They want to give away our water

Council wants to give away our water, wastewater and stormwater assets, valued at $377,167,000.[1]

The public consultation runs 9 May through 6 June. This one is really important. It offers choices about who will own and manage our "three waters" in the future.

The key "options" are (1) keeping three waters within Council like they are now, or (2) giving ownership to a new regional company that would separately charge us for the services. The equal "shareholders" in the regional company would be Waitaki, Clutha, Gore and Central Otago districts. The regional company would assume existing three waters debt of all four councils. The company would be run by a "professional" board, with no Waitaki Council representatives.[2]

(There are two other options mentioned, but Council correctly discourages them as either too costly or too speculative.)

Council is doing a quick public consultation about this because the law requires it. Council has declared that the regional company is their preferred option, and has launched intense propaganda to win public support for this option in the consultation.

Waitaki wouldn't have any effective control over the regional company. Actual legal ownership of our assets would be transferred to the regional company.[3] Waitaki would have a 25% minority shareholding in that company, although this might be reduced further if current discussions give a "meaningful role" to Ngai Tahu.[4]

The shareholders can meet to state "expectations" for the regional company and select its board members, but the independent board of "professionals" has sole authority to set water charges and make investment decisions.[5] Waitaki could easily be out-voted on any issue if the shareholders even had the opportunity to express an opinion.

What is going on? Why do the mayor and staff want to give up our three waters?

Council's motives

I've followed this issue for eight months and I believe that Council's motives are:

- To escape responsibility for future costs of three waters, since it would become the sole responsibility of the regional company, over which Waitaki could honestly say it has no effective control.

- To dump onto the regional company about $55 million of three waters debt that Council has borrowed and spent since 2020.

- By dumping the three waters debt, to make room under Council's debt limit for lots more borrowing for other purposes. (Council admits this is a motive.)

Naturally these motives wouldn't look good in the public consultation. In fact, they smack of outright dereliction of duty. So Council instead makes all kinds of false claims about a regional company having "greater efficiency" and "lower water charges." Council also says "Government is making us do it" and "it's not sustainable to keep three waters in-house."

It's true that the Coalition Government is passing new legislation that encourages councils to form regional companies. That's because some councils haven't spent enough to maintain their three waters. Government believes that independent companies will be able to hike up water charges on customers without interference by elected councillors who respond to ratepayers' distress.

Also, for some urban areas, it could make sense for adjacent councils in close proximity to unify three waters facilities because it might yield efficiencies. (Although it didn't work that way for Wellington Water! See below).

Waitaki District isn't one of the councils that have failed to invest enough, with $55 million[6] borrowed and spent on three waters in just the last four years, in addition to depreciation funds and some grants. All Waitaki water and wastewater systems are operating within Government regulations. While considerable investment will be needed sometime in the future to replace and upgrade infrastructure, there is no reason why Council can't keep the job in-house instead of turning it over to a regional company.

Other councils say "no way"

Nevertheless, the mayor and staff in 2024 eagerly sought partners for a regional company. Mostly they got rejections. Dunedin, Invercargill, Queenstown-Lake, Waimate and Southland districts all decided that they preferred to keep three waters in-house, maintaining local control and not using a regional company to hide behind when charging the public. Other councils that have already declared "in-house" as their preferred option include Gisborne, Ashburton, Kapiti Coast, Manawatu, Tasman, Kawerau, Waimakariri, Far North, Thames-Coromandel and Nelson.

Invercargill's mayor commented that a regional company would cause "those councils which had done well in investment in the past to subsidise those who had not."[7]

Manawatu Council rejected a regional proposal because it found that "ratepayers would be subsidising other councils to bring their 3 Waters infrastructure up to equal standards," according to the Council website.[8] "The dramatic financial benefit to Manawatū District ratepayers is the primary reason that this [in-house] is Council's preferred option."[9]

Gisborne Council rejected a regional company because "it is complex and expensive to implement. Individual councils would have limited influence, and relationships with mana whenua could be diluted." Continued in-house ownership is favoured because "It maintains local control, ensures financial transparency and spreads the costs of gradual improvements over time, without front-loading or sudden increases in charges for ratepayers."[10]

"Nelson City Council will go it alone" said The Press newspaper, "when it comes to managing its water, saying it will stop ratepayers having to pay to fix other councils' water woes."[11]

Kapiti Coast Council preferred in-house and explained: "Up until 2047, the average cost to Kāpiti Coast customers is projected to be lower under the in-house model than the four council option. This is because the four council-owned organisation requires establishment costs, additional costs for governance and management, and a higher level of revenue required to support debt."

Waimakariri District Council said an internal business unit is "best aligned with that Council's priorities, planning, and regulatory functions. User charges are also cheaper in the first ten years under this structure (when compared to joining a CCO) and any efficiencies from other structures would incur additional establishment or ongoing overhead costs that would make any savings negligible."

In rejecting a regional company, Southland Council declared: "Given local conditions, environmental factors, and financial realities, our assessment is that this model is not reasonably practicable or financially beneficial for Southland."[12]

Even tiny Kawerau District, with only 7,610 people, decided that keeping three waters in-house was best.

Timaru briefly considered a regional company with Otago districts, but pulled out[13] and instead is considering an agreement with its two tiny neighbours, Waimate and Mackenzie. But Waimate decided 29 April to keep three waters in-house as its preferred option.[14]

Kircher left with problem councils

For Waitaki, this left Mayor Gary Kircher with only the most troubled and unlikely partners: Gore, Clutha and Central Otago. These three aren't only open to a regional company—they are fairly desperate for it.

Gore will hit the debt limit imposed by its lender and wouldn't be able to borrow more. Meanwhile one of its two water wells has excessive nitrate pollution and it faces renewal of expired wastewater permits that will require "significant upgrades."[15]

Clutha was fined $500,000 for "systemic failures in managing five of its wastewater treatment plants."[16] Clutha hired Christchurch's CityCare firm to run wastewater, only to have CityCare itself fined $120,000 for violations in Clutha and pull out of a five-year contract because the problems were worse than it expected.[17] Clutha received 7 Abatement Notices and 3 Infringement Notices for its wastewater treatment plants in 2022/23.[18]

Central Otago faces rapid growth because of its proximity to Queenstown, requiring big new investment in infrastructure. Meanwhile it faces abatement notices on wastewater plants.[19]

It's easy to see why Dunedin, Invercargill, Southland, Queenstown-Lake, Waimate and Timaru all declined to partner with those three troubled districts. Like Invercargill's mayor said, there is an obvious danger that a regional company would concentrate its money on these needy districts to the disadvantage of better-situated districts like Waitaki.

What about water charges?

The main question, of course, is whether a regional company would charge customers more or less than they would otherwise have to pay in their rates. Waitaki paid consultant MorrisonLow for a report in December 2024 that predicted substantially <u>lower water charges</u> for <u>in-house</u> management...as much as $1,000 per year per household lower than what a regional company's average charges would be.[20]

Naturally this didn't fit the story that Council wanted to tell, so a <u>new</u> report with different assumptions was commissioned from MorrisonLow in March. An increase in efficiency of 12% was imagined for the regional company in the consultant's "Modelling Assumptions."[21] But even with favorable assumptions, the best that the consultants could do was to predict, for Waitaki, that under a regional company "the range of [water charges] outcomes is similar to the internal business unit."[22] In other words, there wouldn't be any savings to Waitaki ratepayers by giving three waters to a regional company.

Nevertheless, Council claims that the opposite is true in the consultation document. It proclaims that keeping water in-house would mean "much higher water bills"[23] and this is repeated 10 times in the consultation document. But Council's own report from MorrisonLow reveals that this simply isn't true.

Common sense please

Common sense tells us that this regional company is likely to cost us a lot more, not less, than keeping three waters in-house. Creating this new company from scratch will be expensive. The consultant estimates $13.8 million in start-up costs alone.[24] Annual operations costs will include such things as officer salaries, board salaries, IT billing systems, insurance, office space, vehicles and all the other services that are currently provided by councils themselves. The consultant conservatively estimates these *additional* costs as $6.5 million per year.[25]

The regional company would find itself in charge of a combined total of 42 water treatment plants, 29 wastewater facilities, and 5,889 km of pipes, all dispersed over a vast region of 24,662 square kilometres.[26] Rather than the efficiencies that are sometimes possible in urban areas, the regional company would have to pour money into the task of just understanding what's going on in its sprawling domain. It would immediately have to deal with 41 non-compliance warnings from Government, most of them for Clutha and Central Otago's wastewater plants.[27]

Precedents for efficiency gains which have been claimed in other nations, in other circumstances, don't realistically apply in this case because of the small size of the four districts, the huge geographical area, and the large number of small, dispersed facilities. The comments quoted above from Kapiti Coast, Manawatu, Waimakariri and Southland councils show that they determined that a regional company would cost their water customers more.

An even bigger cost disadvantage of a regional company would result from its borrowing. The Local Government Finance Agency says it will only lend to regional organisations if they show enough revenue from water charges to support the huge debts they have assumed, which would be about $236 million for our regional company.[28] At the same time, the regional company would feel immediate pressure to satisfy Government regulators, cure the abatement notices and other crises at different councils, and sign lots of contracts for new projects to impress its shareholders, even if it can't properly supervise them. It will face a contracting market that is choked by the demands of other three waters organisations like itself. What this all means is that the regional company would try to borrow heavily and spend extravagantly. Because of the requirements of the lender, the regional company could borrow only by immediately extracting higher water charges from customers.

In comparison, Waitaki District can pursue a much more economical strategy if it keeps three waters in-house. There are no three waters emergencies here. Projects can be scheduled carefully with an eye on the contracting market, and deferred if circumstances allow. Local supervision, backed up by decades of local experience, can control costs.

Regional water companies are specifically designed to be independent bureaucracies that function largely immune to oversight by elected councils. We recently saw the consequences of this autonomy in one of the few existing regional companies—Wellington Water, which serves 6 councils. Stuff media revealed that two expert reports “found the entity was too cosy with its contractor and consultant panels, and the relationships are costing ratepayers thousands.”[29] Maintenance costs were three times higher than comparable areas. The Wellington Water chairman apologised to the public, saving “we have not been delivering value for money.”[30] A Wellington city councillor commented, “we are comprehensively screwed.”[31]

So much for the claim that regionalisation automatically means greater efficiency. The dangers of turning over control to an independent bureaucracy are clear. Bureaucracies need to be kept under close control by elected officials whose sole guide is the public interest.

Could we borrow enough?

In the consultation document, another false argument is that Waitaki alone won’t be able to borrow as much as it needs.....so in-house management isn’t “sustainable.” This is so obviously false that it’s amazing that Mayor Kircher keeps repeating it.

Even after running up about $86 million in debt since 2020 (as of April 2025), the Waitaki District Council still has plenty of “headroom” under the current debt limit imposed by our lender, Local Government Finance Agency (LGFA). That debt limit is 175% of total revenue.

But LGFA automatically increases the debt limit to 280% of revenue when a district obtains a credit rating, as 35 other districts have already done.[32] This is a straight-forward procedure and there is no reason to believe Waitaki won’t complete it.

With the 280% debt limit, Waitaki could borrow up to $386 million by 2035, based on the total revenue that Council has projected for that date if three waters remains in-house.[33] Considering that there would also be substantial contributions to capital spending from depreciation revenues and other sources, the debt limit would vastly exceed the projected three waters investment needs of around $200 million by 2035.[34]

MorrisonLow consultants reached the same conclusion in their December, 2024 report. For the entire period until 2054 “there is no point at which Council’s debt headroom is fully utilised,” said the consultants.[35]

The various projections of three waters debt requirements should be recognised as a “worst case” scenario, because Waitaki would retain the ability to reduce borrowing by (1) getting lower net costs by directing work to our own 100%-owned Whitestone Contracting, (2) funding some new capital costs out of rates instead of borrowing, or (3) deferring projects to future years if they aren’t urgent. But these economies are available only if Waitaki keeps three waters in-house.

So much for the bogus argument about "sustainability."

Control and accountability

The basic truth is that Waitaki water customers are going to have to pay for essential three waters infrastructure one way or another—there isn't any other funding source. Either we will pay in our rates to the in-house unit, or we will pay water charges to a regional company.

If we keep three waters in-house, we maintain control and accountability. We know who is responsible and we know how to get a response to issues. Administrators and workers are local and are invested in the system because it serves them too. Decisions about debt, contracting and charges are made by officials who know they are answerable to our local voters.

All that is lost if we turn three waters over to a regional company. It will be a self-interested bureaucracy, remote from Waitaki, that will face strong pressure to maximise our water charges while minimising our service. It offers no credible prospect of cost savings.

These facts are self-evident and have been argued strenuously to the councillors. Nevertheless, they have obediently gone along with officers who seem afraid of the three waters challenge and eager to dump it onto a regional company, together with three waters debt.

The push for a regional company is a continuation of the financial irresponsibility that Council has shown in the past four years. Strong opposition in the public consultation may make a difference. But the root problem can only be solved in the election that begins September 9.

--Mike Sweeney May 2025
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√	**Option 3:** In-house business unit to deliver water

To participate in the public consultation, register your feedback at https://www.letstalk.waitaki.govt.nz/swdw/surveys/feedback

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