FIXING WATER WITHOUT BREAKING THE BANK

The scale, source, implications, trade-offs and solutions to the challenge

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water NEW ZEALAND
The New Zealand Water & Wastes Association Waiora Aotearoa

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What I’m covering

- The size of the problem
- How did we get here?
- Real life implications
- Awkward trade-offs
- The silver bullet
- Other parts of the solution

The size of the problem

- Previous government estimated $120-$185 billion for **Three** Waters
- Timeframe of 30-40 years
- Debate over this figure →
  each excavation holds surprises
- Debate over structure, but less debate over the need
- Previous approach often mis-reported as “making water cheaper” rather than “making water cheaper than it would otherwise be”

The size of the problem

- But water (and stormwater within it) is only one demand on financial resources
- Energy transition: $50 billion over next 25 years
- End-of-life hospitals: $17 billion over 15 years
- Transport: Funding model is broken
- Community infrastructure: Libraries, pools, museums, town halls
- Tourism infrastructure

Don’t rely on central government bailouts

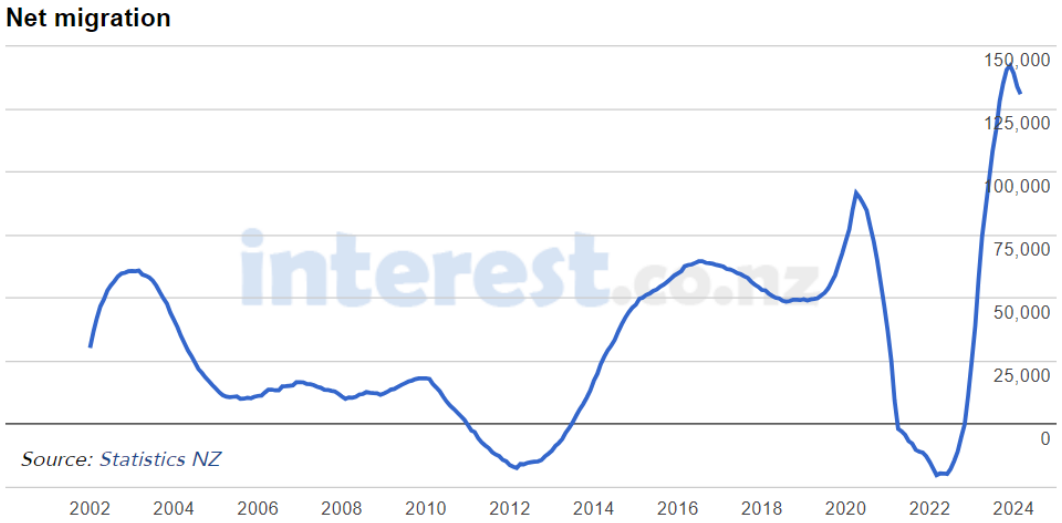
How did we get here?

Population growth is off the charts

- Minus 47,700 NZers
- Plus 178,600 migrants

→ Poor way to grow an economy – skills loss / retraining required

- Centrally-made decisions, but with very local infrastructure impacts
- How will we house/infrastructure 2.5% a year growth just through migration?



How did we get here?

Failure to adequately depreciate

- Not adequately depreciating assets OR
- When it comes time to fund from depreciation, the funds are used elsewhere → stormwater has often been the neglected cousin

Incorrect charging for growth

- Many councils don't charge enough in development contributions or targeted rates on growth
  → subsidy from ratepayers to raw landowners
- Combined with pressure to keep rates rises low
  → no money for renewals or service level upgrades

How did we get here?

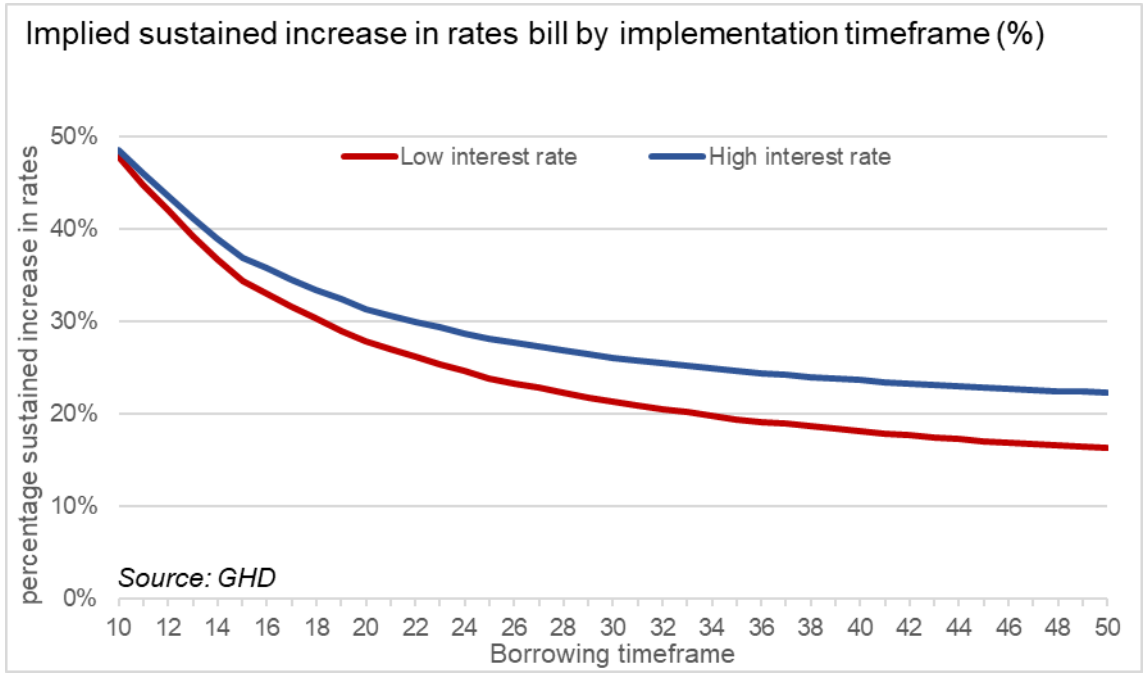
Changing legislative / policy expectations

- Mixed levels of regard for affordability or unintended consequences
- Some regional councils go even beyond the implications of central government direction

Community expectations

- Society won't accept some of the poor environmental outcomes we accepted in the past ✓
- Sometimes inadequate regard for affordability impacts or for the lowest income / socio-economic groups who may be affected most ✗

Real life examples



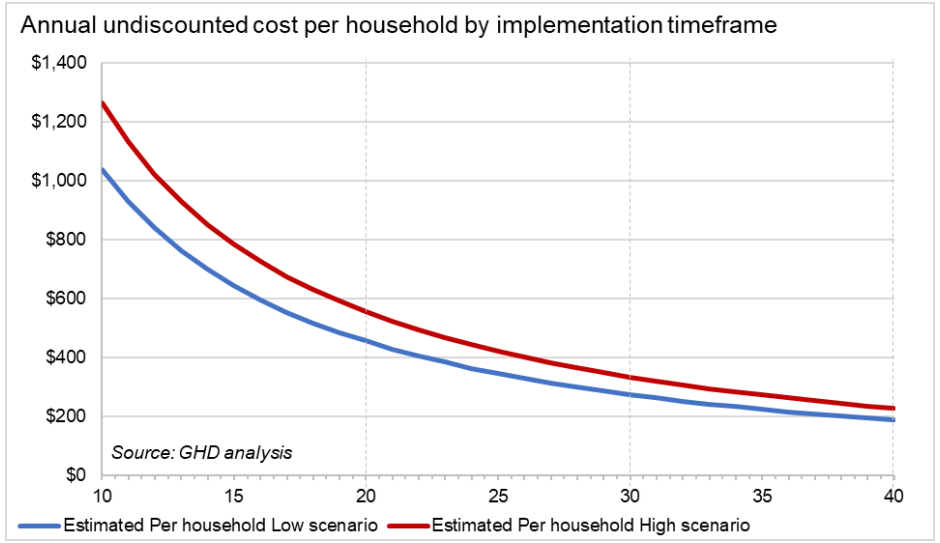
No mixing zones allowed?

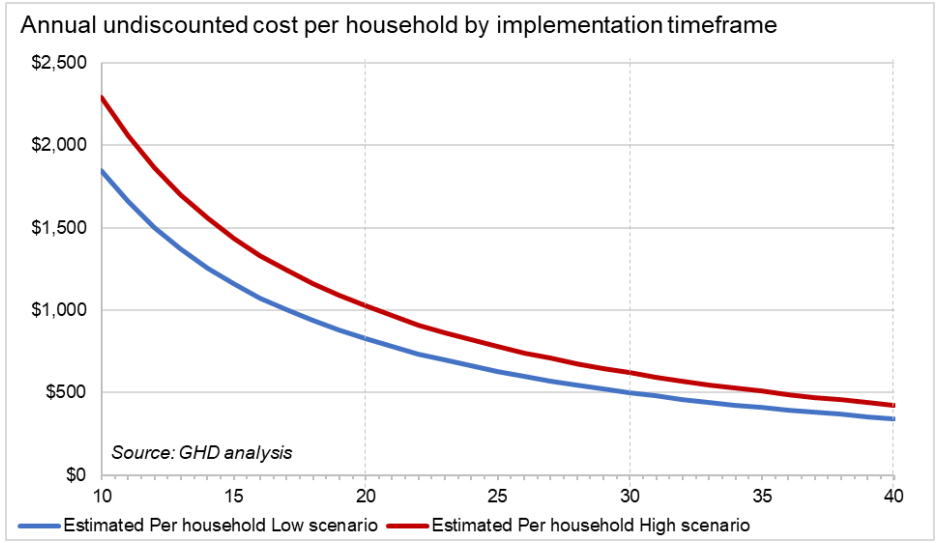
- A smaller council recently approved $100m in spending on a new WTTP
- They were concerned at how the regional council may interpret what was allowed
- Target attribute states being applied at “end of pipe” without mixing zone was a further $400m in costs for a single WWTP → sustained 27-32% rates rise for 20 years for a single piece of infrastructure

Real life examples

Region-wide improvements

- Desire of a regional council was to set target attribute states higher than the NPS requires
- Affordability study completed for ***wastewater***
- Stormwater costs estimated to be 2 to 6 times higher than these figures
- Back of envelope implication for ***stormwater*** is $1,050 to $3,000 a year step change in rates for 20 years





Awkward trade-offs

Between “domains”

- Do we reduce flooding and wastewater overflows, or fix the earthquake prone library?
- Do we reduce flooding and wastewater overflows, or keep rubbish collection weekly rather than fortnightly?

Within domains

- Do we reduce flooding and wastewater overflows, or build the new WWTP?

Between “domains”

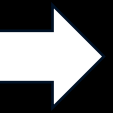
- Do we fix our flooding problems, or complete a daylighting project?

→ **We can’t do it all**

The silver bullet

The silver bullet

Current & Future Ratepayers =
Current & Future Taxpayers =
Current & Future Water Utilities Customers



Whoever owns water provision, we will be paying more

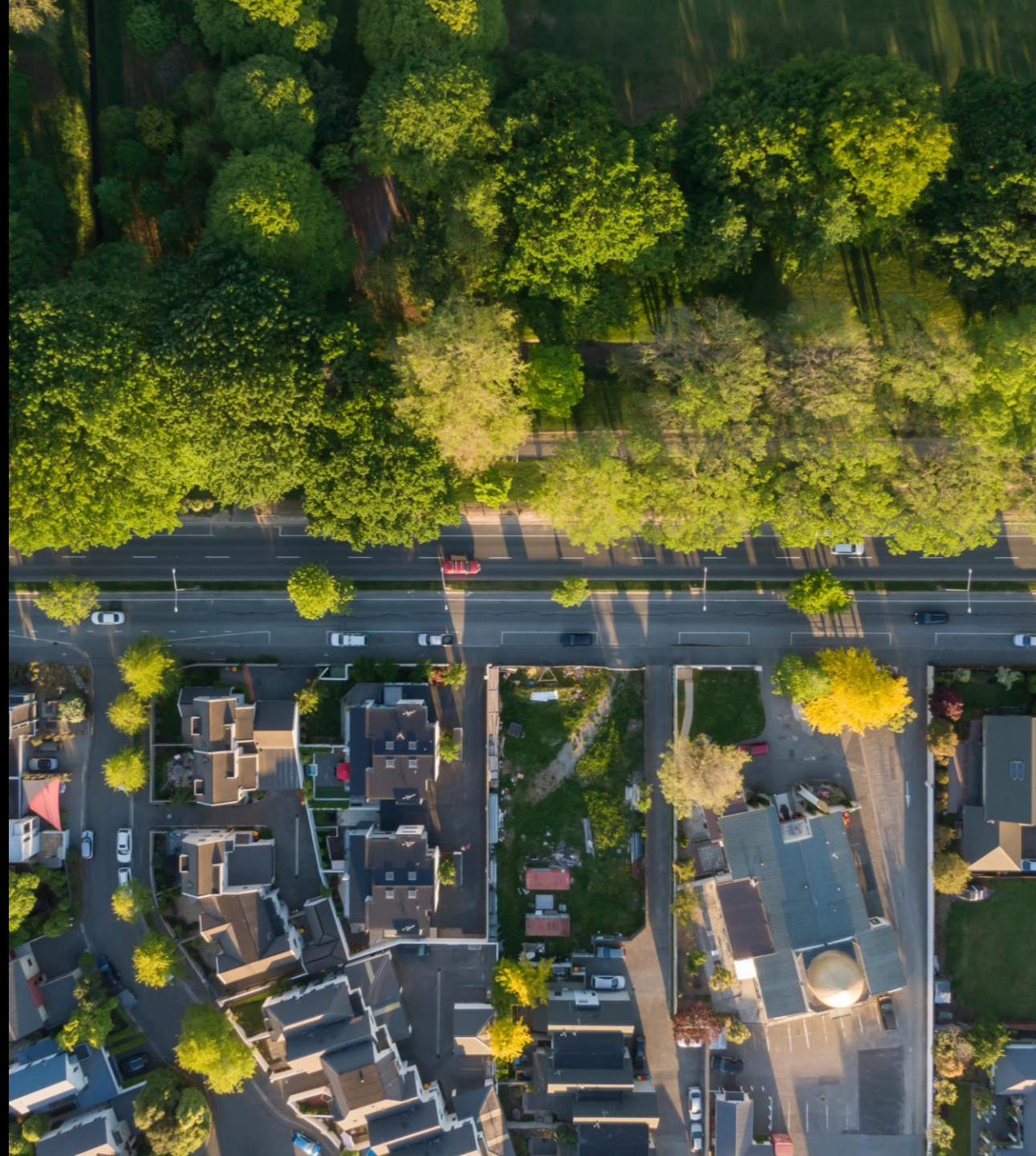
Other solutions

Charge accurately for growth

- **FACT**: Charging accurately for (storm) infrastructure does not increase house prices
- Some councils are beginning to do better → Hamilton, Auckland
- Signal the change in stance firmly
- Phase in more accurate pricing if required for political support
- Think, price and charge for infrastructure needs beyond the 10-year LTP

Charge accurately for existing needs

- Signal where underfunding has occurred that redevelopment will trigger additional funding



Other solutions

Make trade-offs explicit

- Push back against ideological bottom lines that ignore the reality of trade-offs or are unquantified
- Be explicit about the trade-offs we are being asked to make: “If we spend on this, there will be no money to spend on that.”

Reduce legislative and policy ambiguity

- NPS could set the expected water standards, and set requirements for evaluation of affordability impacts
- Close gaps for wide differences in interpretation at regional level

Other solutions

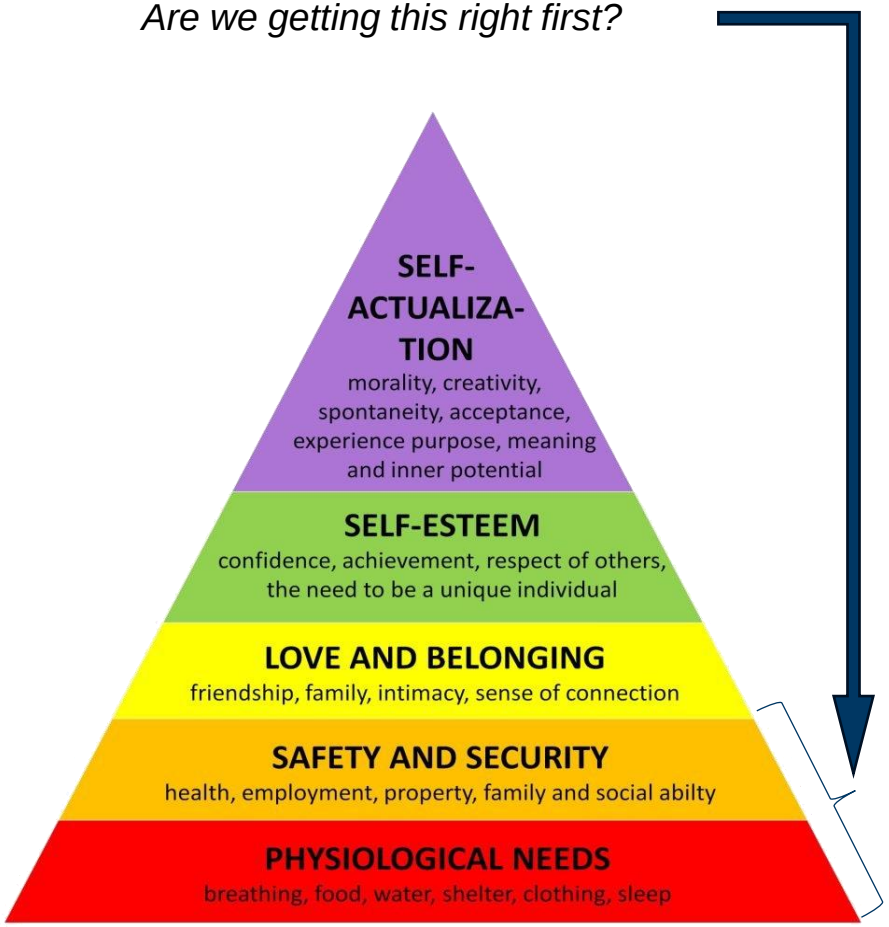
Treat depreciation adequately

- Full depreciation that does not go into the general pot of money
- Plan for fact that replacement kit be a “different product” from the depreciated original build

Reduce legislative and policy ambiguity

- Set expected water standards, and requirements for evaluation of affordability and disadvantaged group impacts
- Close gaps for wide differences in interpretation at regional level

Are we getting this right first?



Other solutions

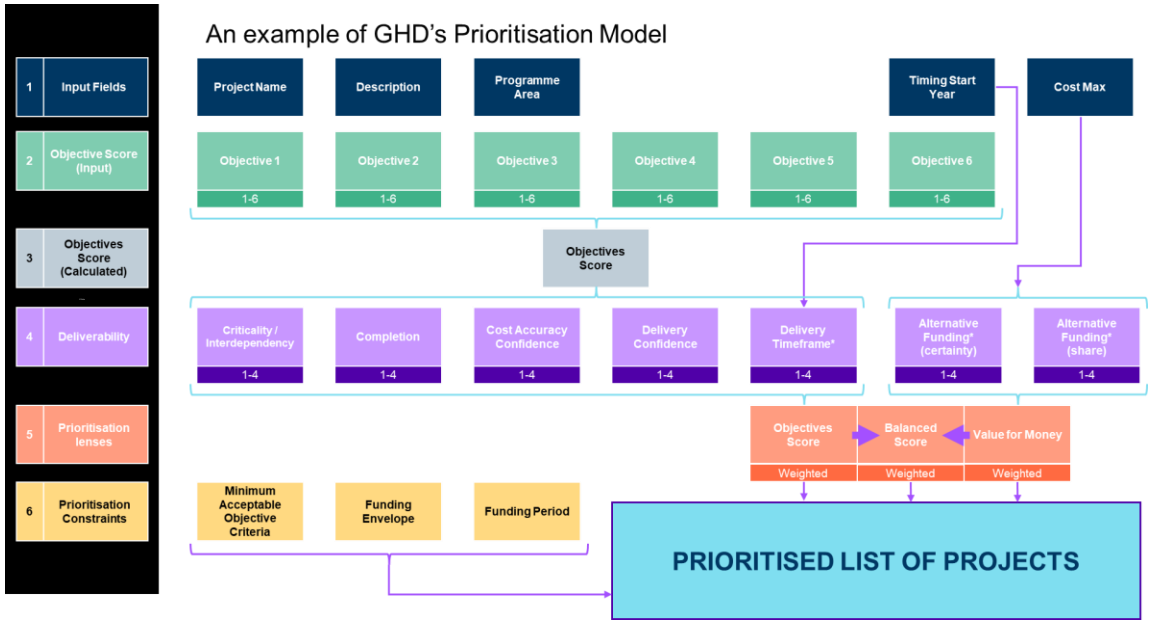
Prioritise better

- Back to first principles → agreed objectives and Plans with wide community support
- Maslow's hierarchy of needs
- Would the private sector deliver this?
- Who benefits, who pays, and are these broadly aligned?
- Can we demonstrate the benefits (environmental, social, cultural, financial) and costs (usually financial)?
- How do we prioritise between competing domains such as transport, water, community infrastructure?
- How do we prioritise *within* domains or sub-domains?
  → Will regional water entities achieve this?

Other solutions

Prioritise better cont'd

- How do we prioritise in a way that survives political change?
- How do we reduce optimism bias and subjectivity?
- Can we pinpoint out of sequence projects that have an outsized benefit?
- How do we balance big impacts on community objectives at big costs with smaller impacts at much smaller costs?



In summary

- The challenge is huge.
- Trade-offs are inevitable.
- We have made mistakes.
- Will we learn from them?
- Let us be judged by how we tackle the challenge.

Thank you

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