



28 September 2021

Hon Nanaia Mahuta  
Minister for Local Government  
Private Bag 18888  
Parliament Buildings  
WELLINGTON 6160

Tēnā koe Minister Mahuta

### **PROPOSED THREE WATERS REFORM**

Invercargill City Council has welcomed being involved in the Government's Three Waters reform discussions. Following our original questions for clarification, this letter forms our feedback to the process, as requested by Te Tari Taiwhenua, to be received before 1 October 2021.

Invercargill City Council's three waters assets are valued at over \$1.2 billion. We carry only \$16.5 million debt on our water services. This low level of debt reflects careful management of these community assets over many years, rather than a level of underinvestment. Our three waters network is fully compliant with drinking water standards. Our waste water treatment is fully consented, as is our stormwater network.

As Invercargill City Council elected members, we have taken oaths of office to protect the interests of Invercargill's ratepayers and the feedback below is presented with their interests in mind, rather than the interests of the Council per se. We recognise the importance of a solution which works for New Zealand as a whole, but which also needs to work for the citizens of Invercargill and Bluff.

Council has concerns that the Government's proposals, while likely to result in net benefits within the North Island, will not work in the very much lower population density and more diverse topographical environment of the South Island. We urge Te Tari Taiwhenua and Cabinet to consider the issues raised below to ensure that all New Zealanders, and not only those in the more populous North, benefit from these important reforms.

### **Reliability of Data and Modelling**

Council has concerns with the robustness of the data utilised in the modelling.

There are significant errors in Invercargill's data, some as a result of incorrect data utilised in the RFI process and some as a result of unclear data requests:

- Invercargill carries only \$16.5 million of debt on its water assets, not \$71 million as included in the model. This results in an opening debt to revenue ratio of 76% not 336%.
- Invercargill has 84.4% of our population connected to the water supply (not 100% as listed).
- We estimate our population change from winter to summer as closer to 0% (not 41%).

A3553574

The approach of modelling by population distribution and national averages taken by Te Tari Taiwhenua, while having the understandable benefit of expediency, does not reflect the diverse realities on the ground within different New Zealand communities. For Invercargill District this approach has resulted in the following discrepancies:

- Using the New Zealand average occupancy rate significantly understates the properties connected to the network in Invercargill, which in turn overstates the average costs per household.
- Using the household/non-house split from Great Britain of 70% is significantly different to that experienced in Invercargill of 87%.
- Approaching the enhancement investment based on density has created a significant gap between the modelled and expected investment. Modelled is indicating \$1.3 billion without including challenges like metering and waste to land. Council has estimated \$197 million including metering and wastewater discharge to land.
- Using the national average on asset life and value split has not taken into account the current condition and expected life of the Councils current assets. This assumption has overstated our renewals and therefore expected future investment required.

The combined result of these data and modelling inconsistencies means that the estimated average costs per household, on which much of this reform decision rests, are inaccurate.

Our forecasting reveals a future cost per household of \$1850 for Invercargill residents without reform. This figure includes all the investment within the Long-term Plan, as well as additional investment of \$197 million across 30 years which would be required to meet expected higher environmental standards.

Council also has concerns with the process as a whole, which would not have met standards required of local government to deliver a change in service model of this type to consider “all practical options”. For a once in a generation reform of this nature, more than one model – Scottish Water – should have been considered. Government through this process intended to utilise co-design. Genuine co-design requires an open-minded collaborative approach, rather than an early identification of a solution, to which the partners are then required to fit. Council in reaching a decision would be considering all aspects of wellbeing and not merely the financial wellbeing on which Government appears to be focused.

We have particular concerns in the applicability of the model to the South Island environment within the Ngāi Tahu takiwā. Work undertaken by Morrison Low to review the proposals on behalf of the Southland-Otago community noted that efficiencies of 45% will not be possible to be achieved by Entity D as a result of the geographic distances involved and low population density and that efficiencies are likely to be closer to 20 - 25%. Utilising an efficiency of 25% this would result in average household costs of \$2,235 for Invercargill - Bluff households following reform, considerably higher than the costs without reform of \$1850.

## **Service**

As a Council we support the following local infrastructure objectives which have been developed at a Southland / Otago level:

- Delivery of a three waters service that appropriately recognises the impact of service delivery on place, the cultural significance of water and the environment.
- A delivery model that places a meaningful role on the voice and needs of our local and small communities.
- Affordable and financially sustainable provision of three waters services across the Otago/Southland region.

- Improved regional capability and coordination of three waters service delivery and investment.
- Creating a culture of excellence for three waters service delivery in the Otago/Southland region.
- Safe and healthy three waters services in all communities.

We have laid out a clear programme of renewals within our Long-term plan, to the value of \$193 million over the next 30 years of our Infrastructure Strategy. This includes investigation of an alternative water supply for which drilling of exploratory bores is about to commence.

While waiting to understand the detail of future environmental standards which are likely to impact on our wastewater and stormwater assets particularly, we have estimated a further \$197 million of investment. This is substantively different to the Government's estimates of required investment.

Our Infrastructure Strategy gives the community confidence of when it can expect to see investment to maintain and improve the services it depends on. We believe the community needs the same information from Te Tari Taiwhenua for the plans of the new entity in order to be able to make an informed decision.

The current structure of Council, enables development for the community – both growth and development of higher environmental outcomes – to be managed holistically by the community. The principle of Te mana o te wai recognises the importance of mountain to the sea, system-wide management of water. The reform will result in a new entity which does not manage many of the entrance points into the water system, including non-reticulated stormwater, such as the network we operate in Otatara and other more rural areas of the district, road wash-off, and raingardens, such as those which Council is in the process of investing in within the Central City.

Southland's regional development strategy, which has been supported by MBIE, has at its heart the need to increase the population of Southland. A key priority of this Council is to retain skilled workers and contractors within the region. Our community has long benefited from the skilled and dedicated operators which have helped to create the assets we have today.

*When should the Invercargill community expect to see the development of its alternative water supply and improvements to its wider wastewater and stormwater network by Entity D?*

*Is the community at risk of having to wait longer for these improvements under the new entity as the result of other communities improvements receiving priority?*

*How will the reform support joined up planning and avoid dis-incentivizing investment in those lower-value areas of the network which will not be incorporated in the new entity?*

*What assurance can the Government give that our local employees and contractors will be protected through this reform?*

*Can other models be considered which support greater efficiencies through central procurement, while maintaining local delivery?*

## **Ownership**

Many generations of Invercargill and Bluff residents have invested to produce the water system we have today. As a council, we take our Kaitiakitanga of these assets for the community seriously. Under Section 130 of the Local Government Act 2022, we cannot

legally relinquish ownership of these assets and we would not willingly do so under any reform.

We have concerns that the proposed governance model, through only allowing eight shareholder roles to 21 councils, on a group which then does not have direct control over the entity, but only appoints the selection panel, which then appoints the Board, does not allow us to maintain stewardship over these community assets. We would not continue to 'own' the assets in any meaningful sense: we could not influence investment in their maintenance or improvement; we would not receive any lease or financial return from them; we could not return their control to the local community and we could not stop them being sold to private interests by a future Government.

We question how any model which aligns with international accounting standards can be created which allows ownership of assets to remain with one organisation; while a separate organisation has control over them, including ability to raise debt on them.

The name of the water rates/ taxes will be important to consider. In New Zealand, ratepayers are used to paying rates for services provided by the Council. As these services will be provided by different entity it will be important to name these fees something different to avoid confusion. The method of charging is very unclear and therefore does not give certainty to ratepayers on the impact to the individual.

*On whose balance sheets will the assets sit?*

*How can this be given effect to, within the framework of international accounting standards?*

*Can a lease arrangement be considered which would operate under a different model enabling Council to retain meaningful control of the assets?*

## **Debt**

Under the Local Government Act, any debt we carry on our water services can only be raised against future revenue and not the assets themselves. This protects the assets from ever being seized by the lender as a result of mismanagement by Council. Under the reform, Entity D will be able to borrow against the assets.

Invercargill City Council has one of the highest credit ratings of any public sector agency in New Zealand – A ++. As a result we are able to access very favourable rates reducing the costs of investment on the community.

*What assurance can the Government give that the assets can be protected under these circumstances?*

*Will the new entity achieve a rate as favourable as Invercargill City Council could?*

*Will Council's credit rating be negatively impacted by the removal of these assets with resulting negative impact on all the other capital improvements we need to make on behalf of the community?*

## **Community Investment and Affordability**

As a council, Government has indicated that ICC would receive \$23 million from the new entity in order to "compensate" us for the loss of the Three Waters Assets. We note that

ultimately all this funding will be raised from the community. As a result of this reform \$1 billion in extra debt will be placed on water consumers in order to fund these community investments – We question how the value to ratepayers and the affordability of this debt has been assessed.

Affordability is one of the key financial benchmarks which Council legally must utilise in setting its Long-term Plan. As a result of the reform it will no longer be able to control a large part of the bill for services which the community is receiving. It will become very difficult to manage affordability in this context.

Affordability of all options under this reform remain a significant concern. Under the local Government Act, Council is required to inform the community of the impact on rates and debt of the different options it has scoped for significant investment decisions. In undertaking initial modelling in order to enable us to do this we note:

- If Council retained the service and made the investment required to meet increased standards (noting this can only be an estimate at this point as these standards have not yet been published), Invercargill ratepayers will be required to pay an average \$1850; an average 4.1% over the 30 years (this does not include improvements to any other service the community may want to see). If wastewater discharge to land and water meters were excluded on the basis that these have been excluded by Entity D, then the average household cost would be \$1600 and an average 3.2% annual rates increase.
- Under Entity D (with the forecast 25% efficiencies more feasible in the South Island) the local community would see annual water rates/taxes increase of 5.7% on average over the 30 years.

Everyone wants to see improved health and environmental standards but the community must be able to afford them.

*What protections will the Government put in place to protect affordability for the community?*

*How has the value to and affordability for the ratepayer of community benefit been assessed?*

*Can the Government assure the Invercargill and Bluff community that it will not pay more to the water entity in tax/rates allocated towards community funding, than the community will receive via the Council in return?*

## **The Wider Reform Agenda**

This Government is undertaking many once in a generation reforms which are interlinked in terms of their impact on local communities and Local and Regional Government: Three Waters Reform, Resource Management Act Reform and Local Government Reform.

It is essential that these reforms are undertaken in a coordinated manner and in a form which is possible for local government and communities to absorb the information and participate effectively.

I have already joined with the other Mayors in Southland and Otago in requesting a pause in the Three Waters reform programme, to enable the implications on and between the other two reform programmes (one led by a different Government Agency) to be properly understood. Removing three waters fundamentally changes the nature of Local Government, as well as impacting on resource management planning and coordinated investment to support catchment planning and community development. It is important that this reform is undertaken with the highest standards of policy development and community engagement.



The speed and complexity of the reform agenda at a time of pandemic and labour shortages is making it very difficult for councils to respond effectively. We need time to assess the implications and talk with our communities about what they want for the future.

We support the need for the change in the way that New Zealand invests in Three Waters assets, but this issue is too important for reform to be rushed. Government has implemented the first part of this agenda to create a new regulator which will replace the Ministry of Health which was failing in this role. It is important that the new regulator, Taumata Arowai, which has significantly enhanced powers, including direction of where investment is required, be given time to do its job.

*Will the Government pause Three Waters reform to enable Local Government Reform to proceed, enable the impact of Taumata Arowai to be seen and further work to be undertaken to ensure an effective solution for the South Island Ngāi Tahu Takiwā?*

### **Local Decision Making**

The Government has not given clear guidance as to whether to be included in this reform will ultimately be the decision of councils to make.

In the response to our questions provided by Te Tari Taiwhenua on the 21 September, Council was informed "Following the completion of its current period of engagement with councils, government will decide how to proceed with reforms including whether or not it will be acceptable for **some** councils to opt out" (our emphasis).

*Can the Government provide clarification on whether Invercargill City Council will be one of the "some" councils and what criteria will be used to determine this?*

We would like to take this opportunity to stress the importance of local democracy and of the local people being able to make a decision about the assets they own, irrespective of whether that decision is made through their local council or via another mechanism.

*Can the Government assure the people of Invercargill and Bluff that it is they, and not the people of other communities, who will be able to make the decision about who takes on governance of their assets and provides their water services?*

We thank you for the opportunity to consider the information provided by Government and to participate in this process.

I look forward to a response to our feedback and questions, which we can share with our community, to ensure they have a fuller understanding of the reforms and the implications for themselves and their whanau.

Nāku iti noa, nā



Sir Tim Shadbolt  
**MAYOR**

cc. Three Waters Steering Committee, [3waterssteeringgroup@dia.govt.nz](mailto:3waterssteeringgroup@dia.govt.nz)  
Local Government New Zealand, [feedback@lgnz.govt.nz](mailto:feedback@lgnz.govt.nz)  
Mayor Tracy Hicks, Chair – Southland Mayoral Forum