

Our Reference: EXC-51-04.01 / 210713113525
21 July 2021

Hon Nanaia Mahuta
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Tēnā koe e te Rangatira

Three Waters Reform Programme

Thank you for providing the package of information to us on 30 June 2021. The Council appreciates the ongoing communication with the Department of Internal Affairs around the national Three Waters Reform programme.

I am sending this correspondence with the support of the full Council. Waimakariri District Council (WDC) has a legal and community responsibility to engage and consult with its community regarding significant matters. Furthermore, we would want to seek the views of our partners Ngāi Tūāhuriri, within whose takiwā our district falls.

Water reform is a significant matter and, based on our current knowledge, will have a significant impact on our community as a whole.

We seek the opportunity to continue engagement with you and your officials in a constructive and informative manner to better understand the basis of the information and assumptions sent through in June, as well as the earlier Water Industry Commission for Scotland (WICS) information.

This will help us fulfil our statutory and partnership requirements under the Local Government Act 2002. Similarly, it will enable the Council to fully understand the proposal and consult effectively with our community.

The appendix accompanying this letter details the further information we require for our community in order to make an informed decision on the proposals. It is essential that this information is supplied to the Council by early August so that we can consult with our community as soon as possible.

On this point, we were disappointed to learn at the Local Government conference that the timetable for community engagement, as well as for the Council forming a view, has changed.

We were further disappointed to learn that this timetable had been agreed through a Heads of Agreement between LGNZ and the Crown. Until this point we understood we had until December. It appears we now have until September, with the date yet to be finalised.

This proposed reform is a significant issue for our community and it is important that we

understand all the information in detail before we seek the views of residents.

Based on the limited information presented so far, the view of the Councillors, and my own, would be that we do not join the Government's Three Waters reform programme. At this point we are not convinced there are benefits for the Waimakariri community.

Over the last 20 years our Council has worked hard to upgrade our Three Waters infrastructure. We are proud of this. This reform programme appears to us to ask our ratepayers to subsidise other communities. This isn't fair or equitable. At this point we see no gains, but higher costs for our community.

However, we are seeking to address this deficiency in understanding through the request in this letter and by continuing the dialogue with your office and the DIA.

We look forward to the opportunity to work through these questions, and others that may arise, and await your response.

Thank you.

Nāku noa, nā



Dan Gordon
MAYOR

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Appendix One – Questions for DIA

Efficiencies of the New Entity

1. What are the key assumptions underlying the predicted 45% efficiency gain by 2051 and how have these been determined in the Waimakariri context?
 - a. Please provide analysis that shows the percentage gain attributed to each component of the assumptions.
 - b. Has modelling been done on the timeframes when the efficiencies are provided? Please provide the modelling of the costs and efficiencies broken down over time
 - c. Do these assumptions recognise the efficiency gains that have already been achieved by the sector through amalgamation of schemes, use of technology, procurement processes, MBIE procurement and operational efficiencies (including SCADA, network BAU self-management, and generator optimisation)?
 - d. Are the factors that make up the efficiency gains only achievable through the new entity scenario? Or can some of the efficiencies proposed be gained under the current model?

Financial Assumptions

2. The dashboard analysis presented gives the impression that the figure shown is what each household will be charged on an annual basis (currently as rates), under the reforms as a water bill.
 - In the calculations informing the dashboard it is assumed that 70% of required revenue will come from households. Does this 70% of income from households therefore exclude:
 - Three Waters Rates from Commercial Properties
 - Income from Development Contributions (DC/ DCs)
 - Rural Properties (Farms)?
 - The dashboard figure also includes cost for growth-related infrastructure that is currently paid for by Development Contributions. Are these, and/or third party contributions, factored in to the amount payable by each household (shown on the dashboard)?
 - Will the entity set up and charge Development Contributions for new infrastructure to serve growth? Or will this be added to and paid as a rate? This is important to understand in order to understand the difference between what is referred to as a 'household' vs. each connection cost.
3. Why is it considered appropriate to apply the methodology based on population used in Scotland to New Zealand, when NZ is over three times the size of Scotland in land mass with Scotland more densely populated in narrow corridors?
4. Why has a factor of 2.7 people per household been applied over the population to determine the number of households? This is not consistent with 2018 census information that shows Waimakariri District household average to be 2.5 people.
5. How has a cost increase of 30% from 2022 been determined? Please provide assumptions and calculations.

6. How will the cost of Level of Service improvements be funded?
 - a. Please provide details of the proposed capital and operational works that will be carried out in Waimakariri District that are over and above what is currently forecast in our Long Term Plan and Infrastructure Strategy.
 - b. Has the increased level of service been quantified and defined both for our District and the South Island entity?
7. From the Roadshow provided by the DIA, it is understood that the Councils will be the collection agency for revenues, including rates, post 1.7.2024.
 - a. If this is correct, what revenue streams can Councils expect to recover from set-up costs to collect revenue and debt collection?
 - b. How long are Councils expected to support revenue collection and systems to support the new entities?
8. WDC has strategic asset management modelling over the whole life of the assets e.g. 150 years. The Council holds replacement funds to equate to the replacement of the assets as modelled. This ensures current users pay for their share of the asset and intergenerational equity principles are maintained for future generations.
 - a. Will these replacement funding reserves be held for the benefit of the current households/connections within the District boundaries? And will this prudent strategic asset and financial management policy/practice be maintained by the new entity for our District?
 - b. Specifically, please confirm whether depreciation will be built up in renewals accounts under the proposed model? We ask as this will make clear if there will be funding available at the end of the asset life to replace it.
 - c. Or, alternatively please confirm whether this cost will not be funded now and will be left for future generations to pay for by taking out loans to fund renewals at the time of replacement?
9. What credit rating will the proposed entities achieve, and what is the credit rating used by DIA in their comparison of what is achieved via the current Local Government Funding Agency?
10. What is the expected Local Government Funding Agency credit rating going to be post-Three Waters services and assets being transferred to the new entities? Further detailed questions include:
 - a. What are the 'cost of lending' assumptions for the new entity, including the respective interest rates compared to those being used for Councils as displayed in the dashboard figures?
 - b. It appears that Debt to Revenue forecast uses different parameters to those used by S&P and LGFA, particularly in the determination of revenue. How has the revenue number been determined to calculate the Debt to Revenue ratio?
 - c. Why have Debt to Rates as well as the Debt to Revenue formula and other ratios that the Credit agencies and LGFA use to provide affordability and credit worthiness not been followed in presenting the information?

Financial Assumptions of WDC

11. Why have numbers extracted from this Council's Annual Report been used without reference back to the Council as to the validity or understanding of the numbers?
 - a. It appears that Stockwater race costs and income are included within the totals of the dashboard figures. Is this correct?
 - b. It appears that DC income is shown as an operating revenue to ascertain cost per household and not the numbers provided within our RFI. Is this correct?
 - c. Why do operating numbers include over a million dollars in insurance receipts, and included within the determination of cost?
12. It appears that the combined efficiencies of Councils have been ignored as the information has been presented. Please provide the financial assessment for Waimakariri District Council of stranded assets/overhead and services as a result of the removal of Three Waters Departments. This would include Rural Drainage and Stockwater services.
 - a. What will the cost to the community be as a result of this, and has that been accounted for in the efficiency number of 45%?
 - b. Please confirm if this assessment includes: staffing, buildings, assets, service delivery, service levels, financing and Governance related costs.

Performance

13. In relation to Performance Indicators, we note that WDC has been assessed at Level 3 of the four levels which indicates 'performing in line with expectations'.
 - a. Can the parameters, weightings, underlying information and assessments be provided which have been used to determine our performance indicator level?
 - b. It is understood from the dashboard DIA presented that Buller has a rating of Level 1 for Performance, Chatham Islands has a rating level of 2. Auckland has a Level of 1 despite their recent severe water shortage. However Hurunui, Selwyn and Waimakariri are rated Level 3 (one-off performing below expectations). How was this determined?
14. In the RFI response, WDC reported a number of properties on our rural schemes that have 'restricted', trickle feed style connections. The questions in the RFI seemed to class these questions as below the required level of service (i.e. inadequate flow / pressure at boundary).
 - a. Has the assumption that restricted trickle feed connections are not adequate been carried through to our assessment in terms of how well we meet current and future flow / pressure standards / requirements?
 - b. If so, are you aware that this style of connection is being allowed for by Taumata Arowai in their draft new standards? The proposed standards would therefore be at odds with the assumption that this style of connection is not a suitable level of service.

General

15. How will the priorities of each community be taken into account by the proposed entity? For example, we have had strong feedback over the years around not chlorinating water supplies.

16. How will communities be able to influence or have a say in decision-making of the proposed entity as they do now?
17. In the new entity six Council and six Tangata Whenua representatives are proposed - how was this number decided?
18. What are the implications for the proposed reforms if some Councils opt-out, including governance and compliance compared to opt-in?
19. Is Great Britain's starting base considered the same as New Zealand's current state in terms of infrastructure condition and estimated value of investment?
20. Please confirm whether WDC will receive any further financial information or analysis specific to our District, or the proposed South Island water entity?
 - a. Information we are seeking includes:
 - i. Detail on the breakdown of the extra-investment required in our District, other than what has been derived from the Scotland example?
21. Can you provide rationalisation, evidence and source for stating an ideal population of 600,000 to 800,000 for each entity?
22. Considering Three Waters are NZ's second biggest asset in Land Assets (after roads), how is the Office of the Auditor-General (OAG) involved in the reform process? Furthermore WICS have used averaging assumptions based on AU and UK data. What is the quality (confidence and reliability) of those datasets to allow for an appropriate comparison?
23. We understand that the entity will own the Three Waters assets.
 - a. Please provide details to support the statement that Councils will still own the assets. This does not appear to be the case as Councils will not be able to show them on their balance sheet or assert any direct control over the assets or services within their District. This does not appear to meet the definition of ownership.
 - b. Does DIA have legal advice to support the statement that the assets will remain in Councils' ownership, and can we have a copy of that advice confirming the proposed model meets the legal definition of ownership?
24. In determining a cost benefit analysis for a transfer of assets to the new entities, has the MBIE Business Case model been followed?
25. How does the reform propose that stormwater discharge be managed within the urban environment? Specifically where run-off from private sections discharges to the network, often via the road, in addition to road run-off that also enters the drainage network via kerb and channel. It is difficult to delineate the two discharges occurring within the same environment. Would private stormwater be required to be separated from roading stormwater discharge?
26. Why were Councils not given the opportunity to work in partnership with DIA prior to the release of the dashboards on 30 June, as per the Memorandum of Understanding (MOU)?

27. Is the extra spend across New Zealand for drinking water, sewage treatment and stormwater infrastructure and treatment predicated on all properties, whether urban or rural, receiving the full Three Waters services?

- For Waimakariri this would be a considerable extension to the Three Waters services provided at present by the Waimakariri District Council. In other words, is the scope of the Three Waters Reform to deliver the present 'urban-standard' infrastructure across the entire District and the entire country? And to bring the discharges from those water services up to a standard which meets the NPS FW 2020?

28. Will the proposed Three Waters entities ensure all fresh, marine and groundwater receiving environments meet the NPS-Freshwater 2020? If not, what is the contaminant level for fresh, ground and marine receiving waters inherent in these reforms and where can we find this information?

- Does the cost allowance in the dashboard include achieving NPS freshwater standards for all waterways in New Zealand?