WATER REFORM

New Zealand utility reform struggles with cost of capex

The new centre-right government has axed an unpopular utility consolidation plan. Local councils may still need to band together to find funds for investment, reports Ed Cullinane.

New Zealand's new National-led government fulfilled a major electoral promise by repealing the preceding Labor government's controversial "Three Waters" (drinking water, stormwater and wastewater) reform plan in a special session of Parliament on 14 February.

The Three Waters proposal would have seen four regional water management entities established across the country, centralising the national utility structure from the local council-led system in order to increase borrowing power. However, the reform met with heavy criticism from local authorities, which feared the loss of local oversight.

Since the announcement, while many local council leaders have welcomed the repeal, some have voiced concerns that rates may rise by as much as 20% under the new system, compared to the rate increases of 3-4% anticipated under Three Waters.

Local government minister Simeon Brown said that the new policy announced on 12 February – "Local Water Done Well" – would keep responsibility for the management and funding of infrastructure projects in the hands of local government. This will be bolstered by increased regulation of the sector, with an emphasis on requiring councils to deliver effective plans for how they intend to meet future capex spending needs.

The legislation, expected to be signed into law in mid-2024, will also amend the Local Government Act 2002, allowing councils to establish new council-controlled organisations for the purpose of delivering water services.

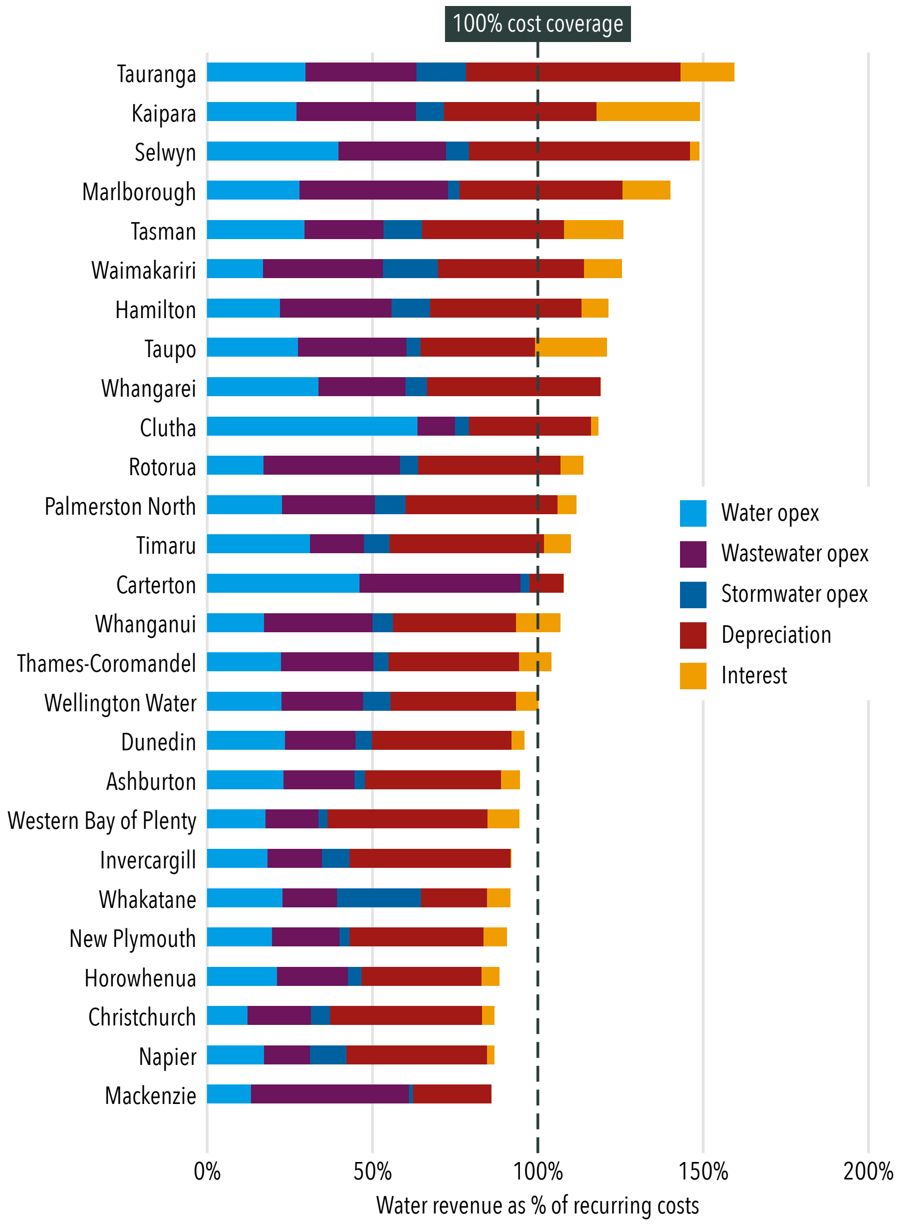
This will allow councils to voluntarily switch to more financially sustainable configurations, such as establishing joint-owned utilities with neighbouring councils to share the burden of any necessary long-term capital expenditure.

A second bill, to be introduced in December, will create a new range of structural financing tools, and allow the creation of financially independent council-controlled water providers. A regulatory backstop will also be introduced to enforce the more stringent rules – though details on what form this will take remain unclear.

Supporters of the Three Waters plan had argued that the reforms were necessary to begin chipping away at the estimated NZ$120-185 billion (US$75-115 billion) in capex spending needed to expand and upgrade the country's water infrastructure over the next 30 years without forcing ▶

WATER OPEX VS REVENUE AT NEW ZEALAND COUNCILS

Revenues from water tariffs are currently not enough to meet the recurring costs of opex, depreciation and interest at a large number of councils. An upcoming surge in capex for infrastructure refurbishment is likely to require either a major reevaluation of consumer tariff levels, or an alternative source of financing.



Source: Water New Zealand

soaring rates upon consumers.

A technical advisory group has also been established to advise the government on the policy, chaired by Andreas Heuser, managing director of consultancy Castalia – which previously provided a reform model on behalf of several local councils that recommended retaining local authority control of utilities, and will work as the basis of the new reforms.

Castalia chief executive David Ehrhardt told GWI that the new policy is "all about options that local authorities can choose from, not about forcing solutions on them."

However, Ehrhardt expects that the government will still support and encourage councils to merge utilities under the new model if the required long-term plans prove financially unviable.

"Many of them need to change their financing and management structures. Oftentimes they need some managerial economies of scale, and so mergers will make sense," he told us.

"So, it makes sense for national government to say that local government must have a plan to meet regulatory requirements, and that oftentimes that will require regional cooperation, but also if you do not need that, then you don't have to do that.

"One example would be Watercare in Auckland, which is already very big. It already has scale now, and there is no reason to say to Auckland that it needs a bigger water utility. Maybe it would benefit the Councils north of Auckland to be part of Watercare, or maybe not – but that would be their decision."

Ehrhardt added that the new reforms could provide a solution for Watercare, which has struggled to raise the capital necessary to keep up with the city's expansion due to its shared debt with the local council.

"Auckland is a growing city, and that means that Watercare needs to lay more distribution pipes and eventually get more production sources, too – which is a big capex programme. Whether they have optimised their capex programme is not known, because they've not had any external party checking that – which will change under the new regulatory system."

Ehrhardt anticipates that Local Water Done Well will require the city to "get creative", rather than relying on stimulus cheques – noting that Vector, formerly the Auckland Electricity Board, now has 25% of its stock listed on the local exchange, with 75% owned by a community trust.

"I don't think that councils should expect shovels of stimulus money from the National government any more," he added. ■

JOINING FORCES IN NZ

Castalia's David Ehrhardt says that despite the change of mind on forced consolidation, many water utilities are still likely to consider merging.

Source: Castalia