Watercare
An Auckland Council Organisation

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Productivity Commission
PO Box 8036
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Attention : Steven Bailey email: steven.bailey@productivity.govt.nz

Dear Mr Bailey

Response by Watercare Services Limited (Watercare) to *Using land for Housing*. (the draft report)

We have reviewed the draft report, and prepared the attached submission. Our submission addresses a range of points raised by the Productivity Commission in its draft findings and recommendations.

The submission is in two parts:

- **Part A** provides context for Watercare's role as the Auckland water organisation that is wholly owned by Auckland Council. It explains the statutory provisions that apply to Watercare's business operations; the scale of Watercare's business; and the organisation's approach to growth and asset development. We have briefly discuss the need to consider wider resource management issues that affect the capacity to develop land for housing, in particular the availability and allocation of water for municipal water supply and the need for wastewater treatment and discharge facilities to support urban growth.

- **Part B** provides Watercare's response to selected recommendations set out in the draft report.

The Productivity Commission has prepared a range of recommendations that if enacted would improve the ability of cities, districts and regions to provide land for housing both current and future residents. A number of recommendations need to be further considered in the context of the statutory and regulatory environment within which infrastructure providers operate. To this end, Watercare has endeavoured to bring an infrastructure focus to the selected recommendations set out in the draft report.

The matters addressed in Watercare's submission will not resolve every planning or funding challenge associated with delivering commercial viable development capacity to the market. The policy and regulatory environment within which providers design, plan, fund, build and maintain infrastructure to service residential developments is complex. Understanding this complexity is important to enable regulatory changes that assist the providers of utility infrastructure to ensure that service is available to support urban growth.

Watercare is happy to meet with the Productivity Commission to discuss the matters raised in our submission.

Yours sincerely

John van Brink
General Manager – Strategy & Planning

PART A: Context for water supply and wastewater servicing in Auckland

1. CONTEXT FOR THE INQUIRY

1.1 The Productivity Commission (the Commission) has sought to explore and understand the practices of local and regional authorities, with the aim of improving overall performance to cater for significant future population growth. This inquiry includes an analysis of planning systems and land regulations, policies, funding and infrastructure.

1.2 The inquiry has sought to test a range of assumptions, including Watercare's role as a provider of water supply and wastewater network infrastructure in Auckland. The report raises the question about the role of regulation as a possible tool to improve the delivery of infrastructure, and the interface between Watercare has a utility provider and its current and future customers.

2. STRUCTURE AND RESPONSIBILITIES OF WATERCARE

2.1 Watercare is the Council Controlled Organisation[1] responsible for providing public water supply and wastewater in Auckland. Watercare currently provides services to approximately 1.4 million people. On 1 November 2010, as a result of local government amalgamation, it has progressed from the role as a wholesale provider of services of around 450 staff and 6 customers (the former Local Network Operators) to an organisation of approximately 700 staff, with 440,000 customers.

2.2 Watercare operates in accordance with a range of statutory and regulatory requirements. Watercare's obligations to deliver water supply and wastewater services for Auckland are set out in section 57(1) of the Local Government (Auckland Council) Act 2009 which stipulates amongst others that an Auckland water organisation:

(a) must manage its operations efficiently with a view to keeping the overall costs of water supply and wastewater services to its customers (collectively) *at the minimum levels* consistent with effective conduct of its undertaking and the maintenance of the long-term integrity of its assets (emphasis added);

(b) must not pay any dividend or distribute any surplus in any way, directly or indirectly, to any owner or shareholder;

(c) is not required to comply with section 68(b) of the Local Government Act 2002 (which relates to the dividend to be paid by Council Controlled Organisations);

(d) must have regard for public safety in relation to its structures.

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[1] Watercare is wholly owned by Auckland Council.

Watercare's governance and business operation is already influenced by the application of statutory regulation affecting its financial strategy and pricing policy – a direct form of economic regulation. It must also be a good steward of its water supply and wastewater network assets.

2.3 Watercare's vision, as set out in its Statement of Intent 2015-2018, is:

"Outstanding and affordable water services for all the people of Auckland."

2.4 "Outstanding" means Watercare will provide safe drinking water, promote efficient water use, and protect waterways and the environment through the effective transport and treatment of wastewater. "Affordable" water services means that Watercare will run an efficient business and keep the overall costs of services to customers collectively at minimum levels.

2.5 Watercare supplies 330 million litres of treated water a day, treats around 380 million litres of wastewater a day, and operates and maintains over 16,000 km of water supply and wastewater network. The current value of Watercare's assets is $8.1 billion, placing it in the top five companies in New Zealand by asset value.

Watercare's network

2.6 Watercare's infrastructure encompasses water supply and wastewater treatment plants, pump stations, tunnels, pipes, shafts and access chambers and is designed for a life of 50 plus years. This includes ownership and management of:

(a) Three main wastewater treatment plants at Mangere, Rosedale and Army Bay that process wastewater collected from around half a million properties via 7,000km of wastewater pipe

(b) 18 non-metropolitan wastewater plants that treat wastewater from serviced villages

(c) A metropolitan water scheme, which services approximately half a million properties via 9,000km of water pipes. Water is sourced from dams in the Hunua and Waitakere Ranges, the Waikato River and a groundwater source in Onehunga and treated at 6 plants

(d) 16 non-metropolitan water supply schemes.

2.7 Watercare's approach to its Asset Management Plan (AMP) is to upgrade the treatment capacities of its existing water and wastewater plants in line with Auckland Council's population growth forecasts. This approach is designed to reinforce transmission networks to and improve resilience.

3. WATERCARE'S ROLE IN SUPPORTING DEVELOPMENT IN AUCKLAND

3.1 Watercare is delivering a significant capital works programme. This programme has three main drivers of investment:

(a) **Levels of services**: these works facilitate compliance with legislative requirements and provide operational efficiency to enable continual improvement in service delivery across the region. This constitutes approximately 25 per cent of Watercare's capital investment.

(b) **Renewals**: the replacement of assets is derived from the age profiles, maintenance histories and on-going condition assessment and risk analysis work. Capital works are prioritised according to the probability and/or consequence of system failure. This constitutes approximately 30 per cent of Watercare's capital investment.

(c) **Growth**: upgrades and the installation of new infrastructure is based on forecast increases in population and changes in land use, provided to Watercare by Auckland Council, and daily water demand. Optimal planning for growth also requires certainty around where the growth will take place and the quantum of growth to ensure that infrastructure is built on time and in the right location to meet desired service levels. This constitutes approximately 45 per cent of Watercare's capital investment.

3.2 Watercare's role is to provide the infrastructure necessary to support development in Auckland. It seeks to support residential, commercial and industrial development consistent with Auckland Council's growth strategy.

3.3 Watercare has developed a set of Service Categories to inform planning and funding for the growth component of the Watercare infrastructure capital programme:

(a) Category 1: Developments within Watercare's Area of Service (in the metropolitan area, this is generally consistent with the existing urban area)

(b) Category 2: Developments that are in the proposed Rural Urban Boundary (RUB) and are contiguous with Watercare's Area of Service

(c) Category 3: Developments that are in the RUB but not contiguous with Watercare's Area of Service

(d) Category 4: Developments that are outside of the RUB (Watercare will not generally provide service outside the Rural Urban Boundary)

3.4 The proposed Service Categories are designed to provide greater clarity to the development community as to Watercare's approach to managing development, while facilitating Auckland Council's growth expectations for the Auckland region. These Service Categories inform Watercare's AMP and assist in the prioritisation of capital investment and generally align with the approach to managing growth.

Planning for growth

3.5 The rapid growth forecast to occur in Auckland requires the prioritisation and sequencing of individual development zones. This would allow Watercare's asset management planning process to identify the best long-term solution and any interim upgrades at minimum cost.

3.6 Knowing the timing of where and how people in the Auckland region are going to live is a critical factor in the effective management of infrastructure and community assets. The Auckland Plan anticipates three major greenfield clusters that will provide capacity for approximately 90,000 new dwellings over the next 30-years:

(a) Northern Cluster – Warkworth and Silverdale

(b) North-western cluster – Whenuapai, Kumeu/Huapai, and Redhills

(c) Southern cluster – Pukekohe, Paerata, and Karaka.

3.7 To this end it is necessary for Auckland Council to signal through its land release programme where land is planned for development and the sequence of land release in a manner that responds to observed growth trends. Although the focus of Watercare's AMP is on the next 10 years from 1 July 2015 to 30 June 2025, it is important to look as far ahead as possible to ensure that short, medium and long-term decisions are well informed.

Setting priorities

3.8 Watercare's expenditure is set within a defined funding envelope which requires that operational and capital expenditure is prioritised. Maintenance programmes and infrastructure projects can be deferred, provided that the level of risk that Watercare and the community will be exposed to, as a result of deferral, is acceptable. With the passage of time, the priority to undertake programmes that had previously been deferred increases as does the likelihood that expected levels of service will deteriorate due to asset failures.

3.9 Watercare also works to understand the condition of its assets and on being able to predict the end of useful life of its network assets. This is particularly true for local network assets inherited from Auckland's six legacy Local Network Operators. Asset condition data is critical to the development of robust renewals programmes given the increased age profile of these assets.

4. OTHER MATTERS: WATER SOURCES AND WASTEWATER DISCHARGE CONSENT TO MEET URBAN DEMAND

4.1 Watercare faces uncertainty over its water supply. This uncertainty stems from:

(a) increasing demand for irrigation water from the agricultural sector

(b) the introduction under the National Policy Statement on Freshwater of water allocation limits, and

(c) the need to avoid over allocation and the phasing out of existing over-allocation

4.2 Watercare currently sources about 20 percent of its water supply from the Waikato River. Watercare's present water supply take from the Waikato River is situated at Tuakau. Although this part of the river has not yet

reached a stage of being fully allocated, there is a queue of applications ahead of Auckland's and it is anticipated that full allocation will have been reached by the time Auckland's application is considered.

4.3 It has been Watercare's experience that policy makers tend to focus their thinking on infrastructure at the level of physical structures such as dams, treatment plants, pipes and reservoirs without giving sufficient consideration to the availability of natural resources; in this case water.

4.4 The Land and Water Forum and others have looked at the issue of the way water is allocated in New Zealand. They have concluded that the first come first served system used in New Zealand is not efficient and is not serving the country's growth and development to anywhere near its optimal potential.

4.5 Watercare (and other water organisations) also faces uncertainty over the timing, location and conditions of regional wastewater discharge consents. In many cases consent applications face significant community opposition and are referred to the Environment Court.

4.6 The uncertainty around whether wastewater discharge consent will be granted creates a risk for organisations like Watercare and compromises our ability to send signals to Auckland Council and the development community about our ability to allow connections to the public wastewater network.

4.7 This matter is referred to in Watercare's comments in response to Recommendation 3.5 set out in Part B.

Watercare considers that national direction is needed that gives priority to the allocation of water for human drinking and sanitation purposes. The allocation of water as a critical public good which sits outside of the allocation system that other sectors operate under would assist municipal water suppliers by providing greater certainty when planning for future populations.

Response to recommendations set out in the draft report

4.8 Watercare has provided comment in response to a number of recommendations set out in the draft report, which is set out in Part B.

PART B: Watercare's response to recommendations set out in the Productivity Commission's draft report

Recommendation in the Draft Report	Watercare's comment
Recommendation 3.5: A new legislative avenue should be designed to focus spatial plans on activities that: • are of high importance to the function of cities and the provision of development capacity for housing (e.g., land supply, infrastructure provision, transport services); • relate closely to the use of land or space and the management of negative externalities; and • are most efficiently dealt with at a local level and through local authorities	Generally spatial plans set out the high-level strategy for development, whereas the district plan (or Unitary Plan in the case of Auckland) sets out the land-use regulations. The challenge is in translating the spatial plan into a set of comprehensive set of planning rules and regulations. Wider community discussions at the spatial plan stage are often "high-level" and aspirational, and while there may be general agreement, the issues are then revisited when the land-use rules are developed and incorporated in the District Plan. This latter stage is generally more contentious because it is when property owners and developers are directly affected, and significant "NIMBY" issues emerge. This was very much the case in Auckland where there was high level agreement for a compact city in the Auckland Plan, but wide-spread objection by the community when this concept was translated into land-use regulations in the PAUP. This suggests that these two stages need to be better integrated so that the reality of what is being proposed at the spatial plan stage is understood by all parties. One option would be to require a draft set of land-use regulations to be developed at the same time as the spatial plan so that the debate about what the specific regulations that would be required happens in parallel. Another possible legislative change would be to bring the requirements for spatial plans into the RMA framework so that the two stages are undertaken under one legal framework rather than two as it is now. There is also considerable merit in looking at ways to streamline these processes to better balance the need for community consultation with the need to achieve an end result. Imposing an additional set of approval from a central government entity, however, would not necessary result in a more efficient and streamlined process. Rather, it could slow it down and could even run directly in conflict with community aspirations. A preferable approach would be to ensure that central government entities that influence land use decision as well as those that provide services (e.g., Ministry of Education) are fully involved in the process. Another key element that is not adequately considered in either the spatial planning stage or the development of the land-use regulations are those matters that that may significantly impact the ability to develop the land but are regional matters rather than district level issues. For example, if an area proposed for development needs to be served by a new local wastewater treatment plant, it is often simply assumed at the plan change stage that this can be provided. Once the plan change is approved, the wastewater service provider then starts the process of seeking a regional wastewater discharge consent, which is then publically notified. Where there is a significant community and iwi objection to the treatment plant, it may take years for this consent to go through the approval process and is often referred to the Environment Court. The end result is a plan change (which already may have taken years to be adopted) that cannot be realised for a number of years more while the consent is going through the approval process.
Recommendation 5.7: In reviewing their District Plans, local authorities should move more residential land-use activities into "permitted" or "restricted discretionary" status.	Watercare supports moves to reduce the regulatory requirements, but notes that this may create expectations in the development community that certain activities (particularly those that are "permitted") can be done "as of right" without taking into consideration of any infrastructure constraints (e.g., the capacity of the public water supply and wastewater network). The draft report acknowledges that it is essential to take into consideration the availability of infrastructure to service a development. (Watercare notes that the notation of "availability" needs to be expanded to include available "capacity".) However, we note that it is difficult to fully consider this as part of the planning decision when consent is not required. Watercare does not consider it to be good planning practice to allow a development to go forward, with considerable sunk investment costs, to only far down the track identify that there are capacity constraints to servicing the development.
Recommendation 6.1: When councils refer to the supply of land for housing, they should be clear about the readiness of land for building (e.g., un-zoned but planned-for-future zoning; zoned; zoned and serviced, zoned, serviced and consented).	Watercare supports councils providing information about the readiness of land for development. Watercare takes direction in planning for growth from Auckland Council. Key strategic documents that set out the direction for growth include: the Auckland Plan, Local Area Plans, and Regional Policy Statement in the PAUP. Watercare has assessed the available spare capacity within the existing water and wastewater networks and has identified that it has capacity for 45,000 additional dwellings throughout the city. This capacity is allocated as requests are received for new connections. In some locations, however, the water supply or wastewater network is at capacity and additional capacity is necessary to ensure that the levels of service are not compromised. Watercare also would like see national guidance on the use of terms that embody requirements for infrastructure servicing such as "unconstrained" land supply. This term typically refers to land that is serviced by bulk infrastructure and is "ready to go". However, there is some debate about whether this means land with infrastructure that is ready now, or whether it also includes infrastructure that is planned and funded but not yet available. In our view, there should be a distinction between the two, particularly where there are requirements to ensure that there is a specific number (e.g., seven years) of supply. In some cases it is not cost effective or economical to have infrastructure sitting in the ground unused or underutilised. This highlights the need to ensure that the sequencing and timing of land

Recommendation in the Draft Report	Watercare's comment
	development is well coordinated with the provision of infrastructure so that the land can be "ready-to-go" when the service is needed.
Recommendation 6.2: Councils should identify areas where there is existing infrastructure capacity and ensure that planning rules do not prevent intensification from occurring in these areas.	Watercare supports this recommendation. As noted above, Watercare has assessed the available spare capacity within the existing water and wastewater networks and has identified that it has capacity to service 45,000 additional dwellings throughout the city.
Recommendation 6.3: Councils should prioritise the development of up-to-date asset management information systems. This should be supported by recruiting and developing staff with the skills and expertise needed to make effective use of these systems, and ensuring that the information from asset management systems is integrated into decision-making processes.	Watercare supports this recommendation. Watercare will prepare a 10-year AMP each year for managing its infrastructure cost-effectively and supporting the long-term strategic goals of Auckland Council including those set out in the Regional Policy Statement of the PAUP. It is updated every three years to align with Auckland Council's Long Term Plan process. Watercare responds, via the AMP, to the strategic direction for growth and development in the region. Watercare's overall asset management objective is to operate, maintain, replace and develop assets over the long term to meet delivery standards for levels of service and foreseeable future needs at a minimum cost to customers collectively. It is important to ensure that decision-making around growth and development is planning-led. To this end, Watercare supports Auckland Council fulfilling its role the decision-making entity responsible for planning, and seeks to complement its analysis by providing rigorous and timely information about Auckland's public water supply and wastewater network.
Recommendation 6.6: Councils' asset management systems should feed into decision making about optimal infrastructure standards. The data used to inform standard-setting should be shared openly with the development community.	Watercare Code of Practice for Land Development and Subdivision (CoP) was adopted in 2011 to replace the various alternative approaches held by the respective councils. The CoP is based on the principles of NZS4404, and is thus consistent with the approach recommended in the draft report. In Auckland, the situation is complicated by the fact that individual district plans are still in effect, and these documents still require compliance with the legacy council's specific standards. This is changing with the implementation of Water Supply and Wastewater Network Bylaw 2015 and the PAUP that will enable greater consistency across the Auckland region. At a national level, NZS4404 makes provision for individual authorities to modify sections or include specific requirements. The report does not recognise that this is the intent of the NZS4404 standard. NZS4404 is comparable to the Water Services Association of Australia (WSAA) that governs Australia's water industry standards. This standard had the same principle of accommodating local area construction needs and practices. The sharing of good practice is ongoing with other utilities through specific topic discussions centrally with Auckland Council as well through the New Zealand Utilities Advisory Group at national and local level. Effectivity is demonstrated through more collaborative approaches and mutual understanding at technical level and cross sharing of experiences to improve asset management.
Recommendation 6.7: If councils determine that a good case to change infrastructure standards exists, then developments that already have consent should be exempt from the change. Alternatively, developers should be compensated for any additional costs incurred as a result of the change.	Watercare cannot enforce a change in construction standards post resource consent approvals. However, Watercare does require changes to be reflected in developments that are in planning and design phases. However where a developer has obtained consent a number of years prior to starting construction (examples of up to five years exist), there is a potential for adverse effects that results in inconsistency across the construction industry. In this case Watercare would liaise with Auckland Council, as the consulting authority, to resolve these on a case by case basis, and determine which party will bear the cost of the change.
Recommendation 8.4: The requirement to consider development agreements that applies to councils should also apply to CCOs.	The advantages and disadvantages of development agreements need to be understood. The advantages of development agreements and infrastructure funding agreements are: • they provide a mechanism for bringing in private capital into the provision of public infrastructure • they can provide clarity on the respective responsibilities of the parties for the provision of infrastructure including the extent, timing and funding of the infrastructure. • they can detail any conditions or requirements which must be met as a pre-requisite for either party initiating action.

Recommendation in the Draft Report	Watercare's comment
	The disadvantages of development agreements and infrastructure funding agreements are: • the time required to prepare and finalise the agreements, especially if more than one developer / landowner is involved • the difficulty in accommodating changed circumstances once the agreement has become operative • the challenge to providing for staged development, where the long-term benefits accrue to more than just the party (or parties) to the agreement. Development agreements are difficult where the infrastructure requirements to serve an area are greater than the specific infrastructure requirements of the party (or parties) to the agreement. While developers are generally willing to pay for infrastructure requirements, they are typically only willing to fund the part of the infrastructure that will support their development. This is highly problematic for trunk infrastructure that is sized for a larger development area and for areas of new growth where there is an existing population that would for environmental, public health, or efficiency purposes benefit from being served by the infrastructure. Watercare considers that development agreements, while useful, must reflect an investment in the wider transmission network rather than simply addressing the immediate infrastructure requirements of one particular development only.