PREMIUM

Three Waters cost blowout expected to hit $1 billion in 'mega-bureaucracy'

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By Kate MacNamara
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National's Simon Watts says the estimated blowout is ludicrous but Minister for Local Government Kieran McAnulty's office declined to say how much additional money Cabinet agreed to spend. Photo / Carson Bluck, Mark Mitchell, Herald graphic

Amendments to the Three Waters reform plan have blown out establishment costs by an estimated $1 billion.

P. The cost of creating 10 new Water Services Entities (WSEs) over a transition period that now stretches to July 1, 2026 is expected to reach $2-$3b. The estimate before recent revisions to the plan was $1-$2b.

Minister for Local Government Kieran McAnulty's office declined to say how much additional money Cabinet has agreed to spend, and directed the *Herald*'s questions to the Department of Internal Affairs (DIA), which is leading the Government's water services reform programme.

Hamiora Bowkett, Three Waters executive director, water services reform programme, said the additional $1b included $150 million to establish "centralised services capabilities" for the new WSEs, an effort at retaining some advantages of scale originally anticipated for four, larger entities.

An extra $200m in Crown costs is expected due to the later establishment date. And the fixed costs of establishing 10 WSEs is anticipated to be higher than for four.

As of the end of May, DIA said $166m remained undrawn from a contingency fund for establishing the water services entities. This provision, however, is likely to be eclipsed by the new expenses.

The Crown is expected to foot additional costs in the first instance, costing taxpayers, but costs might ultimately be charged back to the new Water Services Entities, costing ratepayers.

Official documents also showed further costs to the Crown would likely be required to operate drinking water regulator, Taumata Arowai.

Foregone levies from the delayed establishment of WSEs will leave an estimated shortfall over two years of $30m.

The documents, including the regulatory impact statement (RIS), were proactively released in conjunction with the recently introduced Water Services Entities Amendments Bill, the Government's third piece of water reform legislation.

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The National Party's spokesperson for Local Government said the "budget blowout" would fuel further hefty spending on consultants.

He called the additional expenses "an extravagant example of this Government spending money to set up a mega-bureaucracy … instead of using money to fund needed water infrastructure".

Watts said Minister McAnulty promised New Zealanders his plan was going to cost less, but that's not panning out.

McAnulty has released projections anticipating water services rates savings for households under the reform scenario (relative to the status quo of council delivery) of $2770 to $5400 per year by 2054.

The relatively lower costs are expected alongside heavily increasing borrowing to fund infrastructure investment, in large measure through pushing debt repayment beyond 2054, and achieving greater cost efficiency through scale.

The Government's water reform plan is intended to improve the quality of the country's three waters services (drinking water, wastewater and storm water), which, in many areas, has suffered from long-running underinvestment.

However, it has been dogged by high costs, especially paid to contractors and consultants, decreased control over water services for local councils and ratepayers, and uncosted and complicated co-governance provisions for iwi.

In April, McAnulty announced amendments to the original plan. Chief among them was transfer of the water assets of some 67 local councils into 10 rather than four new Water Services Entities (WSEs). An implementation extension of up to two years is also provided for all but one of the WSEs.

Local councils will still own water assets through a shareholding in their WSE. But many ordinary ownership rights, including measures for control, will be heavily diluted.

Their control, however, will be greater than previously anticipated under the Government's earlier four-WSE model.

Ratepayers, taxpayers share WSE establishment costs

Documents produced by Wics, the Scottish water regulator and also the consultancy that modelled DIA's projected household water costs for the reform plan, suggest $1b of "additional" establishment costs will be borne by the new WSEs, and have been included (as debt) in new models used to gauge future water services costs for ratepayers.

A DIA spokesperson could not immediately provide a total for what other establishment costs were factored into the models.

However, Bowkett said $1b of the establishment cost was offset by recent cancellation of $1b of so-called "better off" funding, money the Government originally promised to councils to help gain their acceptance of the water reform plan, and which was to be added to the debt loads of WSEs.

Water reform costs borne by the Crown will not affect WSE debt, and so produce relatively rosier household rates projections.

Previously itemised WSE establishment costs include $532m for a WSE computer "system of record" to manage the likes of assets and finances, $500m in "no worse off" funding to be paid to councils by WSEs, and $500m "better off" funding to be paid to councils by the Crown.

The RIS said overall benefits of reform were "far in excess of the $2-$3b in total monetised costs that will be required from the Crown in order to complete the reform programme".

Officials said the "monetised benefits" of a 10-entity model were $14b-$23b, and included higher levels of tax revenue, higher levels of GDP, and new employment.

The Opposition

National and Act oppose the Government's Three Waters reform plan.

If given the opportunity through October's election, National promised to repeal the three current pieces of water reform legislation and pursue its own plan to improve water services delivery largely through regulation.

That plan would require councils to ringfence money for water infrastructure spending, and through councils' voluntary formation of regional council-controlled organisations.

Watts said National would repeal Labour's water services legislation within 100 days of forming a government, and councils would then have 12 months to deliver a plan for transitioning water services to meet water quality standards and new infrastructure investment rules.

The plan anticipated higher long-term borrowing achieved through larger council-controlled organisations formed voluntarily. It also provided "step-in" powers for central government and unspecified "limited one-off funding" by the Crown for councils. It provided no projections for household water rates.

Kate MacNamara is a South Island-based journalist with a focus on policy, public spending and investigations. She spent a decade at the Canadian Broadcasting Corporation before moving to New Zealand. She joined the Herald in 2020.