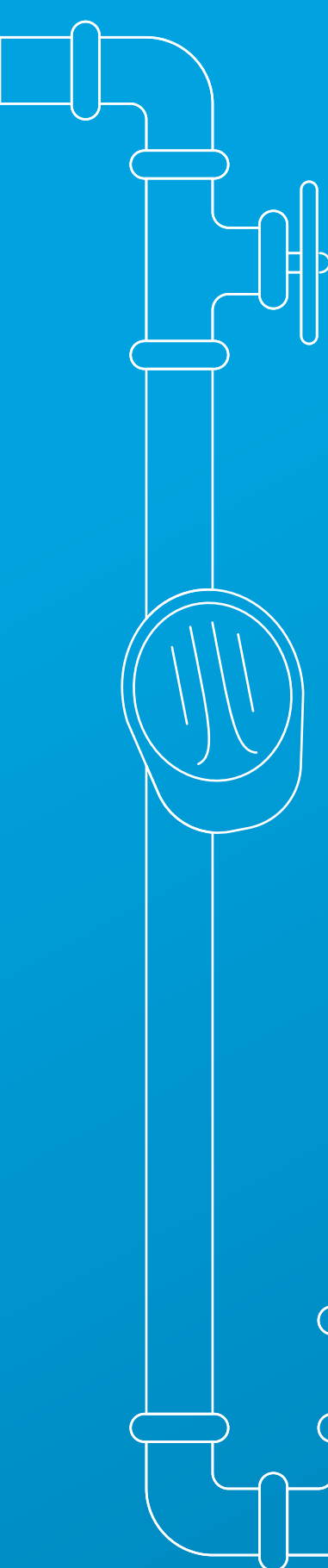


Working water
Choices ahead for
local government



The public water sector in New Zealand faces significant challenges in delivering water services to households and businesses across the country. Local government and water providers are experiencing increasing cost and capital pressures, service level challenges, and capacity and capability constraints, set against wider economic uncertainty. Local governments now need to determine how to structure themselves best to continue to service communities and ensure investment and quality can be maintained for future generations.

Another turning point

Under the coalition Government's Local Water Done Well plan, the Government expects councils will work together to "address financial sustainability and affordability challenges," potentially through utilisation of the new streamlined process for establishing Water Council Controlled Organisations (WCCOs). In addition to this, the Government is requiring councils to complete water services delivery plans within 12 months of transitional legislation passing that set out each council's plans for investment, financing and delivery of water services over the next 10 years.

This places the responsibility firmly on local government to manage, maintain, invest in, and prioritise water assets to ensure ongoing delivery of quality water services. It's clear that local governments are facing significant challenges. Councils will need to determine the ownership and delivery structure that will be most effective in providing services and enable the greatest access to required levels of financial support to provide secure and safe delivery of water services to New Zealanders. Arrangements need to be put in place to ensure these services can be sustainably delivered to new, higher standards in the long term. We think this balancing act can be managed, but it will need a high-quality process with open and consistent stakeholder communication to be successful. Deloitte has supported central and local government through many sector changes, and we understand how major programmes need to be executed to ensure planned benefits are realised. We also know there will always be unintended consequences, and it's crucial these are identified as they arise and processes are put in place to ensure equitable outcomes.

Changes to ownership and organisational arrangements on their own will not drive benefits. From our experience in other sectors, it will take many years to see these benefits emerge. What is important is getting the establishment process right so that new arrangements are set up to succeed. This is not just a technical process of allocating revenue, assets, and people across existing or new structures. It is critical that all stakeholders are comfortable with the process and the reasons for the changes and have trust that they are being treated fairly.

Getting the establishment process right is key, so that any new arrangements are set up to succeed. This will require the central government to establish supportive policy and legislative arrangements to enable councils and existing water entities to make the decisions that are right for them.

Key choices ahead



Water services delivery form and function

Councils will need to consider the core functions, management structure, operating model, funding and revenue model, organisational structure, systems, processes, and cost structure of delivering water services in the future. As part of this ownership of assets, organisational structures may need to change to reflect funding, investment, access to capital, and decision-making requirements.



Transition into new operating models

Processes should be planned in detail and guided by principles that help maintain equity across all stakeholders – customers, ratepayers, employees, contractors, and other suppliers.



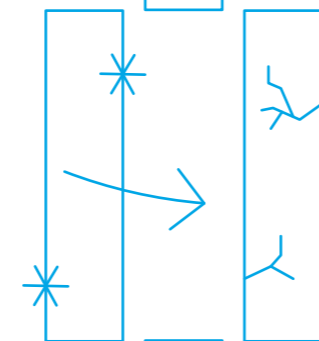
Establishment of new arrangements

Establishing new arrangements, where required, includes enabling any new ownership and organisational structures, such as CCOs, and to set their strategic direction in line with council objectives and central government requirements. With talent being both scarce and expensive, one early challenge will be securing the right leadership talent.



Common considerations

Councils will need to consider where applying a shared services model may provide greater efficiencies across common considerations, such as service delivery and operations, process, asset management, technology and data, planning, contract management and workforce.



Timing of decisions

Many of the issues that need to be dealt with as part of determining future operating models for water provision may take years to solve to a high degree of confidence. It will be important to prioritise any structural and operating decisions that need to be made to keep things moving forward.



Long term planning

Where assets remain within councils, they will need to account for water services operating and capital expenditure as part of long term planning processes. The anticipated significant increase in costs to maintain and deliver water services will continue to place immense pressure on already constrained budgets. Councils and water entities should also consider alternative funding models, such as revenue-backed bonds, city deals or the Infrastructure Funding and Financing Act to support ongoing infrastructure investment.



Governance

Governance arrangements need to consider both the need for performance and the importance of accountability. Clarity around how water service delivery will be governed, where decision rights sit and how funding will be managed will be essential to achieve the dual aims of equity and superior performance.



Asset condition and data

One of the first steps to consider when reviewing the structure and delivery model for water services going forward is understanding the current state of assets and data related to them. This is a critical input into the overall planning process as it will determine what investment is required, how assets could best be accounted for and what risk the council bears for assets that no longer have value.



Stakeholder engagement

Stakeholder engagement in the consultation and through any potential change processes can only be done with an understanding of the full set of stakeholders and their interests. In other sectors, we have seen new stakeholder groups emerge, bringing perspectives that were not anticipated through the design and planning stages of delivery review processes.



Valuation

Valuation of council water assets is a major challenge, particularly given the differences in how information related to the age and condition of assets is compiled across councils. We expect too that any value transfer will not just be in the form of the current assets dedicated to the delivery of water services but will also include claims on the future ratepayer revenue base and the current council staff who may move to a new organisational structure, if required.



Revenue and debt allocation

This needs to be balanced in a way that ensures both the new entities or operating structures and contributing council(s) are not compromised from a financial capacity perspective, and that equity is preserved. For newly formed entities, debt ceilings and balance sheet separation from contributing council(s) will need to be determined and agreed through the transition process. How this process is managed will also inform any future pricing of service fees to customers and any potential economic regulation.



Increased investment

Increased investment in water is an opportunity to improve the state of water assets for local communities but is also a challenge to deliver. A detailed process supported by open and consistent communication across stakeholders will be needed to work out where and what new investments should be made. It is also important to make sure there is no slowdown of investment as councils confirm existing structures or move to new organisational structures.



Infrastructure delivery

The sector is already facing significant delivery pressures and constraints which will only get worse as demand for specialist water sector expertise grows. The key to delivering successful capital and operational programmes is capability and capacity growth, innovative new ways of working, and better use of materials, equipment, and new technology.



Workforce

Councils are already facing significant pressure on their existing water teams. The specialists and leaders required to deliver existing work programmes are almost all operating at full capacity. Increased investment requirements will need to be delivered by already stretched workforces, competing with other infrastructure providers. History shows that major changes or uncertainty in a sector can be highly disruptive with a high risk of losing key people who will be hard to replace.



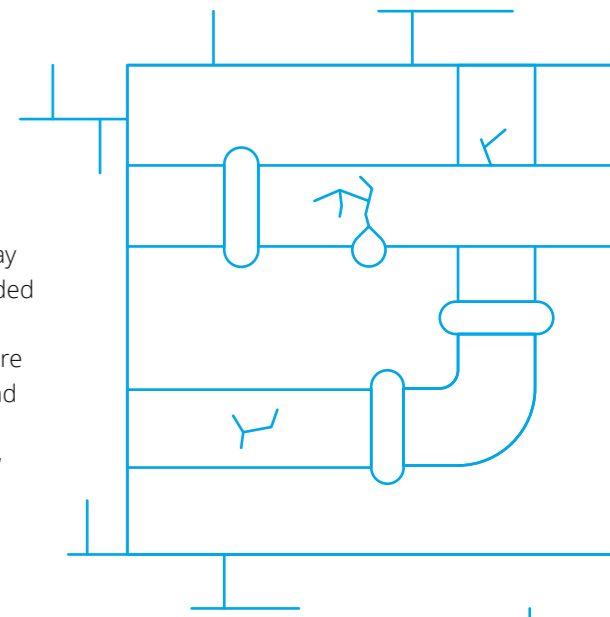
Regulation

Regulation is driving higher standards of environmental compliance across the industry. Water providers must be able to respond to the changing water, economic and regulatory environment through their ability to access relevant data, invest in training and systems, and to develop, capture, and assess performance data that makes sense for a broad range of stakeholders.



Climate change

Climate change will continue to bring additional challenges, including the way water is sourced, allocated, and provided for urban, rural, and environmental users. It will also threaten infrastructure that must be rebuilt or maintained, and climate impacts of new infrastructure will need to be considered within New Zealand's overall emissions budget.



Get in touch

We bring extensive experience to these issues including the design of transitional arrangements, valuation and capital structure advice, organisation design, systems integration, revenue and cost modelling, and debt advisory services. We're able to support councils through the next phase of service delivery, by bringing the technical skills required, the experience learned from earlier processes, and the deep understanding of the water sector – including local and global learnings.



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