APPENDIX 3

A Selected Brief History of Dedicated Supplier Consideration in New Zealand

Background

[1] In 1989, Cabinet approved a major review of the sector to be led by the Ministry of Commerce. With the change of government in 1999, LGNZ accepted the responsibility for the review but it was not progressed.

[2] In 2000 the Parliamentary Commissioner for the Environment, after studying the existing arrangements, reported:150

I believe industry and community evidence indicates that the ‘model’ has now reached the end of its design life. Further incremental tinkering with the current systems, without going back to first principles of community water and wastewater needs relevant to the 21st century, will simply mean the necessary changes will be harder to achieve and more costly at some time in the future.

[3] The Auditor-General in 2010 undertook a performance audit of a representative sample of eight local authorities to assess how well prepared the country was to meet the likely future demand for drinking water. Among her findings were weaknesses in the adequacy of forecasting models and opportunities for how the management water supplies could be improved.151


The way water services infrastructure is managed and organised should be investigated to consider the potential benefit of rationalisation. This includes the possibility of a national regulator with oversight of pricing and performance issues.

[5] Also in 2011, Cabinet approved a work programme in a paper entitled ‘Smarter government, stronger communities, towards better local governance and public

services.\textsuperscript{153} This included The Local Government Act 2002 Amendment Bill (No 2) currently before the House.


[7] In response to this assessment, in 2013 LGNZ established a major work programme (The 3 Waters Project)\textsuperscript{155} to establish a clearer picture of the performance of local government three waters related assets and services, to better understand future issues, and to develop a robust framework for building on best practice.

[8] The core findings of this project are that the local government sector faces current and future challenges in terms of the provision of water assets and services. These challenges include the ability and capacity of water service providers to meet and implement regulatory standards and the variations in the quality of asset management throughout the country.

[9] The project recommended that the establishment of a single co-regulatory body similar to that which operates under Part 4A of the Gas Act 1992, to oversee the provision of water related assets and services, was an appropriate option to drive improvement.

[10] Concurrently in 2013, the Minister of Local Government appointed a Local Government Infrastructure Efficiency Expert Advisory Group whose report\textsuperscript{156} included 63 recommendations covering legislation, regulation and standards; a water framework; training; improved business practices; funding and pricing; transparency; increased coordination and removal of barriers to shared services, and greater use of regional provision to deliver regional solutions.


\textsuperscript{155} Local Government New Zealand Stage 2 Submission 3 July 2017.

In 2014 the Auditor-General undertook an overview of the approach that local authorities were taking to manage their infrastructure assets.\textsuperscript{157} The overall finding was that local government infrastructure and capital management practices needed to improve to meet the challenges ahead.

Special purpose entities for water services are not new to New Zealand. The Christchurch Drainage Board was established in 1875 and existed for 114 years, until the local government reforms of 1989. The Wellington Regional Water Board Act 1972 is still extant and superseded legislation going back to the 1870s. The Board's functions are now undertaken by the Greater Wellington Regional Council and Wellington Water Ltd.

Other examples include the Hobson Bay Watershed Sewage Board (c1900), and Arch Hill Gully Drainage Board (1903), both of which became part of the Auckland Drainage Board in 1908 and are now part of Watercare; and the Hutt Valley, Dunedin and North Shore Drainage Boards.

The Local Government (Auckland Council) Act 2009 created a special purpose entity for water and wastewater (Watercare Services Ltd), a CCO 100% owned by the Auckland Council.

In Wellington the four city councils (Wellington, Porirua, Hutt and Upper Hutt) together with the Greater Wellington Regional Council, have created a jointly owned CCO (Wellington Water Ltd) to manage water supply, wastewater and stormwater. These local government entities concluded that the range of technical skills necessary to ensure the appropriate level of capability and capacity were better resourced collectively than in isolation.

The Local Government Commission has recently commissioned an external review of Wellington Water Ltd\textsuperscript{158} which found:

The Wellington Water model is in its infancy but is showing good signs of providing a more efficient and effective service than those of the previous individual arrangements… The model of a ‘trusted advisory service’ built on key personnel has started the journey to provide the five councils with critical asset information on which they can plan key investment on a more informed regional wide basis. The establishment of a ‘centre of excellence’ model needs the right level of resource funding to build on the expertise, which initially attracts

\textsuperscript{157} Controller and Auditor-General. Water and Roads: Funding and management challenges November 2014 \url{https://www.oag.govt.nz/2014/assets}

\textsuperscript{158} \url{http://www.lgc.govt.nz/assets/Wellington-Reorganisation/Mott-MacDonald-3-Waters-Review-June-2016-PDF.pdf}
additional company costs. ... The (shareholding councils) felt that they were getting better value than previously in terms of the service provided.

[17] Three local authorities in the Waikato, (Hamilton City, Waikato and Waipa District Councils) have been consulting with their communities for a number of years about a joint CCO. Originally proposed in 2012 by the Waikato Mayoral Forum, an entity to cover all 10\(^{159}\) local authorities in the region was investigated.

[18] The initial November 2012 report\(^{160}\) found:

Two challenges stood out for the water and wastewater activity - growth pressures in parts of the Hamilton, Waikato and Waipa councils, and resilience for most (if not all) the councils, but especially the smaller ones. By resilience we mean the financial, technical and organisational capacity to maintain a high quality service on an ongoing basis. This includes the ability to attract and retain highly specialist and skilled staff, address technical issues, meet demanding environmental outcomes, cope in the event of an emergency etc. Shared services are of value in addressing both these challenges.

[19] Despite the smaller councils having the potential to accrue the greatest benefit from a shared services option, only the three largest elected to proceed to further investigation. Reasons for not proceeding by the others included statutory limitations, implications for the critical mass and sovereignty of some councils, employment concerns, and that savings for some of the smaller ones might not be easily realised "as they appear to be run on the smell of an oily rag".

[20] Since 2012, despite numerous costly reports, one of which estimated financial benefits in the range of $107M to $141M in the first 10 years, (a savings of up to 10 per cent water and wastewater rates)\(^{161}\), the Waikato proposal has yet to progress. The public consultation has resulted in the proposal being a local election issue in both the 2013 and 2016 elections, and remains contentious. The problems (and opportunities) have been overwhelmed by the politics.

[21] There are also examples of joint arrangements in Tasman, Nelson, Taranaki and Manawatu/Rangitikei.

\(^{159}\) The report studied 11 councils as Rotorua District Council was included.

\(^{160}\) A Strategic Review of the Opportunities Arising From ‘Shared Services’ Relating to the Water and Wastewater Activities of Territorial Authorities in the Waikato Region:  

\(^{161}\) Cranleigh et al. Business Case for Water Services – Delivery Options 6 May 2015:  