



26 March, 2018

Ministers of Health, Local Government and Environment
Parliament Buildings
Wellington

Cc: Prime Minister and Ministers of Finance; Infrastructure and Regional Development; Tourism;
Housing and Urban Development

Dear Ministers

We note that the Government is considering options in response to the Report of the Havelock North Drinking Water Inquiry: Stage Two (the Inquiry).

As professional and peak bodies with direct interest in water in New Zealand, it is our collective view that this is a leadership issue across the sector, and that to address the serious issues we face requires fundamental reform including regulation, institutions and funding.

Systemic failure

The Inquiry correctly identified “a widespread systemic failure among water suppliers to meet the high standards required for the supply of safe drinking water to the public.”ⁱ

And further that: “The industry has demonstrated that it is not capable of itself improving when the standards are not met.”

We fully concur with the findings and recommendations of the Inquiry including recommendation 32 to “create dedicated and aggregated drinking water suppliers.”ⁱⁱ

Wastewater and stormwater also problematic

However, we wish to add our concern that issues are equally as serious in the provision of wastewater and stormwater services.

We draw your attention to successive reports over the last two decades undertaken by a diverse range of agencies and organisations, including the Office of the Auditor General, Water New Zealand, Engineering New Zealand, Infrastructure New Zealand, the Parliamentary Commissioner for the Environment and the Local Government Infrastructure Efficiency Expert Advisory Group, among others. Each investigation has pointed to serious deficiencies across the sector.ⁱⁱⁱ

Between them, these expert bodies have compiled a compelling case for change. Major challenges include:

- lack of information about the state of infrastructure assets – especially in small rural councils
- lack of information or control of the cost of providing water infrastructure and services
- excessive and inefficient water use

- contamination of surface water and groundwater from uncontrolled or poorly managed storm water drainage and wastewater disposal - one in five wastewater treatment plants are operating on expired discharge consents
- poor recreational and bathing water quality
- lack of investment and deferred maintenance, in part through incomplete pricing or small ratepayer base, and political constraints to increases in local authority rates and charges
- institutional and regulatory barriers to improved management
- regular water supply shortages – especially during summer
- high frequency of boil water notices
- a backlog of investment in water infrastructure of up to \$7 billion
- infrastructure failure

The inability to improve outcomes across the three components of the water system not only puts the health and safety of New Zealanders at risk, it also places New Zealand’s environment and our tourism brand in jeopardy.

Health, economic and environmental regulation are all required

We agree with the Inquiry that better regulation of drinking water standards is required to protect the health of the nation’s population.

However, significant gaps in information about the condition of assets and costs of operation clearly demonstrates the need for economic regulation and performance monitoring.

Continual degradation of water quality caused by illegal water discharges from wastewater and stormwater systems also demonstrates the need for stronger environmental monitoring and enforcement.

Independent environmental regulation operating alongside dedicated economic regulation is established best practice in leading water management systems and should be adopted in New Zealand.

Regulation is essential but not sufficient in itself

A national regulator, while important, will not resolve other critical barriers to effective service delivery within the sector. Capability and capacity issues, inadequate funding, lack of scale, fragmentation of responsibility and accountability and lack of professional governance are at the heart of the challenges facing the sector.

Water agencies not only need better monitoring, guidance and direction, but the skills, tools, funding and capacity to affect real improvement in water services.

Dedicated aggregated water services providers

International experience clearly demonstrates major efficiencies and improved outcomes can be achieved through consolidation and specialisation.

Scottish Water provides a useful comparator. This publicly owned national water service provider delivers drinking and wastewater services to 5 million people across an urban and rural hinterland comparable to New Zealand. Since formation in 2002, Scottish Water has delivered substantial improvement in water quality, environmental performance and customer satisfaction standards whilst reducing operating costs by 40% and capital costs by 20% on an enlarged capital investment programme.^{iv}

We agree with the Inquiry that dedicated aggregated water services providers would enable a major improvement in water service delivery in New Zealand.

Change will require strong central government leadership

We also agree with the Inquiry that there has been “a long history of equivocation”^v on the issue of aggregating water supply and that action from Government is required.

Even when presented with overwhelming evidence that new models of water service will provide permanent, demonstrable net benefits to residents, local authorities have delayed and avoided decisions.

Most recently, Waipa District Council turned down a proposal to share three waters services with Hamilton City and Waikato District, which would have resulted in up to \$388 million of efficiencies over 28 years, or around 7 per cent of total water expenditure.^{vi} This proposal was itself a compromise on a superior peer-reviewed option which indicated up to \$611 million in value could be achieved with an asset owning council-controlled organisation.^{vii}

The benefits of scale are material, but it is difficult for councils to realise these opportunities given understandable concerns about the impact that aggregation may have on their overall viability. There are wider statutory, funding and institutional challenges that must also be addressed in parallel.

As the ultimate guarantor of the health of New Zealanders, their environment and their activities, only central government has the economic, social and environmental view to gauge the net national costs and benefits of improved water service delivery. From an infrastructure perspective, the Inquiry’s recommendations around dedicated and aggregated water providers are in the best interests of New Zealanders, but, in our collective view, should be extended to include all three waters services.

All three organisations are committed to improving water service delivery in New Zealand. We look forward to working together with central and local government to find enduring solutions to improve service outcomes, improve efficiency, increase resilience and protect public safety.

Yours sincerely



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Water New Zealand



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- ⁱ Report of the Havelock North Drinking Water Inquiry: Stage Two, paragraph 924, p232
- ⁱⁱ Ibid, p229
- ⁱⁱⁱ Report of the Government Infrastructure Efficiency Expert Advisory Group Department of Internal Affairs 22 March 2013
[https://www.dia.govt.nz/pubforms.nsf/URL/LG-Infrastructure-Efficiency-Expert-Advisory-Group-Final-Report.doc/\\$file/LG-Infrastructure-Efficiency-Expert-Advisory-Group-Final-Report.doc](https://www.dia.govt.nz/pubforms.nsf/URL/LG-Infrastructure-Efficiency-Expert-Advisory-Group-Final-Report.doc/$file/LG-Infrastructure-Efficiency-Expert-Advisory-Group-Final-Report.doc)
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- ^{iv} Scottish Water presentation to Infrastructure New Zealand Building Nations Symposium October 2017,
https://infrastructure.org.nz/resources/Documents/Presentations/Building%20Nations%202017/1315_Ken%20Hutchison.pptx
- ^v Havelock North Inquiry Stage Two, paragraph 33, p228.
- ^{vi} Mott MacDonald, Scottish Water International, Shared Waters Management Company Discussion Report, October 2017.
- ^{vii} Cranleigh, Mott MacDonald, Martin Jenkins, Business Case for Water Services – Delivery Options, May 2015.