

25 July 2022

Committee Secretariat  
Finance and Expenditure  
Parliament Buildings  
Wellington 6140

Members of the Finance and Expenditure Select Committee,

### **Water Services Entities Bill**

Wellington City Council (the Council) welcomes the opportunity to submit on the Water Services Entities Bill.

Access to safe, reliable drinking water, wastewater and stormwater services is a fundamental requirement for individuals, businesses, and cities to function and thrive. Bold change is required to manage and look after our water assets and infrastructure for the people of today and, most of all, for our children of tomorrow.

Wellington City Council's three waters network (drinking water, wastewater, and stormwater) includes 2,653km of pipes, 65 reservoirs, 103 pump stations and three treatment plants, with a combined value in the billions. Our three waters system, by its very nature, is largely out of sight and can be easily overlooked. In December 2019 and into early 2020 several high-profile pipe failures, particularly in Wellington's wastewater network, led to concerns about the condition of the city's underground infrastructure. These three waters network challenges that are faced in Wellington are by no means unique, with local authorities throughout the country grappling with aging infrastructure that is now starting to fail, and the increasing cost of undertaking upgrades.

In responding to these challenges, the Council established a Mayoral Taskforce on Three Waters in 2020 to inquire into specific issues related to water in Wellington. The Taskforce unanimously agreed that transformational change in governance, asset ownership, funding and management is required to lift the city's three waters network performance to the level appropriate for a modern, inclusive, and environmentally sustainable city.

The direction of the Government's proposed Three Waters reform partially aligns with the Mayoral Taskforce's conclusions. These included that:

- *Although WCC has been fully depreciating its water assets for many years, and providing the funding requested, the actual level of renewals investment has consistently been significantly lower than the depreciation collected. Significant funding has been directed to other projects. The result is that the network is ageing and deteriorating, leading to increases in pipe breakages and increasing water loss and wastewater leakage. The scale of the financial challenge is significant, and a reset is required.*

- *The Taskforce recommends ring fencing depreciation funding in the first instance, in advance of any transition of assets and funding arrangements to Wellington Water Limited (WWL) or a successor entity resulting from any Government reforms. The Taskforce found that WWL funding has been squeezed, resulting in reduced investment in asset condition assessment.*
- *The Taskforce considers a well-planned and funded condition assessment programme is essential to good asset management, and to ensuring pipes are replaced at the optimal time, not too early, or too late. Better understanding of asset condition would more clearly establish pipes actual lives, rather than expected useful, lifespan and ensure accurate rates of depreciation. The Taskforce also found that it appears that as the network ages, and possibly exacerbated by earthquake damage, maintenance and renewals are increasingly reactive rather than planned.*
- *The Taskforce supports continued investment to ensure the three waters network is resilient in the face of Wellington's seismic and climate change challenges.*
- *Rapid population growth also means the network is nearing capacity in many areas, and there will need to be well targeted, but extensive investment in new infrastructure to align with urban planning for future population growth. A robust development contributions policy and other funding tools will be needed to ensure that growth pays for the costs it imposes.*

The Council acknowledges that the Water Services Entities Bill is the first legislative step in the Government's reform process to improve water services for communities.

The Council raises several concerns about the governance and accountability arrangements outlined in the Bill which, if those issues are addressed, would help to strengthen the Water Services Entities' governance design, implementation, and community representation. In particular, the Council is urging the Committee to consider how a strong, local voice with democratic accountability can be ensured through the governance arrangements of the entities. These issues are outlined below:

### **Governance and Structure**

- While the governance structure has been drafted to better accommodate local voices, regional representatives, and mana whenua, it has become quite complex, and we consider it may not necessarily deliver on the outcomes sought by the change nor ensure strong local accountability. Each body will be representing a wide geographic area with many diverse communities and areas of interest.
  - How will local communities be assured that their interests are safeguarded and represented in this process?
  - We would recommend that the Regional Representative Group (RRG) works with councils and Iwi / Māori to develop a model that allows for strong local / regional representation based around sub-Water Services Entity (WSE) cluster areas.
- This concern links strongly with planning and investment prioritisation processes including;
  - Approval of the SOE (Statement of Expectation) and SOI (Statement of Intent) as they need to be aligned with the representation groups at the sub-WSE areas.
  - Alignment of the WSE planning processes with spatial planning and proposed RMA reforms at regional and local levels.
- Original reform considerations had a range of WSE models, from one to 13 WSEs. The Council considers that more emphasis should have been placed on a larger number of WSEs and considers that would better facilitate local voice. In the context of Wellington City Council, as noted above as considered by the Wellington Mayoral Taskforce, this may have included Wellington Water becoming both the asset owner and technical operator of the Wellington region's three waters services and infrastructure, and potentially expanding geographically.
- The shareholding structure proposed in the draft Bill does not have any meaningful benefits for shareholding councils. The assets being proposed to be passed to the WSEs have been developed by, maintained and operated by, and are owned almost wholly by Councils. We strongly suggest

that the ownership model is looked at further to consider how ownership rights can be reflected in meaningful financial contribution and voting rights.

- The statutory purpose or objectives of the WSE may need to be amended to give greater recognition to local outcomes and well-being.
- At the WSE board level, appointments are proposed to be competency based. Our question is about how this process is assured? This needs to consider effective representation balancing selection and election processes.
- The process to manage disputes could include a potential broader role of the economic regulator or ombudsman.

#### **Investment planning, pricing, and funding**

- There are areas where this is uncertain at this point. There needs to be a process to integrate the first 3-5 years of Long-Term Plan (LTP) investment planning into WSE investment plans so that there is continuity in service delivery and expectations until the entity can deliver its own infrastructure strategy.
- The Council is concerned that the modelling used to identify the benefits of scaling, which has been used to confirm the four WSEs model, does not align with similar modelling undertaken by other interested stakeholder groups. This is of particular concern as the adherence to the four WSEs model is the primary mechanism by which local voice may be lost.
- There is a risk that the standard of asset management plans across the range of Councils involved may be highly variable, and which may increase the risks in the initial period to being able to set clear expectations and pricing with water users.
- Section 165 of the Bill would grant WSEs the power to open a bank account outside of New Zealand, with the approval of the Minister of Finance. In this section, the Bill specifies that New Zealand bank accounts must meet required standards, such as holding a satisfactory credit rating and that they must be opened with a registered bank. However, the Bill does not apply the same standards, or an equivalent way to manage banking risk, when WSEs wish to open a bank account outside of New Zealand. The Council recommends that provisions are inserted in the Bill to amend this issue.
- Similarly, the pricing/costing models across Councils is likely to be variable and it will require effective communication and engagement with users particularly through this transition period and where there are issues of affordability raised with any future investment plans. There would need to be pricing transparency to assure users that they are not cross subsidising another region.
- The Bill includes the Government using Government Policy Statement processes, as it uses in other areas, and requires the WSEs to give effect to these statements. Water investment is long-term, this will almost certainly introduce additional political risk to investment planning.

#### **Asset management plans**

- There needs to be clear expectations for asset management plans that capture as a minimum all structural assets and what condition assessments have been done. If the WSE uses existing local plans of differing quality/completeness, how will an entity wide approach be applied in the short-medium term that is equitable and affordable?
- It is not clear what the gaps and related risks are with the current Asset Management Plans. Due to the variable data quality of asset management plans – interim asset management plans may need to be considered.

### **Staffing transfers and capability**

- Wellington Water risks continuing to lose staff during this transition, particularly non-3 water technical and operational staff (finance, programme management, IT, engineers) that have more employment options in the market. This may increase the operational risk during transition.
- The focus on transition will also intensify, which may result in less focus on business-as-usual services and post transitional risk for items out of the immediate scope. We are unsure how this will be managed across the full WSE area.

We recognise that there is much more work to be done and more detail will be included in the upcoming Implementation Bill on how the transition will be implemented. We would be seeking assurance that the issues of insurance liability are addressed and that clarity on the “no worse off” funding is provided so that funding covenants are maintained through this process.

A lot of focus is currently on establishing the WSE, but it needs to also manage the transition risk of councils and their communities. The detailed programme transition plan needs to be clearer, and provide more clarity for Council service levels, customer billing and customer service, and planning and budgeting for the 2024 LTP.

Thank you for the opportunity to submit on this Bill. As the Capital City, we are well placed to work with the Government in the interests of Wellington and New Zealand and so would welcome the opportunity to make an oral submission to the Committee.

Yours sincerely



**Andy Foster**  
**MAYOR OF WELLINGTON**



**Barbara McKerrow**  
**CHIEF EXECUTIVE**