

Thought leadership requires good evidence

In local government we know that thought leadership is a vital part of good public policy. It helps us think outside the box, challenge the status quo, and discover better ways of delivering value for our communities.

A prerequisite for good thought leadership is getting the basics right. Innovative ideas, no matter how creative, are destined to fail unless they deal in real world data, clearly identify and target specific problems, and are flexible enough to adapt as assumptions are debunked. In other words we need an evidence-based inclusive conversation as a starting point for thought leadership.

In today's digital world, with our near-frictionless channels of communication and the wealth of information at our finger tips, it is easy to assume that this is exactly how we engage and make policy decisions. However, in local government's experience this is not always the case. A good example of this is in the three waters policy space.

Water is critical to our future health, economy, and environment, and in a world facing water scarcity, New Zealand's water resources represent a significant economic advantage. From a local government perspective, we know the quality of the drinking water, wastewater and stormwater services, and infrastructure required to provide these services, is critical to the ongoing health and success of our communities.

As stewards of the three waters, local government has long known that there are a number of major challenges in the three waters space. As a sector we acknowledge that for many decades water infrastructure management has not always been front for mind, as it is easy to ignore infrastructure that's mostly buried underground. But in recent years, factors like an aging population, urbanisation, and climate change have sharpened our focus, and we have been increasingly working to tackle our challenges in the water space head on.

The first issue we identified was an information gap. A quick drive is an easy way to tell the condition of a road, but this becomes a much harder task when most of the water infrastructure is buried below the ground. In 2014, LGNZ conducted a National Information Framework Survey which collected detailed data on the three waters assets and services from a total of 70 councils. This data formed the basis of our 3 Waters issues paper, which identified the core issues for the water sector, namely:

- investing to replace and renew existing assets
- investing to meet rising standards and increasing expectations
- providing end-users with the right incentives to use water infrastructure and services efficiently

This formed the basis of LGNZ's 3 Waters position paper in 2015. Based on robust research, the position paper argued for a refresh of our regulatory framework to ensure delivery of quality potable and wastewater services.

The position paper outlined what stronger performance of the three waters sector would look like, including:

- putting in place effective management and investment in the physical assets;
- understanding customer needs and expectations;
- having accessible and accurate data on performance; and

- acknowledging the diverse range of customers.

At the time, we argued - and still argue - that a co-regulatory approach will work best to manage our water challenges.

We have recently focused on drinking water and we remain convinced that a co-governance model is the way forward. The model would bring together the information held by central government policy makers with the knowledge of local issues held by local government and the technical insights of suppliers and assessors.

In short, since 2014, local government has worked hard to put an evidence-based foundation in place, upon which we can build a regulatory framework that allows for innovation and thought leadership. Our call for an improved regulatory framework was ignored at the time.

That changed in 2016 in the wake of the contamination of the Havelock North drinking water supply, in which 5,000 people fell sick from drinking contaminated water, and which was also linked to the loss of four lives. All of a sudden water infrastructure was the centre of attention, with calls to fix New Zealand's broken water system.

The focus has now widened beyond drinking water to include wastewater and stormwater. Indeed, the Government is actively looking at aggregating all water infrastructure together into regional monopoly service providers.

From our perspective this appears to jump towards putting solutions in place before we know the extent of the problem. If we are having an evidence-based discussion, we need to answer two critical questions:

- Is New Zealand's water system broken, and to what extent? and,
- Are the policy fixes being put forward likely to address these problems?

To the first question: Is the system for water broken?

The short answer to this is "no", with respect to drinking water, millions of New Zealanders would be sick from consuming contaminated water. Does this mean that the wider water system is perfect? Again the answer is no. As the Havelock North incident clearly showed there are critical weaknesses in the system that need to be addressed.

But it is a very long stretch to look at Havelock North and conclude that the entire water system is broken. This is clear in the data.

The BECA report, which was commissioned by the Department of Internal Affairs ahead of the Three Waters Review, does indeed show that there are a number of water treatment plants that do not meet the current Drinking Water Standards.

But these plants only make up a small part of the broader system, servicing 16.5% of the country's population. That's still too high, but hardly an indicator of widespread system failure. Furthermore, that these plants service over 865,000 people does not mean 865,000 people get sick from water contamination a year. The Havelock North Inquiry could only definitively point to about 25,000 cases of water contamination a year, or 2.8 percent share of the population serviced by non-compliant water treatment plants.

The same report shows a clear improving trend, with the number of non-compliant plants falling.

Since 2010:

- The number of large non-compliant plants has fallen by 23%,
- The number of medium non-compliant plants has fallen by 55%,
- The number of minor and small non-compliant plants has fallen by 28%, and

What should be plainly evident from these figures is that the quality of drinking water assets is improving.

It is also worthwhile considering what non-compliant means. Does it include total failure or a missed test? If a drinking water treatment plant passes the test on 29 days and fails on the 30th, does it comply or fail? There is no clarity on this. There is no such thing as risk-free infrastructure, but there is such a thing as clarity of risk.

The BECA report also estimated that it would cost between \$308 million and \$573 million in capex to for these plants to gain compliance, and between \$11.3 million and \$20.9 million in opex every year to make all plants compliant. From a local government perspective, where we plan in 10 year cycles, these costs are serviceable. Our research shows these figures at their highest range are equivalent to just 0.1% of the asset base.

Again, using the government's own data, it is hard to see the widespread system failure that many – including the government – are alluding to. So, to answer our first question, it is safe to say New Zealand's drinking water system is not broken, but there are areas in need of improvement some more soon than others. That said, with the right regulatory framework, these are well within the local government sector's ability to address.

So why haven't we done this yet?

The answer to this is simple: the regulatory regime does not demand it. We can only expect councils to meet minimum standards where these standards are clearly set, and strictly enforced. Where there is regulatory uncertainty, there are uncertain outcomes.

In fact it would be more accurate to say the greatest failure of our drinking water system was not poor operational performance by local government in Havelock North, but the cause of that failure, namely the lack of a fit for purpose regulatory framework, which would have prevented the Havelock North incident.

This regulatory failure was underscored by the Havelock North Inquiry which found that the Ministry of Health had variously failed in its regulatory duties, and the drinking water standards are too lax to meet the quality outcomes expected by communities.

That brings us to the second question: Are the policy fixes being put forward likely to address the problems with New Zealand water system?

The answer here is mostly yes, and a no.

For the "mostly yes" part, we agree with many with the core system weakness identified by the Havelock North Inquiry and the Government's ongoing Three Waters Review. Broadly these can be

summed up as the clear weaknesses in the current drinking water regulatory system, and large variation in the performance across different council providers.

We also agree with many of the policy fixes for drinking water recommended by the Havelock North Inquiry, especially setting clear quality standards and the monitoring of performance against these standards by an independent regulator.

Where we don't agree with the government's direction is the belief we need to rationalise the entire water sector into a small number of regional water monopolies to fix the current problems with the three waters.

Firstly, there is no concrete problem definition that supports aggregation policy. The Havelock North Inquiry correctly identified problems with the provision of drinking water, and that is where we should focus our attention.

Quite why the government has included waste and stormwater in its policy review is entirely unclear, particularly as DIA has been reluctant to share their data and analysis with local government. This is hardly the spirit of collaboration that was promised when the government undertook its Three Waters Review.

Secondly, there is no consistent evidence that these monopolies will be more cost efficient than the current arrangements. Groups like Infrastructure New Zealand have long-advocated for New Zealand to copy the Scottish Water model, with a single water provider and two regulators. And indeed, this is a cost effective model that works for Scotland. But it is an outlier. If you widen your search you'll quickly find many water monopolies in continental Europe have far higher per capita operating costs than Scottish Water.

That's because economies of scale only apply to a certain point. As organisations grow, and the complexity of their work multiplies, so many organisations tip into diseconomies of scale. To put this into perspective, New Zealand's territorial authorities manage over 670 different water systems. And they do so across a country that's almost 30% bigger than Great Britain, and almost three and half times bigger than Scotland.

It is worth noting that a recent report by TDB Advisory that looked into the merits of aggregating electricity distribution companies in New Zealand concluded that there are no efficiency gains to be had from amalgamation. While it is an apples for oranges comparison, it is entirely foreseeable that the same kind of analysis for water provision would produce the same result.

Of course there are acute affordability issues, particularly among smaller councils with aging populations and shrinking revenue growth. But this is an argument for targeted intervention, not wholesale consolidation in the sector.

Thirdly, as our 3 Waters position paper outlines, we can fix most, if not all, of the current problems with a regulatory overhaul that might entail confiscating assets from local communities. What kind of message is being sent if we reward those councils who have underinvested in their water infrastructure, and punish those who have diligently invested in theirs, by creating these regional water monopolies?

To be clear, local government is not arguing against change. However any mandate for change must be built on hard data, evidence-based policy proposals, and an open and collaborative discussion to find the best way forward.

Furthermore, we are not against aggregation either. Only the mandatory part. Wellington Water, which is jointly owned by Greater Wellington Regional Council and Hutt, Porirua, Upper Hutt and Wellington city councils, shows the sector is capable of consolidating services and infrastructure, without the need for intervention, where it make sense to do so.

What we are calling for is for both local government and central government to openly share their data, and have an evidence-based discussion on our water system. Only then can we have the confidence to talk about innovative policy solutions that strike a better balance between health, sustainability, and affordability outcomes. In other words “thought leadership in the water sector”.

This is what local government has been striving for over the last five years - a collaborative forum that gets central government and local government working collaboratively to better the lives of New Zealanders.

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