

Infrastructure New Zealand Position Paper: **Water Infrastructure and Services**



Current problem

New Zealand's ageing water infrastructure

New Zealand has a massive water infrastructure deficit. For decades our nation has failed to invest properly in maintaining and renewing our pipes, treatment plants and other three waters infrastructure. We now have a bow wave of significant ongoing investment to bring this infrastructure up to scratch. New Zealand's existing three waters infrastructure (drinking water, wastewater, and stormwater) is worth roughly \$40 – \$50 billion but requires between investment of \$120 billion to \$185 billion over the next 30 years. This investment is required to catch up with historical underinvestment, ensure our water meets the new drinking water and environmental standards, provide for future population growth, and provide for ongoing maintenance and asset refurbishment and renewals. These figures are now almost five years old and have not been recalculated based on the current inflationary costs, nor do they consider additional costs now needed to build asset resilience in the face of climate related extreme events. This problem is urgent, growing and needs addressing.

Our current approach presents huge risks

Our current approach to water infrastructure is unsustainable. The current model is likely to impose significant social, economic, and environmental costs on current and future generations along with ongoing risks to public health and New Zealand's reputation internationally. Doing nothing is not an option. Either we make the critical investment that is needed for these long-term assets, or we suffer the consequences from ongoing failures such as that experienced in 2016 with the Havelock North water contamination episode that saw around 5,500 people falling ill, 45 being hospitalised and at least three people losing their lives. Most recently in our premier tourism destination, Queenstown, a cryptosporidium outbreak which was blamed on the lack of a protozoa barrier. Nationally there are 84 drinking water supplies which lack a compliant protozoa barrier and potentially put over 310,000 people at risk. Lack of stormwater asset investment is also putting lives at risk with more frequent extreme rain events. The Auckland flooding event in early 2023 resulted in the loss of lives because our stormwater systems could not cope with the volume of water. Nearly a quarter of council owned wastewater treatment plants are operating on expired consents and most are due for re consenting under new, stricter environmental standards in the next few years.

We urgently need to change the funding and delivery model for water

Councils are struggling to address their water infrastructure deficit and are conflicted with other demands on their rates revenues. Fixing water infrastructure any time soon is impossible without some combination of substantial increases to rates, user charges and/or some central government funding. Many councils have little headroom to borrow more before reaching their debt ceilings. The current system will also struggle to cope with growth, development, climate-related asset resilience, and associated population growth.

The need for investment in our three waters networks is extensive but the financial and political realities make the long-term funding and investment solutions incredibly difficult to deliver. At present our local authorities are constrained by the debt ceilings imposed by the Local Government Funding Agency in order to maintain the current credit rating settings. A move to make water entities Council Controlled Organisations is unlikely to resolve this issue.

The economic regulation of water and the new environmental standards should be a catalyst to drive some of the change required as it has done in other jurisdictions. New regulations should improve water quality as well as serving to protect consumer interests and drive efficient investment and performance. Management of demand is important too and the role of water meters to measure water consumption cannot be underestimated either as we pursue a more sustainable regime.

Infrastructure New Zealand's Position

Sustainable funding is critical

Given the urgent need for water reform, a long-term, financial independence is crucial for enabling local authorities to meet new water quality standards and manage asset investment in a sustainable way. This would allow them to borrow to fund a backlog of renewals as well as new infrastructure costed at tens of billions of dollars without impacting their shareholder councils. As is best practice internationally, the borrowing would be repaid over the life of these long-term assets. The wider application of direct volumetric charging for water use, like other utilities such as electricity and telecommunications, should be implemented. This will provide greater consumer demand management as well as a direct revenue stream. A critical element too, is the need for independent governance oversight of the delivery of agreed outcomes.

In the interim, a trade-off may need to be considered between making changes to existing arrangements to achieve either balance sheet separation to enable finance on a stand-alone basis for water entities. An unlikely option may also be to relax existing Local Government Funding Agency limits and enable a potential ratings downgrade so local authorities can raise debt to invest in the required maintenance and growth capex, without requiring them to frontload rates and / or water charging revenue.

Councils and water entities especially need certainty ahead of the development of their long-term plans in 2024. While the replacement regime is being decided on, the new Government needs to credit wrap council water entities and commit to funding the information systems necessary for the step-change in asset management and investment to come. Economies of scale still need to be pursued with mergers and shared service arrangements encouraged so the water entities can attract and retain the highly skilled sector workforce that can deliver the investment pipelines needed.

Key Recommendations

- Provide clarity around the government's intentions regarding water reform and replacement legislation as soon as possible.
- Fully implement waste and drinking water quality standards with suitable financial enforcement and provide government assistance to councils unable to meet these.
- Remove water service infrastructure from council balance sheets and facilitate long-term borrowing and revenue streams for asset development, renewal, and maintenance, OR
- Establish an opt-in regime sustainable funding model which can support growth and improve service delivery or consider some form of financial support to keep momentum in the sector.
- Establish independent oversight mechanism to ensure accountability of the delivery of agreed outcomes.

