



Local Government Funding and Financing - Draft Report

New Zealand Productivity Commission

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WELLINGTON

TO: New Zealand Productivity Commission

SUBMISSION ON: Local Government Funding and Financing - Draft Report

FROM: Watercare Services Limited ("Watercare")

ADDRESS FOR SERVICE: The address for service specified below.

DATE: 29 August 2019

Watercare could not gain an advantage in trade competition through this submission.

1. WATERCARE IS NEW ZEALAND'S LARGEST PROVIDER OF WATER AND WASTEWATER SERVICES

Our purpose and mission

- 1.1 Watercare is New Zealand's largest provider of water and wastewater services. Watercare is a council-controlled organisation under the Local Government Act 2002 and is wholly owned by the Auckland Council. Watercare is a company registered under the Companies Act 1993.
- 1.2 Watercare provides integrated water and wastewater services to approximately 1.6 million people in Auckland. In the 2018/19 financial year, Watercare treated a total of 437 million litres of drinking water each day at 15 water treatment plants and distributed via 89 reservoirs and 90 pump stations to 450,000 households, hospitals, schools, commercial and industrial properties. Watercare's water distribution network includes more than 9,000 km of pipes. The wastewater network collects,

treats and disposes of wastewater at 18 treatment plants and also includes 7,900 km of sewers.

- 1.3 As a council-controlled organisation ("CCO") under the Local Government Act 2002, and a substantive council-controlled organisation under the Local Government (Auckland Council) Amendment Act 2009 ("Auckland Act"), Watercare has certain obligations. For example, Watercare must achieve its shareholder's objectives as specified in the statement of intent, be a good employer and exhibit a sense of social and environmental responsibility.¹
- 1.4 As the CCO that provides water and/or wastewater services in Auckland,² Watercare is also required to manage its operations efficiently with a view to keeping overall costs of water supply and wastewater services to its customers (collectively) at minimum levels, consistent with effective conduct of the undertakings and maintenance of long-term integrity of the assets. Watercare must also not pay a dividend.³ Watercare must give effect to relevant aspects of the Council's Long Term Plan, and act consistently with other plans of the Council.⁴
- 1.5 As a substantive CCO, Watercare has a number of statutory accountability mechanisms, including the requirement to prepare and maintain a statement of intent,⁵ undergo performance monitoring, provide quarterly and an annual report, give effect to the Long Term Plan, and act consistently with other specified plans and strategies of the Council.

What we are doing

- 1.6 Watercare has an objective of being an industry leader in a number of areas, and for example, a number of significant actions to date include:
 - (a) In 2017, Watercare initiated its "Professional Engineering Consultancy Services Panel". This Panel of four suppliers have been pre-approved by Watercare and have agreed to contract terms and conditions for supplying their services, including their rates. The objectives of this initiative are to improve value, provide easy access to talent, and become the client of choice.
 - (b) Watercare's 40:20:20 vision. In early 2019, Watercare set itself an ambitious series of targets. These targets are: reduce carbon in construction, or "Built carbon", by 40 per cent across Watercare by 2024; reduce the cost to deliver our infrastructure programme by 20 per cent by

¹ Local Government Act 2002, s 59.

² As defined in section 4 of the Local Government (Auckland Council) Act 2009.

³ Local Government (Auckland Council) Act 2009, s 57.

⁴ Local Government (Auckland Council) Act 2009, s 58.

⁵ This statement of intent covers a three year period, and requires Watercare to publicly declare its activities and intentions for the year, and how this will achieve its objectives: it provides an opportunity for shareholders to influence the organisational direction; and a basis for accountability for directors and shareholders. It also carefully considers section 58 of the Local Government Act 2009, which requires Watercare to give effect to relevant aspects of the Council's Long Term Plan, and each year, prior to the statement of intent review, Watercare receives a letter of expectation from the Mayor which significantly influences Watercare's direction and allows for alignment with the Council.

- 2024; and, reduce the number of injuries during construction by 20 per cent, year on year.
- (c) Watercare has concluded that as a country, New Zealand does not have the right environment to ensure we would be world-class at delivering our infrastructure in an ever increasingly effective and efficient way. Therefore, Watercare is taking a position of leadership and has introduced its “Enterprise Model”. This will result in partnering with two “Construction Partners” to develop a long-term programme to deliver future infrastructure. The Enterprise Model will be a key enabler to achieve Watercare’s 40:20:20 vision.
 - (d) Watercare's "*Climate Change Mitigation and Adaptation Strategy*" has been recently released and has been developed in accordance with its “Fully Sustainable” strategic priority and the United Nations Sustainable Development Goal 13 –“Climate Action”. The release of this Strategy marks a significant milestone in Watercare’s climate change mitigation/adaptation journey.
 - (e) Watercare's energy efficiency programme (started in 2016) is well underway. Current and soon to be implemented projects are anticipated to deliver 8GWh per year of yearly efficiency gains. Plans are in place to achieve energy neutrality at Watercare’s largest two wastewater treatment plants. Watercare is also actively investigating initiatives to improve its pumping efficiencies.
 - (f) Watercare is investing in solar energy with some of the largest arrays in the country. We will shortly be installing a 1MW floating solar array at the Rosedale Wastewater Treatment Plant. This will be operational in nine months and will be the largest array in New Zealand.
 - (g) Watercare is also focused on carbon mitigation initiatives. As such, Watercare has set up the Hunua ranges re-forestation project, aimed at converting previously commercial forestry areas into native forest. This will require growing 8 million trees over the next 30 years on Watercare leased land, with the ambition of capturing a significant amount of carbon.

2. WATERCARE’S SUBMISSION

- 2.1 Watercare is pleased to have this opportunity to submit on the New Zealand Productivity Commission’s (“**the Commission**”) “*Local government funding and financing – Draft report*” (“**Draft report**”). Watercare understands that the submissions received to this Draft report will be used to develop the final report that will go to referring Ministers by 30 November 2019. This final report will provide findings and recommendations directed at central and local government regarding how to improve their funding and financing arrangements.
- 2.2 Watercare supports the Commission’s undertaking of an inquiry into local government funding and financing. We also support the Commission’s statement

that a “fit-for purpose” future funding and financing system for local government should be based on the present system, but potentially have available some significant new tools to help fund new cost pressures in specific circumstances.

- 2.3 We understand that the Commission supports the “benefit principle”, and it infers support for Councils to have the funding and financing tools to make growth “pay for itself” over time by deriving revenue to fund the infrastructure for new property developments from new residents, rather than burdening existing ratepayers.
- 2.4 In an effort to provide some context, here is an overview of Watercare’s expected future water and wastewater capital expenditure.

Watercare’s total capital expenditure (nominal): Water

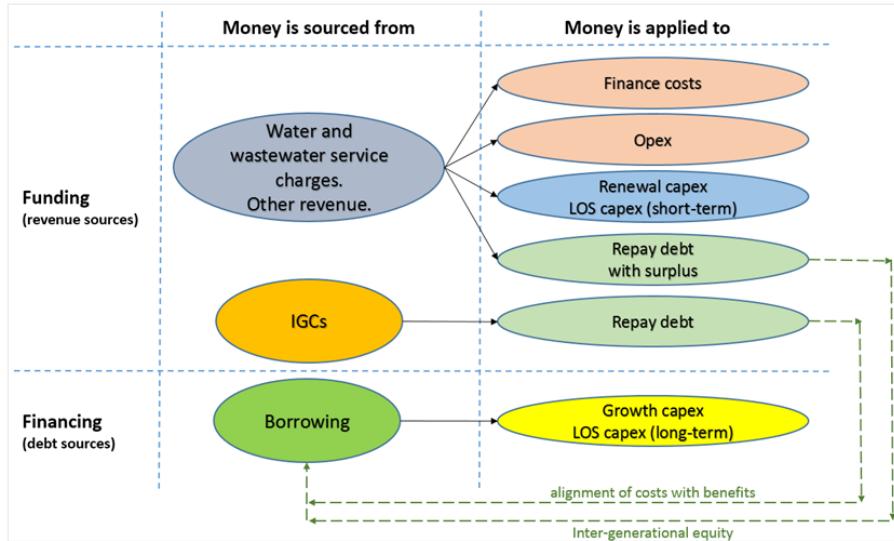
- Between 2018 and 2028, Watercare will invest more than \$1.9 billion on expanding and upgrading our network;
- 37 per cent of our capital investment in water over the next 10 years will be to cater for growth; and,
- A further \$2.8 billion will be invested over the following ten years to 2038.

Watercare’s total capital expenditure (nominal): Wastewater

- Between 2018 and 2028, Watercare will invest more than \$3.6 billion on expanding and upgrading our wastewater network;
- 55 per cent of our capital investment in wastewater over the next 10 years will be to cater for growth; and,
- A further \$2.3 billion will be invested over the following ten years to 2038.

- 2.5 We would like to clarify to the Commission that all of our investment is totally self-funded – we receive no funding from the Auckland Council, or the Central Government.
- 2.6 Watercare’s funding and financing comes from three sources:
 - 70 per cent comes from service charges (volumetric water charges and associated wastewater charges) – to pay for the operation and upgrading of the existing treatment and delivery networks;
 - 11 per cent from Infrastructure Growth Charges (“IGC’s”) – to fund growth-related capital expenditure; and,
 - 19 per cent from net borrowing.

Funding & Financing Framework



- 2.7 Watercare is unique in its use of Infrastructure Growth Charges. As noted, IGC's specifically only fund growth-related capital expenditure on both drinking water and wastewater treatment and trunk reticulation. These charges are contractual and are payable on connection to the services. It should be appreciated that IGC's are not a flat charge. There is a single rate for the metropolitan network area, but also different water and wastewater IGC's payable in Clarks Beach, Helensville, Snells Beach, Warkworth and Wellsford, and a wastewater only IGC in Omaha, Beachlands, Matakana, Point Wells and Kawakawa Bay.
- 2.8 A single IGC for the metropolitan network area has the advantage of simplicity (reduced administration and transaction costs for both Watercare and developers). This reflects the growth costs within that network and that each new household receives the same benefit regardless of its location within the network area.
- 2.9 In summary, Watercare's volumetric charges and Infrastructure Growth Charges have the following features and benefits:
- IGC's recognise the costs of growth on the trunk system only (including water and wastewater treatment plants) – they do not cover the growth costs of the local network. Developers cover the costs of local networks.
 - IGC's recognise that existing non-domestic customers' water and wastewater demands can increase, therefore IGC's are chargeable to those customers when they expand beyond certain limits.
 - In relation to volumetric charges, Watercare's customers receive a monthly invoice – completely separate from their rates bill. Therefore, the information attached to our customers' invoices helps them to clearly see the services

they have received, and provides useful insights into their usage patterns compared to other households.

- Watercare offers its customers multiple payment channels, as well as a debt management process. This process allows customers to register for hardship assistance with the Water Utility Consumer Assistance Trust. Because of these features, the number of debtors remains very low.
- 2.10 Watercare would also like to take this opportunity to support the Commission's recommendation (R8.6) in relation to creating a new climate change related agency that would assist local government to face the challenges from the impacts of climate change. The implementation of Watercare's "*Climate Change and Mitigation Adaptation Strategy*" further ensures that we factor in the future-proofing of all new designs of new assets for such factors as sea-level rise, storm surge, and flooding events. We are also improving the resilience of our Ardmore, Waikato and Huia Water Treatment Plants to deal with extreme weather events.

Links to attachments:

- Watercare Services Limited – Funding Plan 2018 to 2028 (Forecasts from 1 July 2018 to 30 June 2028) <https://wslpwstoreprd.blob.core.windows.net/kentico-media-libraries-prod/watercarepublicweb/media/watercare-media-library/reports-and-publications/funding-plan-2018-2028.pdf>
- Report to the Board of Watercare Services Limited – Funding for Infrastructure Growth – 23 March 2016
https://www.watercare.co.nz/CMSPages/GetAzureFile.aspx?path=~%5Cwatercarepublicweb%5Cmedia%5Cwatercare-media-library%5Cboard-meetings%5Cboard_papers_public_april16.pdf&hash=58c67194981e1e627a24fc2dd53f5649b0009a2026b6aa8c961bc2bd51a6a9d
- Report to the Board of Watercare Services Limited – Infrastructure Growth Charges (IGC): A review of current policy and application – Prepared for the 30 April 2019 Board meeting. https://wslpwstoreprd.blob.core.windows.net/kentico-media-libraries-prod/watercarepublicweb/media/watercare-media-library/board-meetings/board_papers_april2019.pdf



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