North were infected with gastroenteritis, which led to 45 hospitalisations and up to 3 deaths¹.

Wastewater service provision is also challenged. Wellington City Council, one of New Zealand’s largest and best resourced councils, has struggled to fund (and finance) the works necessary to maintain water

¹ Havelock North Drinking Water Inquiry (2017) *Report of the Havelock North Drinking Water Inquiry: Stage 1*, page 1.



networks which across the country contributing to severe environmental and social impacts from wastewater system failures².

Stormwater services are no different. Recent reporting on the health of the Hauraki Gulf found high concentrations of toxic chemicals, including zinc, copper and mercury, in the Waitemata harbour and Tamaki inlet.³

Rural water services are in equivalently poor condition. The Hauraki Gulf Forum also found high levels of nitrogen draining into the Gulf from the Hauraki Plains and that nitrogen concentrations are increasing in the Firth of Thames.⁴

In February 2020, the army was called in to provide water to residents of Kaitaia after town water supplies became critical.⁵

That is, all “four” water services – water supply, wastewater, stormwater and rural water provision (including water storage, irrigation and flood control) – are underperforming across New Zealand with unacceptable frequency.

We acknowledge that water service provision is at most times and in most places of an adequate standard. However, water is also an essential service and failures of this type are avoidable and not tolerated in countries we normally compare ourselves to.

In 2017, Castalia found that asset management was much more immature and unsophisticated in the New Zealand’s water sector compared to energy, roads, or water services in places such as Scotland or Australia⁶.

Scotland itself, since reform two decades ago to its water system, including the establishment of a dedicated regulator, has seen water supply and wastewater operating costs decline 40 per cent, while public perceptions have improved along with the quality of water services.⁷

² <https://www.stuff.co.nz/dominion-post/wellington-top-stories/119908505/the-perfect-storm-wellington-council-warned-last-year-of-impending-water-crisis>

³ Hauraki Gulf Forum, State of our Gulf 2020.

⁴ Ibid.

⁵ https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=12311597

⁶ Castalia (2017) *Three Waters Asset Management Maturity in New Zealand: Report to Department of Internal Affairs*.

⁷ Scottish Water.

The situation is not improving

Of immediate concern, performance is not improving.

Work by the Havelock North Drinking Water Inquiry found that “some 721,000 New Zealanders continue to receive drinking water from reticulated supplies that is not demonstrably safe – a figure likely to be a significant underestimate”⁸.

Although contamination of copper and lead in the Hauraki Gulf is declining, more sites tested “high” for levels of zinc in 2019 than in 1999.

Wastewater issues in Wellington are present as of today, as are drinking water pressures across Northland.

The reasons for water system failure are complex

Multiple, complex issues sit behind each water service failure.

Funding for water services is inadequate.

In Porirua, for example, “more than half of the city's wastewater pipes [are] in a poor or very poor condition”. The city’s 57,000 residents will need to fund up to \$2 billion in upgrades and maintenance in the coming decades⁹.

Work by GHD and Boffa Miskell found that upgrading our country’s wastewater treatment plants (WWTPs) such that their discharge into lakes and rivers is acceptable could cost up to \$2 billion¹⁰. Comparable work on upgrades to WWTP that discharge into oceans put a similar estimate at up to \$1.5 billion¹¹.

For growth cities like Auckland, funding barriers may be overcome, but financing barriers remain. Requirements to keep debt below thresholds needed to maintain credit ratings prevent the delivery of programmes needed to tackle long standing issues or provide for growth.

For smaller water providers, capacity and capability impede services.

⁸ Havelock North Drinking Water Inquiry (2017) *Report of the Havelock North Drinking Water Inquiry: Stage 2*, page 27.

⁹ Rachel Thomas (Radio New Zealand; 21 February 2020) *Porirua’s \$2b water bill ‘a wake-up call for councils’ on under-investment*. Available at: <https://www.rnz.co.nz/news/political/410051/porirua-s-2b-water-bill-a-wake-up-call-for-councils-on-under-investment>

¹⁰ GHD and Boffa Miskell (2018) Cost estimates for wastewater treatment plants to meet objectives of the NPS Freshwater. Available at: <https://www.dia.govt.nz/Three-waters-review>

¹¹ GHD and Boffa Miskell (2019) Cost estimates for wastewater treatment plants that discharge to the ocean. Available at: <https://www.dia.govt.nz/Three-waters-review>

As few as two staff can be responsible for providing the same basic services across smaller council areas as Watercare which operates with a team of almost 1000¹².

Kaipara District Council, who represents circa 10,000 ratepayers, was found by the Auditor-General to be “out of their depth” in attempting to deliver a complex wastewater scheme at Mangawhai, ultimately resulting in Commissioners being called in to run the council¹³.

Water NZ’s most recent National Performance Review found that water providers had vacancies at 2.5 times the national unemployment rate¹⁴.

The Auditor General has found councils frequently fail to deliver on capital investment programmes needed to sustain quality services because they lack the staff.¹⁵

A water regulator cannot address all these issues alone

We note that the funding of water services will not be the responsibility of a water regulator.

We note that the financing of new water infrastructure will not be the responsibility of a water regulator.

We note that the skills and processes needed to deliver water services will not be provided by a water regulator.

We note that the structure of the water industry will not be determined by a water regulator.

A water regulator will shed light on challenges and provide a way forward

But what a water regulator will do is make all of these issues transparent by reducing the ability for water providers to run down levels of service and defer critical investment in response to cost pressures.

New Zealand will be able to have an honest and informed discussion around the appropriate levels of investment, and means to fund services, which affect the health and wellbeing of people and the environment.

New Zealand will stop trading off risks to public health and environmental sustainability for lower short term property rates and charges.

We support the establishment of the water regulator Taumata Arowai.

¹² Water New Zealand (2018) *2017-2018 National Performance Review*.

¹³ Office of the Auditor General (2013) *Inquiry into the Mangawhai community wastewater scheme*.

¹⁴ Water New Zealand (2018) *2017-2018 National Performance Review*.

¹⁵ Office of the Controller and Auditor General, *Managing the Supply of and Demand for Drinking Water*, 2018.

We support expert, independent regulation for the water “system”

To facilitate and maintain a focus on outcomes across the water cycle, we support regulation across the full water system.

Drinking water, wastewater, stormwater and rural water (including water storage, irrigation and flood control) requires quality and price regulation.

Water that enters the receiving environment may require different standards to the water which enters peoples’ homes, but a rigorous and trusted process is necessary for both.

Water pressures, both in terms of discharges and availability for consumption, will vary around New Zealand, but the need for specialised monitoring of water and the price consumers pay is universal.

We are agnostic as to how many regulators are required and what their share of responsibility should be.

That is, Taumata Arowai may be the best entity to oversee price and quality control across all four waters.

Alternatively, separation of price and quality may be preferable or separation of environmental from economic oversight.

What is the priority, is that water as a system is managed in an integrated way which supports long term economic, social, environmental and cultural outcomes.

Separate regional or local regulation will undermine national objectives and the capability of the regulator.

Regulation and monitoring should be performed only at the national level.

Independence from both the Government of the day and providers is critical to avoid decision makers from “marking their own homework”.

We therefore support Taumata Arowai’s establishment as a Crown entity.

Although we do not perceive the Bill will prevent or impede the addition of responsibilities to Taumata Arowai, nor that it will prevent additional regulation by a new or existing regulator (for example, the Commerce Commission), we do see merit in clarity from the Government regarding future regulatory intentions:

- How will the Government balance ability to pay with health and environmental objectives?
- What will be the role of the Environmental Protection Authority vis-à-vis Taumata Arowai?
- What will be the role of the Commerce Commission?
- Will subnational providers be able to enforce standards above those identified by Taumata Arowai?

- Will new settings by Taumata Arowai help or hinder the supply of new, infrastructure serviced land for housing?

We all desire a seamless, sustainable and productive water cycle and for this to be achieved we need an equally seamless, sustainable and productive system of four waters management and oversight.

Sector reform is required

In order to oversee a seamless water cycle and system, reform of the water sector will be required.

Timely and robust monitoring of water services across 67 urban water providers, not to mention future oversight of rural water services which we consider important, is unrealistic.

We do not consider that professional monitoring and enforcement at this scale will be preferable, or even possible.

Further, the ability for all 67 water providers across New Zealand to meet new and appropriate standards is also unrealistic.

Most councils lack the ability to manage assets efficiently over the long term, manage performance in the short term and lack the ability to respond to new challenges including climate change.

A much reduced number of specialised water providers who can leverage scale, capacity and capability to efficiently manage capital programmes and provide clean, healthy water outcomes is urgently required.

The Government must provide national direction

Taumata Arowai and any additional future water regulators, as well as water service providers themselves, will require national direction.

There is at present no defined vision nor national indicators to inform decisions on waterⁱ.

In the absence of clear national direction, new compliance and regulatory expectations have added to costs to local government activities without adequate consideration for ability or willingness to pay.

Clean drinking water and wastewater services are a human right and each regulatory decision affecting these services must be evaluated against ability to pay.

National direction as to the importance of water as a human right and health and environmental necessity, as well as cultural taonga, is required.

Instruction as to the importance of three waters service delivery to enable urban development and, in particular, competitive urban land supply, is also required.

Under current arrangements, local authorities who carry the cost of trunk water infrastructure and the associated risk of development are incentivised to minimise water infrastructure investment. This



approach has throttled the supply of development capacity, undermining competition in land markets and leading to rapid housing price inflation.

National direction and incentives from the centre are required to ensure councils support urban development outcomes.

A comparatively small \$100 million annual grant to local authorities from the Government would unlock \$250 million in new council borrowing against that revenue stream, resulting in \$350 million of new infrastructure investment per annum.

Assuming \$50,000 per section of council infrastructure costs¹⁶, this new investment would unlock 7000 new dwellings and around \$2.1 billion of property development, yielding \$367 million in GST alone.¹⁷

An informed water regulator could assess the appropriate share of responsibility across levels of government and providers to ensure the optimal balance of user, beneficiary and public water service provision.

National direction, including the identification of water as critical national infrastructure, is needed to enable Taumata Arowai to operate effectively within New Zealand's broken planning framework.

Major water infrastructure is nationally critical infrastructure and should be identified as such. This will facilitate protection of water sources and services and allow timely delivery of infrastructure to meet the expectations of the regulator.

We thank the Committee for this opportunity to submit.

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ⁱ 'Reflecting on our work on water management', Controller and Auditor General

¹⁶ Based on Productivity Commission analysis of the infrastructure costs of development: Productivity Commission, Using Land for Housing , 2015.

¹⁷ Infrastructure NZ analysis.