

## Media Release

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### Water management leaking through the cracks

A report card on the state of water infrastructure in New Zealand shows that management of one of New Zealand's most valuable assets, water, is only "adequate", at best, and that significant improvements are required to bring New Zealand's water services up to world's best practise.

The independent analysis commissioned by the New Zealand Council for Infrastructure Development and undertaken by professional services consultant GHD and advisory experts Pricewaterhouse Coopers gave New Zealand a mediocre "C" pass for the quality of its potable, stormwater and wastewater systems. It was released publicly at the New Zealand Water and Wastes Association annual conference in Christchurch today.

The report covers municipal water services across New Zealand in general. The analysis included a collation of previous research across the water infrastructure sector, international research and benchmarking, a review of existing local authority plans and an industry survey.

"Given the significance of water to our health, culture, environment and economy, New Zealand's water services should be of world class standard", says NZCID Chief Executive, Stephen Selwood.

"What we found is wide ranging variations in service delivery."

"Some aspects are of a good standard. Customer and community involvement in planning is generally well done by local Councils. Consistency of drinking water quality is being progressively improved through national drinking water standards. Benchmarking of performance between some Councils and water agencies is in an embryonic stage."

However the report card found that there are a range of issues that must be addressed if New Zealand's water infrastructure is to achieve industry best practice status.

Selwood says that the lack of financial sustainability of current funding arrangements is one of the key challenges to be addressed. "Wastewater and stormwater services require significant investment. There is an over reliance on local authority rates to fund construction and maintenance of water infrastructure. There are also serious diseconomies of scale with many small councils struggling to manage and fund essential water infrastructure."

The report card highlighted that unsustainable use of water is causing unnecessary pressure on water sources and construction of new capacity that otherwise might be deferred. The survey undertaken for the report card showed that suppliers estimate that nearly 20% of water produced is lost through water losses. However, only two thirds of survey respondents have an active demand management and a water loss reduction programme in place.

Allied to this is a lack of market mechanisms and pricing signals such as user pays charging to support the longer term sustainable management of water services. Research has also shown that per capita demand can be reduced significantly through the introduction of volumetric charging. However, less than 30% of survey respondents meter their water supply, which creates a hurdle for sustainable demand management and the further adoption of utility pricing.

The first in first served allocation of limited water resources as currently provided under the Resource Management Act, and the absence of a market based allocation model, allow continued uneconomic use of scarce water resources, says Selwood.

While noting that some work has been done, he still believes that the issue of the impact of climate change on water, wastewater and stormwater infrastructure is generally still to be addressed.

The report card found that central to the issues the industry faces is the absence of an overarching industry leadership and standards framework that would help drive industry best practise to improve service and make best use of the scarce financial resources available. Selwood emphasises that responsibility and accountability in the management of water is extremely fragmented. "There is no single government Ministry responsible for water services and management within central government with oversight split between the Ministries for Local Government, Environment, Health, and Agriculture, among others. Local government responsibility spans 13 Regional Councils and 72 local authorities. With so many diverse suppliers, it is not surprising that best practise is difficult to attain."

His worry is that with over \$21 billion of hard-earned ratepayer money to be spent on water infrastructure over the next ten years, it is of serious concern that this may not be spent in an optimum manner.

"If past practise continues, this will certainly be the case."

The report card sets out a possible road map for the future of the water industry in New Zealand. Options range from improved shared services across Councils, the formation of an industry co-regulatory body to lead industry development, to full industry reform. A range of flexible funding and procurement options and

expansion of water metering and charging to both conserve demand and provide the funding for enhanced capacity are also recommended.

Copies of the report The National Water Industry 2008 Report Card and Roadmap are available for download at NZCID's web site [www.nzcid.org.nz](http://www.nzcid.org.nz)

For further information please contact NZCID Chief Executive, Stephen Selwood, 021 791 209

## **Question and Answer**

Why did NZCID Commission this work?

This National Water Industry 2008 Report Card and Roadmap is part of NZCID's ongoing research into advancing best practise in the development of New Zealand's infrastructure. Because water is one of New Zealand's most precious assets it is critical that it is managed to best advantage. Local Councils are projected to spend in excess of \$20 billion upgrading water infrastructure over the next ten years. It is important this money is spent in an optimum manner.

Who funded the research and why?

The project was funded by NZCID member companies Downer EDI Works, Fulton Hogan, McConnell Dowell with research expertise provided in kind from professional services consultants GHD and advisory experts Pricewaterhouse Coopers. The work was commissioned in the interests of advancing best practice across the water infrastructure sector. The analysis was undertaken independently by GHD and Pricewaterhouse Coopers and benefited from input from a wide range of industry participants.

What were the key findings?

The industry scored a "C" grading meaning it is only adequate and that major change is required. The overall state of the industry received a scorecard rating of "C", including a "C+" for water supply, a "C" for wastewater and a "C-" for stormwater. Under the grading criteria, this generally means that the infrastructure is considered "adequate" but major changes are required in one or more of the infrastructure condition, committed investment, regulatory regime and planning processes to enable infrastructure to be fit for its anticipated purpose.

Table 1 below summarises issues that the report card and its associated background research has identified as potential areas for general improvement across the industry.

**Table 1 Opportunities for Improvement**

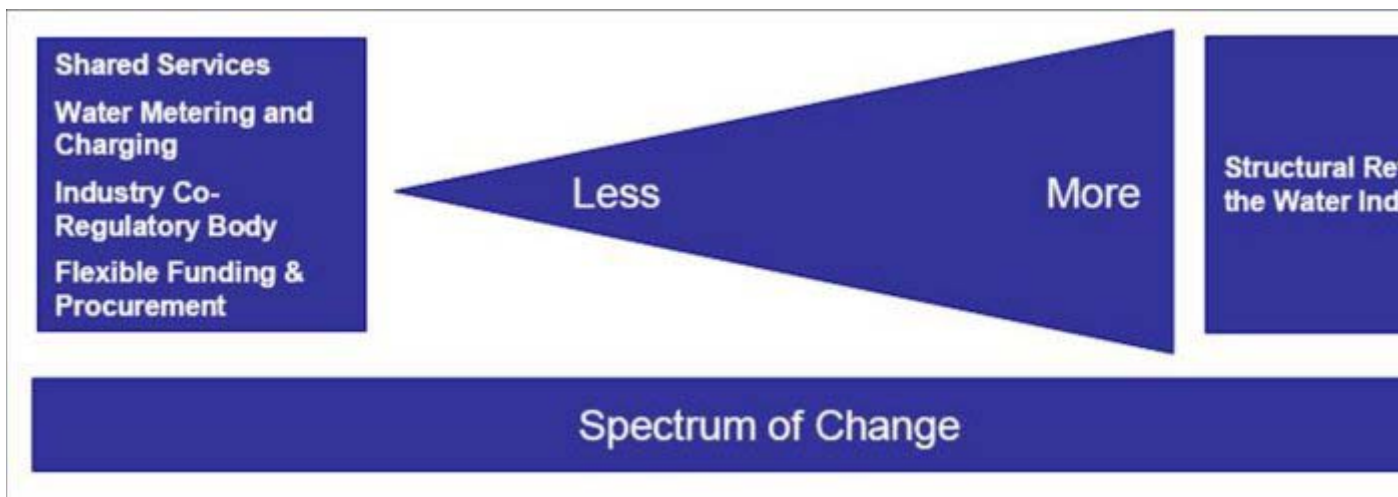
Issue	Water Supply	Wastewater	S
<b>Financial Sustainability Issues</b>			
<ul style="list-style-type: none"> <li>▶ The need for longer term capex projections beyond the first few years of the ten-year LTCCP period.</li> </ul>	✓	✓	
<ul style="list-style-type: none"> <li>▶ The need to address funding gaps.</li> </ul>		✓	
<ul style="list-style-type: none"> <li>▶ The need for pricing imperatives to better manage and value the resource.</li> </ul>	✓	✓	
<b>Governance, Configuration and Industry Consistency Issues</b>			
<ul style="list-style-type: none"> <li>▶ Inequities between cities and smaller towns relating to funding ability, technical and managerial resourcing ability, consent conditions and compliance levels.</li> </ul>	✓	✓	
<ul style="list-style-type: none"> <li>▶ Fragmentation of responsibility and accountability and duplication of effort within the industry.</li> </ul>	✓	✓	
<ul style="list-style-type: none"> <li>▶ The need to address the competing functions of Councils to better serve water industry interests</li> </ul>	✓	✓	
<ul style="list-style-type: none"> <li>▶ The need to address industry resourcing and skill gaps.</li> </ul>	✓	✓	
<ul style="list-style-type: none"> <li>▶ Differences in levels of service – wastewater overflows, discharge standards, etc.</li> </ul>		✓	
<ul style="list-style-type: none"> <li>▶ The need for improved implementation of asset management practices.</li> </ul>			
<b>Legislative Issues</b>			
<ul style="list-style-type: none"> <li>▶ The need to improve the application of the RMA process.</li> </ul>	✓	✓	
<b>Sustainability Issues</b>			
<ul style="list-style-type: none"> <li>▶ The need to address the implications of Climate Change.</li> </ul>	✓	✓	

What does the report recommend?

The report card identifies a clear need to establish an overarching controlling/regulatory body across the industry. Such a body would need to be appropriately empowered to:

- Lead the development of industry benchmarks and standards;
- Develop and promote industry best practice;
- Develop commercial drivers to support sustainable management and service delivery and to lift overall financial sustainability;
- Drive the application of improved procurement practices; and
- Oversee and promote training and professional development across the industry

A number of improvement opportunities have been identified. They are able to be progressively introduced so that their effects can be gauged before more complex improvement opportunities are committed to and implemented. These opportunities have been staged as a Spectrum of Change as follows:



The improvement opportunities have been scheduled so as to maximise their potential for 'knock-on' improvement effects. For example, the early establishment of a co regulatory body is seen to address a number of the identified areas of improvement. On this basis a Road Map for the New Zealand Water Industry has been developed.

Where to from here?

NZCID has made presentations to the Minister for Local Government and to the National Party, has offered presentations to all political parties as an input to their policy development processes, and is in the process of engaging with a wide range of water industry stakeholders with a view to advancing the

recommendations set out in the report. It is hoped that improvements can be made through an industry led approach rather than through formal regulation.

For further information please contact NZCID Chief Executive, Stephen Selwood,  
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