

LOCAL WATER DONE WELL



Local Water Done Well

Water infrastructure is facing major challenges. The quality and funding of water infrastructure varies significantly across the country. Some communities operate and maintain efficient, high-quality water services, while others struggle to make new investments against the pressures of council debt caps and run-down infrastructure.

Climate adaptation and resilience planning adds new pressures on community services and finances. There is a pressing need to future-proof our water infrastructure to ensure it is ready for the challenges that climate change presents to an island nation like New Zealand that is heavily exposed to changes in weather patterns and a greater prevalence of severe weather events.

The status quo cannot continue.

Clean, quality water is a fundamental expectation of every New Zealander. But for too many Kiwis, in too many parts of the country, that expectation is not a reality. National believes that must change.

To deliver that change, National will repeal and replace Labour's Three Waters reforms.

National believes better water services are possible – but not with heavy-handed centralisation that strips communities of local control, confiscates their assets, and imposes undemocratic co-governance.

National's plan empowers communities, keeps assets in local control, and maintains democratic accountability to deliver high-quality water services.

National's plan for Local Water Done Well

- 1. Repeal Three Waters and scrap the four co-governed mega-entities.**
- 2. Restore council ownership and control.**
- 3. Set strict rules for water quality and investment in infrastructure.**
- 4. Ensure water services are financially sustainable.**

Labour's broken Three Waters reforms

Labour's Three Waters reforms are based on centralisation and control. Labour wants to confiscate the water assets of every council in New Zealand and transfer those assets to four new co-governed mega-entities.

Labour's model is undemocratic, divisive and won't solve the underlying problems with our water services. Labour believes centralisation will somehow lead to more investment, lower costs, more jobs, and better water – all based on questionable claims about economies of scale.

Centralised control

Labour claims that the only way to deliver better water services is to confiscate assets from local communities and centralise control in four new mega-entities.

The mega-entity model is based on flawed advice offered by the Water Industry Commission of Scotland, which independent New Zealand experts have rejected as using inappropriate assumptions and a flawed methodology that significantly over-estimates the size of the investment deficit.¹ Local councils, who actually own the water assets that Labour are confiscating, have strongly disputed the Government's figures, which in some cases are as much as ten times higher than their own estimates.

In reality, there is no reason why a single entity operating water services in communities as diverse and geographically distant as Nelson at the top of South Island, Wellington at the bottom of the North Island, and Gisborne on the East Coast will have any economic advantages. It will, however, likely mean more bloated bureaucracy and less say for local communities with different needs.

Undemocratic

Labour's model confiscates assets that local ratepayers have paid for over generations. During the reform process, Labour initially told councils their Three Waters reforms would be voluntary, with councils having a say over the future of the water services in the communities they serve.

The Government reneged on that commitment. When Labour finally unveiled their co-governed, mega-entity model, they announced it would be mandatory. To make matters worse, Government documents reveal Labour made the decision to force its Three Waters reforms on councils well in advance of revealing its decision to them.

Labour has given communities no choice whatsoever about how their local water services will be delivered, and it's done so in a manner that has trampled over local democracy.

Co-governance

Labour has allocated half the seats on the mega-entity boards to councils and allocated the other half directly to iwi. Mandating co-governance over a public service in this way is antagonistic, undemocratic and needlessly divisive.

Iwi have rights and interests in water. But it does not follow that the way to give effect to those rights and interests is to confiscate council assets and transfer them to four unaccountable, co-governed mega-entities without giving the local communities who paid for them any say in the matter.

Water is essential to all New Zealanders. What matters is that Kiwis get the services they need and have a voice in how decisions that affect them are made. These are community assets and local communities should determine how they are governed.

¹ For example, see Castalia, "Flaws in Water Services Entities Bill" July 2022

National's plan for Local Water Done Well

National believes the mandatory, co-governed mega-entity model is incompatible with the principles of democracy and local ownership, and will not solve decaying infrastructure, burst pipes, environmental issues, or severe funding pressures for many councils.

Kiwis deserve a real plan on water – a plan that delivers more investment in pipes, better quality drinking water, and cleaner waterways and beaches without removing local control and ownership.

The pressures from climate adaptation and the need to rapidly develop new housing are too significant to continue with the current broken model.

1. Repeal Three Waters and scrap the co-governed mega-entities

National will repeal the Government's Three Waters legislation, the Water Services Entities Act, in our first 100 days in office.

This will disestablish the four co-governed water mega-entities, ensuring councils retain ownership and control over their water assets.

2. Restore council ownership and control

Repealing Labour's flawed plan is not enough. The status quo is unacceptable. Change is needed.

National will replace Labour's Three Waters legislation with a new approach that keeps community ownership and delivers high water quality while ensuring there is sufficient investment in water, wastewater, and stormwater infrastructure.

Within a year of repealing the Water Services Entities Act, councils will need to deliver a plan for how they will transition their water services to a new model that meets water quality and infrastructure investment rules, while being financially sustainable in the long-term.

The Minister of Local Government will sign off councils' proposals once satisfied they meet these requirements. National will not mandate any specific model for water services onto councils.

Our approach – consistent with our beliefs in localism, devolution and community control – is to establish a clear set of rules based on the outcomes we expect, but to allow councils to meet these rules in the manner they believe is best for their community.

National will adopt the recommendation from Communities 4 Local Democracy (C4LD), representing a large group of councils, and introduce a regulatory backstop as a last resort mechanism to support this policy. This will provide step-in powers for the Government if any council or group of councils are unable to deliver a viable plan that can deliver on outcomes for water quality, infrastructure investment and financial sustainability.

3. Set water quality and infrastructure investment rules

Water quality

National supports the new Water Quality Regulator (Taumata Arowai), which we voted to establish in 2020. National will amend the governing legislation to exclusively target water quality. The Water Quality Regulator will be responsible for the quality of potable water, to ensure Kiwis have access to safe drinking water.

It will also cover wastewater and stormwater, with a goal to reduce or eliminate contamination of local beaches and waterways. New Zealanders should be able to go to the beach or river and swim without the risk of becoming ill.

Infrastructure investment

National will establish a new, independent Water Infrastructure Regulator within the Commerce Commission to work alongside the existing Water Quality Regulator (Taumata Arowai). Water services will be regulated under Part 4 of the Commerce Act, alongside other essential infrastructure such as electricity lines.

The new Water Infrastructure Regulator will have three main functions.

First, it will monitor councils to ensure they are investing adequately in maintaining pipes and upgrading their water infrastructure to accommodate growth. Where councils have allowed their assets to be run down, they will be required to restore them to meet minimum standards. Government will assist councils only where necessary.

Second, the Water Infrastructure Regulator will ensure that water pricing or charges for connection are fair – for communities and councils. Water assets should be self-funding, but communities should never be overcharged.

Third, the Water Infrastructure Regulator will set quality standards for water infrastructure – so communities receive safe, reliable services.

The Regulator will operate a disclosure regime and provide expert, independent advice to the Minister of Local Government.

National will task the Water Infrastructure Regulator with ensuring that New Zealand doesn't fall back into the situation we are currently, with some parts of the country suffering from inadequate water infrastructure.

4. Ensure water services are financially sustainable

In addition to meeting water quality and infrastructure investment rules, National will introduce a requirement for water service delivery models to be financially sustainable.

Financial sustainability means:

- **Revenue sufficiency** – Water services earn sufficient revenues, either directly from users or from rates, to cover maintenance and depreciation of infrastructure.
- **Ringfencing** – Water services stand on their own two feet and do not put pressure on funding for other council services.
- **Funding for growth** – Water services can access borrowing to invest in infrastructure wherever users are willing to pay the cost of services.

Financial sustainability is important for three reasons.

First, because financial sustainability supports safe water for our communities. If councils cannot afford to maintain their pipes and invest in new water infrastructure, it puts safety at risk.

Second, water should not be a financial burden for councils. There should be sufficient levels of revenue ringfenced for investment in water assets. Councils shouldn't underinvest in water infrastructure to fund other services.

Third, delivering economic growth is impossible if councils can't afford the infrastructure. New and upgraded water infrastructure is an enduring barrier to new housing developments. It shouldn't be this way.

Councils will have to show they can meet the costs of infrastructure, including maintenance, depreciation and expected growth, so that pipes do not become a barrier to new development.

It will be up to councils to decide what model they opt for to achieve financial sustainability.



Key Issues

What does this mean for water quality?

Under National's Local Water Done Well plan, there will be strict rules for water quality across the country. This will include drinking water, waterways, and beaches. These water quality rules will be set and enforced by the Water Services Regulator (Taumata Arowai).

Water quality regulation will ensure councils, through their water services operators, are providing clean and safe drinking water. The existence of a national standard for water quality means the public can have confidence in water quality across New Zealand.

The Water Services Regulator (Taumata Arowai) will also be responsible for developing and enforcing rules around the management of stormwater and wastewater. This will include setting standards for acceptable discharge and mitigating environmental risks to rivers and beaches.

The regulator will have a wide range of regulatory powers and the ability to penalise non-compliance with water quality standards. Regulation will also ensure consistency across all 67 territorial authorities.

What does this mean for water pricing?

National will require local councils to present a model for the delivery of water services that is financially sustainable and meets strict rules for water quality and water infrastructure.

National will not mandate any changes to water pricing models or prices. As long as councils can demonstrate that their proposed model for water service delivery is financially sustainable and can meet water quality and infrastructure maintenance requirements, National will approve them.

Councils could choose to implement volumetric water charging, charges for new connections, or have water service costs included within rates. This approach allows councils to tailor their settings to their community and ratepayers.

Where councils already charge for water, shifting to a model that allows them to access long-term borrowing may mean water charges can fall. This is because councils will no longer need to finance long-lived assets from existing cashflow. For other councils, charges might need to increase to meet the need for more investment.

How will National protect consumers?

The new Water Infrastructure Regulator within the Commerce Commission will be responsible for fair pricing and charging of water services, as the Commission already is for other natural monopolies like broadband, electricity transmission, and airports.

These rules will ensure adequate revenue for water services is raised but will not require councils to operate any particular charging mechanism. The role of the Water Infrastructure Regulator will be to ensure that whichever mechanism is being used, it is both fair for consumers and able to meet infrastructure quality and financial sustainability requirements.

How will National ensure investment in water infrastructure?

It is clear that the status quo has resulted in underinvestment in water infrastructure in some parts of the country. For this reason, in addition to ensuring fair pricing, the Water Infrastructure Regulator within the Commerce Commission will also regulate the water infrastructure asset base, with quality standards that ensure proper maintenance of existing pipes, and appropriate investment in new infrastructure.

Councils will need to demonstrate their water service entities are investing sufficiently in their pipes. They will also need to show that the delivery of water infrastructure is not an undue barrier to the development of new housing, particularly in greenfields areas.

In some cases, the requirement to ensure water infrastructure is not holding up the development of new housing means councils may need to gain access to new forms of infrastructure funding and financing. National is fully committed to facilitating this and will work with councils to achieve it.

How will National enforce water quality and infrastructure rules?

Water service providers will have reporting requirements to ensure the two regulators have the information they need to properly monitor standards. The regulators will be in a position to benchmark and assess performance against regulations and, where failures or risks exist, identify plans for improvement.

Disclosure requirements for water entities will include transparent and uniform reporting of investment, spending on maintenance and other costs, and outages. Transparency will contribute to public trust in service delivery and provide confidence that water infrastructure is being maintained and upgraded.

Reporting frameworks will be similar to those that already exist for electricity lines regulation, where the Commerce Commission regulates the 25+ firms providing services.

Does National's plan include co-governance?

National opposes the co-governance of public services and will fully repeal Labour's centralised mega-entities and their prescribed co-governance arrangements.

Under National's plan for Local Water Done Well, councils will retain ownership and control over their water assets, and there will be no requirements for co-governance.

These are community assets, paid for by local ratepayers, and National believes it should be up to local communities and ratepayers to decide how they are governed.

How will this support climate resilience?

There is a pressing need to ensure our water infrastructure is both maintained to an acceptable standard, and future-proofed to ensure we are able to deal with the significant challenges that climate change will present.

The requirement for adequate investment in water infrastructure under a financially sustainable model will allow councils to better plan and prepare for the long-term. The ability to access long-term borrowing to fund long-lived assets will provide greater flexibility to make the necessary investments and upgrades that will be required to deliver water infrastructure that can cope with disruptions to weather patterns and an expected increase in the frequency and severity of significant weather events and flooding.

Who will own and control water assets?

Communities will once again own and control their water assets through their local councils. Councils will publish plans for how they will deliver high-quality water services to their residents in a financially sustainable way. Beyond that, it will be up to local councils to decide how they manage their assets.

For many councils, the requirement to become financially sustainable will mean they need to develop a new model. We expect many will choose, on their own terms, the Regional Council Controlled Organisation (CCO) model proposed by C4LD.

A Regional CCO model would allow for three or more neighbouring councils to own a standalone entity with the ability to access long-term borrowing to invest in long-term infrastructure, without it impacting council balance sheets.

For example, councils in the Hawke's Bay region (Central Hawke's Bay, Hastings, Wairoa, and Napier) presented an independently costed and verified alternative where they voluntarily created a Regional CCO.

The Government rejected this model despite the fact it could address affordability and capacity issues while ensuring clean water for Hawke's Bay, all while keeping assets in local hands. By 2032, it would even deliver those councils and their ratepayers \$18 million in operational savings every year.

We expect a number of councils will choose to form a Regional CCO, but National will not be mandating it, or any other model. If councils can demonstrate an alternative that complies with regulations for both water quality and water infrastructure, and is financially sustainable, National will approve it.

Will councils be able to privatise their water services?

No. The public ownership of water is not up for debate. Councils will not be able to propose water service models that involve privatisation. National's plan is to return water assets to their rightful owners: the local communities who paid for them.

We want local, public control and ownership of water assets, and that's what this plan will deliver.

How will councils pay for water infrastructure?

Under National's Local Water Done Well plan, councils will need to demonstrate they have a financially sustainable model for the delivery of water services that meets both water quality and water infrastructure rules. In practice, this means councils will need to show how their model will fund the necessary infrastructure investments needed to comply with these rules.

For some councils, their current model is already working, and no change is required. For others, this will mean presenting a new model that involves the ability to access long-term borrowing, such as through a Regional CCO co-owned with neighbouring councils that can achieve balance sheet separation. For others, it may simply be a matter of agreeing to increase council borrowing.

It is our expectation that most councils will choose a model that gives them the ability to access long-term borrowing, where the cost of infrastructure investments can be paid down over the life of the asset rather than funding them from existing revenue. This is widely accepted as the best-practice approach to financing long-term infrastructure of this sort.

How much investment is needed?

New Zealand undoubtedly has a water infrastructure deficit. This is why the status quo for water cannot continue. But there is significant uncertainty over the size of that deficit.

Labour has relied on an estimate from the Water Industry Commission of Scotland of \$120 to \$185 billion over 30 years. However, many councils and independent infrastructure experts have strongly disputed these figures.

According to global water infrastructure experts, Castalia, in some cases the Government's estimates are over ten times that of councils' own estimates. For Auckland's Watercare, the Government's estimate for needed investment between 2022 and 2030 was 1.6 times greater than Watercare's own estimate.²

National's plan for Local Water Done Well will address this uncertainty and provide all stakeholders with clarity over the amount of investment needed.

Water entities will be required to demonstrate to the Water Infrastructure Regulator that they have a plan for investing in water infrastructure, and they have access to the funding to deliver it.

What if councils need transitional support?

National acknowledges that communities are starting this reform in different places. Some are ready to make the transition to a sustainable financial model immediately. Others may require some support.

The Water Infrastructure Regulator will provide expert advice to the Government on council proposals for the delivery of water services. Where the Government concludes that a council cannot achieve financial sustainability by, for example, gaining access to long-term borrowing, it will provide limited one-off funding to bridge the gap.

Support will be determined on a case-by-case basis. Crown funding will not be used for the day-to-day delivery of water services, but only for projects needed to transition to a sustainable footing. National believes that restoring local control also means restoring local long-term investment responsibility.

The Government has already allocated \$1 billion in Crown funding to go to councils as part of its Three Waters reforms, but there is currently no requirement for these funds to be invested in water infrastructure.

National will retain this existing allocation, but require that councils use it for making the transition to a financially sustainable model, for example by upgrading water infrastructure, rather than unrelated activities. Funding will be allocated to councils on a needs-basis, but only when other options – like accessing long-term borrowing – have been exhausted.

²Castalia, "Flaws in Water Services Entities Bill" July 2022

Comparison of water service models

	Status quo	Labour's mega-entities	National's plan for Local Water Done Well
Ownership	Ratepayers own their assets.	Ratepayer assets are confiscated and transferred to four mega-entities.	Ratepayers own their assets.
Co-governance	Ratepayers determine the governance of their water services.	The Government mandates co-governance between iwi and councils.	Ratepayers determine the governance of their water services.
Water quality regulation	Ministry of Health was previously the regulator. New rules are being phased in.	Water Services Regulator (Taumata Arowai) is the primary vehicle for water quality regulation.	Water Services Regulator (Taumata Arowai) is the primary vehicle for water quality regulation.
Infrastructure investment & consumer protection	Little regulation for consumers or for levels of infrastructure investment.	Regulator lacks clear focus on infrastructure investment and consumer protection.	Water Infrastructure Regulator will focus on investment in water infrastructure and fair pricing.
Financial sustainability	No financial sustainability requirements for water services.	Assets confiscated into four mega-entities to achieve balance sheet separation.	Councils required to demonstrate financial sustainability, but no specific model mandated.
Water pricing & revenue	Councils choose how to fund water services – rates or charges – but no requirement for revenue to be ring-fenced.	Mega-entities borrow against their own balance sheet. Pay for it with water charging.	Water must have revenue ring-fenced to fund investment. No specific pricing mechanism mandated.