



Office of the Mayor

30 September 2021

Hon Nanaia Mahuta

Minister of Local Government

C/- Anna Barry, Private Secretary – Local Government / Office of Hon Nanaia Mahuta and the Department of Internal Affairs

Emailed to: Nanaia.Mahuta@parliament.govt.nz and Anna.Barry@parliament.govt.nz

Cc: ThreeWaters@dia.govt.nz

Dear Hon Minister Mahuta

Feedback from the Manawatū District Council to Government's Three Waters Reform Programme

Thank you for the opportunity to provide feedback on behalf of the Manawatū District Council (MDC) and the Manawatū Community on Government's Three Waters Reform Programme. Based on the limited information presented by Government so far and the feedback from Community engagement (detailed below), MDC will be opting out of the proposed Three Waters Reform Programme. The current proposal is not in the best interests of the Manawatū Community.

While MDC will opt out of the proposed Three Waters Reform Programme, MDC is prepared to re-look at, and further investigate a collaborative regional service delivery model for three waters infrastructure. Preliminary groundwork on a regional model has been undertaken and was progressing. This was put on hold awaiting Government direction from the Three Waters Reforms. MDC would like to continue with the investigation into a collaborative regional service delivery model, including what form and function it will take. We request that the Government allow MDC time to complete this work and report the findings to Government.

Community Feedback

Given the investment made by our community into our three waters infrastructure over many generations, MDC sought feedback from the Manawatū community to inform the drafting of this feedback. A copy of the engagement information is attached as Annex 1 for your information. MDC has been limited in its ability to engage effectively with the Manawatū Community as we have not been able to be clear about the process beyond 1 October, including what form consultation on the revised proposal will take.

As at 5pm on 29 September 2021, MDC had received a total of 2540 responses to our Three Waters Reform engagement. Respondents were asked if they were in favour of

Government’s proposed Three Waters Reform, not in favour, or undecided. The results of this engagement are summarised as Figure 1 below.

Of these feedback responses, 94.05% were opposed to Government’s Proposed Three Waters Reform Programme. The primary reasons for this opposition were as follows:

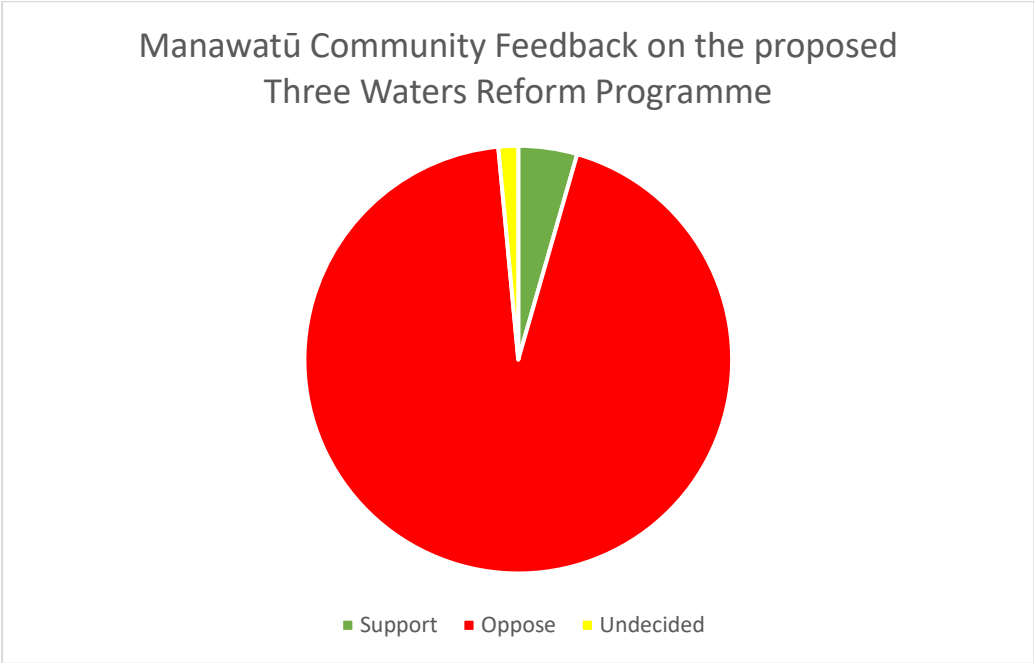
- *I want our three waters services to be owned, managed, built and operated locally, by people who understand our District.*
- *I’m concerned we won’t have a strong democratic say in the way three waters services are provided.*
- *I’m worried our three waters rates will end up funding upgrades in other communities*
- *I don’t think it will improve efficiencies*
- *Our three waters infrastructure is not broken and does not need fixing.*

A total of 4.45% of respondents were in support of the Government’s proposed Three Waters Reform Programme. The primary reasons for this support were as follows:

- *I believe that we should be providing the same level of service for three waters across all of New Zealand.*
- *The think the new three waters entity will be better able to keep up with increased regulations and requirements.*
- *I can see advantages of combining three waters assets into four large entities.*

The remaining 1.50% of respondents were undecided on whether they support Government’s proposed Three Waters Reform Programme.

Figure 1:



The key concerns with the proposed Three Waters Reform Programme that were raised through community feedback mirror those of MDC, being:

1. We do not want our three waters assets out of local control; and
2. We do not want to pay for network upgrades in other areas.

The following paragraphs expand on these key concerns.

Local Control of Three Waters Assets

The Community of the Manawatū have told us that they want our three water services to be owned, managed, built and operated locally, by people who understand our District. As evidenced through feedback, the Manawatū Community is very concerned that under the proposed Governance and Management Structure, they will have limited or no say in how three water services are delivered in the Manawatū. There is also concern about a lack of accountability to those who have paid for the subject assets.

Centralisation of decision making for three waters assets away from local government is contrary to the subsidiary principle which is long accepted in liberal democracies. It reduces community identify and autonomy, adversely affecting the wellbeing of communities, contrary to the purpose of local government under section 10 of the Local Government Act 2002. A localist approach is preferred, whereby decisions are made as closely as possible to the people that the decisions affect.

MDC has genuine concerns that the removal of three waters decision-making from local government will adversely impact our ability to provide for our communities social and economic wellbeing through growth and development. Currently, when approached by a developer with a proposed development that involves an extension to three waters networks, including where proposals are out-of-step with development plans, MDC is able to negotiate with the developer to reach a mutually acceptable solution. The transfer of decision-making from local government to Entity C will remove MDC's ability to work directly with customers to develop customised solutions. MDC is concerned that without any local knowledge or affinity to the Manawatū District, developments will not be treated by Entity C with the same level of priority or urgency as they are by MDC.

To provide another example, following a significant financial dispute, MDC was able to reach an agreement with a large company that discharges trade waste to the Manawatū Wastewater Treatment Plant. This company is an important local employer and contributor to our local economy. We consider it unlikely that agreements would have been reached under the new entity model, either in a timely manner or at all, where there is no economic development focus or affinity to the Manawatū. This could well have resulted in the loss of the company and hundreds of jobs from our community. This will counter Government's initiative around housing and growth, undermining Government's housing strategy.

Development contributions and other mechanisms that exist under legislation to allow a proportion of infrastructure costs to be collected from developers are best managed at the local level.

Decisions around the provision of three waters assets needs to be made in conjunction with District Planning, economic development planning, and roading infrastructure planning. This is best done locally, while being cognisant of the broader regional framework.

MDC has been proactive and has invested well in three waters infrastructure. The Department of Internal Affairs (DIA) dashboard classifies MDC's operating performance for 3 waters as "Exceeding expectations." MDC's three waters infrastructure is not 'broken' and does not need fixing. MDC maintains that the principal reason for under-delivery of three waters infrastructure by some local authorities is due to the lack of adequate funding options for local government, not a broad failure of the framework for three waters service delivery.

A number of submitters are concerned that three water assets will eventually be sold by Government as a revenue gathering venture.

Paying for Infrastructure Upgrades Elsewhere

Residential rates in the Manawatū have been among the highest in New Zealand over a number of years, largely in part to the investment made in high quality three waters infrastructure. Ratepayers do not want to pay additional rates to subsidise lesser performing Councils, usually with low rates, who have failed to invest in necessary infrastructure upgrades. MDC recommends that Government contribute to these networks directly, not require other communities to contribute. To quote from community feedback, the Three Waters Reform Proposal *"rewards those authorities with a past poor asset management record, at the cost of those who have performed relatively well."*

MDC has proactively and successfully upgraded the Manawatū Wastewater Treatment Plant in Feilding and is in the process of constructing pipelines to centralise the treatment of wastewater from our Villages to this treatment plant. Key benefits of the Wastewater Centralisation Project include improved environmental outcomes for the Ōroua River and the removal of treated wastewater discharge from over 100 kilometres of waterways across the district. This initiative also increases internal efficiencies through reducing the number of discharge consents that Council must hold and administer. This initiative capitalises on the significant investment already made by the ratepayers of the Manawatū district. MDC also has a confirmed programme in place through its 10 Year Plan, 30 year Infrastructure Strategy and 3-Waters Asset Management Plan to increase the resilience of Feilding's potable drinking water supply. This will ensure a safe and complaint supply of drinking water for Feilding residents now and over the next 30+ years.

Other Concerns

As outlined in our letter to Hon Nanaia Mahuta dated 30 August 2021, we urge Government to pause and review the proposed reform. The main concerns of MDC and the Manawatū Community are summarised under the following themes:

Relationship to other Government Reform

This proposed Three Waters Reform Programme needs to be considered in context with the multiple other reforms and changes happening in local government currently. MDC requests that Government establish a structure and process to ensure alignment and oversight across the reforms processes.

MDC is particularly concerned that the Three Waters Reform Programme is progressing ahead of the Review into the Future for Local Government and the Resource Management Act reforms. The Three Waters Reform Programme is effectively removing one third of MDC's business ahead of the future of local government review. This is not appropriate. Government must halt progress with the Three Waters Review until the conclusion of the Review into the Future of Local Government. Otherwise the Future of Local Government

Review will have pre-determined outcomes with respect to the roles and functions of local government.

Financial Modelling

MDC believes that the DIA calculations for the Manawatū District, and the assumptions that they are based on, are flawed. For example:

- The DIA calculations were based on MDC having 30 staff associated with the Manawatū Wastewater Treatment Plant - we have 52 staff.
- The DIA calculations assume we spend an average of \$9 million per year on renewals. The average budgeted spend in MDC's 10 Year Plan 2021-2031 is \$3.2M per year.
- The DIA has calculated the cost of water rates for MDC ratepayers in 30 years' time without reform will be **\$5,840**. This DIA figure appears to be based on heavy cost inflation between 2022-2026 and unrealistic capital investment assumptions with no substantiated explanation provided for these assumptions. MDC's calculated cost for water rates for MDC ratepayers in 30 years' time is **\$1,404**. This figure includes current forecast 10 year cost increases and realistic assumptions for the following 20 years.
- Stranded overheads are a big issue for our Council. MDC has conservatively calculated \$2.8M per annum of stranded overheads remaining after three waters reform. This will directly impact rural and residential rates as these overheads will need to be recovered through Council's non-water activities.
- An assumption has been made around economies of scale – that a larger entity will be more efficient. The very considerable savings indicated from implementing the four entity model are not substantiated in the material provided. Based on previous experience of local government restructuring (e.g. the Auckland Super City), amalgamations do not necessarily result in cost savings.

Other Financial Concerns

Based on community engagement, the majority of the Manawatū community is opposed to handing over the control of three waters assets with a depreciated asset value of \$192M (2019/20) and an estimated current market value (optimised replacement cost) of \$329M that has been paid for by the community. MDC seeks clarity on the financial impacts of the reforms, including more detail on the pricing and charging model so we can better understand the impacts on our ratepayers.

The DIA has highlighted that a benefit of three waters reform would be the increased borrowing capacity for Councils' after the removal of three waters related debt. While this is true, any additional borrowing and interest expense would still need to be recovered from ratepayers. The resulting increases in rates could result in ratepayers being in an overall worse position when combined with their bill from the new water entity.

We question the benefits, as our same District residents would pay District Council rates, Regional Council rates, Water Entity rates and Government taxes – there are no new people to pay the bills or service the additional loans.

Uniform pricing for water services may not be reasonable. The provision of three waters services cost more in some localities as a result of factors including, but not limited to, topography, climate and the availability of ground water. If services cost significantly more in one locality than another it is contentious to suggest that this is not reflected in the price of water services. Equalising pricing can distort optimal land use decisions.

Proposed Entity Boundaries and Stranded Overheads

There are no genuine communities of interest in the four entity model proposed. We understand that the entity boundary lines follow broad lwi rohe boundaries, which do relate to local communities of interest. The primary rationale for the four entity model appears to be related to economies of scale and population served. Our Council is impacted more than most, as we provide all roading and three waters services to our neighbouring Rangitīkei District Council through a shared service agreement. If this proposal proceeds the two Councils would be in different water entities (MDC in Entity C and Rangitīkei District Council in Entity B) with a larger proportion of the overhead costs falling on MDC ratepayers due to the current shared services arrangement. MDC has calculated that the transfer of three waters functions from MDC to the new entity will result in \$2.8 million per annum of stranded overheads that will need to be redistributed to MDC ratepayers. This proposal would also see rural ratepayers, who in many cases are not connected to three waters infrastructure, having to pay a share of the stranded overheads, along with residential, commercial and industrial ratepayers. The \$15 million that MDC would receive in compensation would not be sufficient to cover all costs associated with the transition, particularly ongoing costs, such as stranded overheads.

We also question the splitting of the Horizons Region across two 'three water entity' boundaries. The planning and provision of three waters infrastructure by Entity C is going to be administratively difficult with worse outcomes than the status quo.

MDC requests that Government provide further detail on how the new three water entity boundaries fit with regional-scale Natural and Built Environment Plans and regional spatial planning under the Resource Management Act reforms. Is there an underlying assumption that following the Future of Local Government Reform the new Regional boundaries will coincide with these three waters entity boundaries?

Governance Structure

The proposed Governance Structure is overly complex, and a Council of our size would not realistically have a chance to influence decision making. We are concerned that under the proposed Governance Structure MDC's involvement is limited to the ability to influence the objectives and priorities of the new entities and to develop land use planning documents.

It is clear that lwi/Māori have a particular standing in matters to do with environmental outcomes, including those relating to water quality. These to date have been reflected in the requirements for their engagement in RMA and Local Government Act processes. It is not clear what is needed in addition to that in terms of the water services. We do not see that infrastructure itself, as distinct to the environmental outcomes, requires 'co-governance'.

A large number of respondents to MDC's community engagement expressed a concern that under this proposal, 16% of the population would be handed 50% of the control over 3 waters governance, and with further veto rights.

MDC is concerned that local Iwi/Māori will lose their voice and influence over three waters assets in the same way as MDC will under this proposal.

Relationship between land use and infrastructure

The Three Waters Reform Programme gives insufficient consideration to the relationship between land use and infrastructure. For example, the National Policy Statement (NPS) – Freshwater Management and NPS-Urban Development require Councils to provide for growth and development while improving water quality outcomes. Feilding's primary residential growth area is Precinct 4, to the north of Feilding. The impacts of both flood hazard risk and stormwater meant that stormwater management was critical for Precinct 4, to ensure that development does not exacerbate flooding and complies with the requirements of the Manawatū-Whanganui Regional Council's (Horizons) 'One Plan.' The complexities of planning for stormwater infrastructure in urban growth is one example of why the integration of land use and infrastructure planning is best achieved by local authorities with local knowledge and expertise, working collaboratively with Regional Council.

Decisions around the provision of three waters assets needs to be made in conjunction with District Planning, Economic Development planning, and roading infrastructure planning. This is best done locally, while being cognisant of the broader regional framework.

Rural Water Schemes and Private Drinking Water Supplies

The Three Waters Reform Programme has not given adequate consideration to the number of community-owned rural water schemes operating within New Zealand and the impact that the new requirements will have on scheme providers and private water suppliers.

There are four existing community-owned rural water schemes operating in the Manawatū District. In addition, the Ōhākea rural water scheme is under construction and Council is working towards business cases for two other rural water schemes.

Most rural water schemes in the Manawatū District are run by scheme committees. Under the Three Waters Reform Programme these schemes committees will have to become registered drinking water providers by 2025. The existing rural water schemes were originally set up as rural stock water schemes. We understand that by 2027, these rural water schemes will need to be compliant with the new drinking water standards. Scheme Committee members are concerned about the cash reserves in these rural water schemes being transferred to the new three waters entities, even if there is an assurance from Government that the cash reserves will be reinvested within that scheme.

Farmers and rural residents in the Manawatū District are concerned about what the changes will mean for those who currently supply drinking water to farm cottages or are part of a community supply, such as from a shared bore. Under the new proposal, the property owner must become registered as a private drinking water supplier and compliant with the drinking water standards. In many cases, it is likely that owners will not want to take on this level of risk and will cease supply so as to not qualify as a private water supplier. More properties

will be reliant on tank water for their drinking water supply, or will have to incur the additional cost of applying for a regional consent and constructing a new bore. We question whether an increased reliance on rain water is a more resilient solution for rural water supplies, given the increase in drought risk forecast for the Manawatū District as a result of climate change.

MDC requests that Government commit to working with local government to address the issue of rural water schemes and private drinking water supplies.

Alternative delivery models

MDC understands that the Three Waters Reform Programme is based on the Scottish Water Model. While this model is touted as the preferred model by Government, a recent BBC article identified deficiencies in the performance of this entity that have resulted in adverse environmental and social outcomes over many years. MDC does not support this model as being a basis for the reform of three waters service delivery.

MDC's preference is for the status quo to remain for Councils such as MDC.

MDC is however willing to re-look at, and further investigate a collaborative regional service delivery model for three waters infrastructure, for the following reasons:

1. A regional service delivery model will enable better alignment with land use and growth planning at the regional level through Regional Spatial Plans and Natural and Built Environment Plans under the Resource Management Reforms.
2. Proven track record through the successful shared services agreement between MDC and Rangitikei District Council.
3. Increased regulation, tighter enforcement and environmental challenges are likely to be easier to address collectively than individually.
4. There is an international trend towards 'holistic' catchment management, which transcends administrative boundaries but does not necessitate transfer of assets to a regional collective.
5. Given the geographic proximity of some plants within districts, there is already an emerging trend to 'centralise' or consolidate treatment plants.
6. Preference for land-based and long offshore outfall disposal of treated wastewater is likely to necessitate some cross-district solutions.

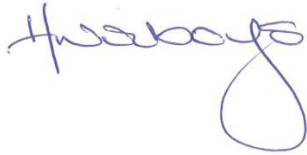
An alternative model that may be considered is to have the Water Regulator to set the standards and a FAR rate similar to the roading FAR rate to support Councils achieve the required standards.

For the reasons outlined in this submission, MDC and the majority of the Manawatū Community do not support Government's proposed Three Waters Reform Programme. Government has not given Councils or communities sufficient time or information to enable effective engagement on three waters service delivery. Alternative options, such as a regional service delivery model, have not been given adequate consideration.

For the Manawatū District and our ratepayers the financial outcome of the proposed reform is approximately neutral, however the other concerns that we have would mean that the Manawatū District and our ratepayers would be considerably worse off.

This Three Waters Reform Programme is Government's preferred model of service delivery, which, based on community feedback and MDC's calculations, is not in the best interests of the Manawatū Community.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'H. Worboys', with a large loop at the end.

Helen Worboys
Mayor, JP