Summary of Three Waters Request for Information Clinic

# Tuesday 24 November 2020, 8am to 11am

## Link to recording

Please note that the session begins 9.40 minutes into the recording.

<https://us02web.zoom.us/rec/share/-G9j7BKcFoO15t08TyGHxBY75oSZ8ED9_RlYwFFe2QXqb_TewWJClgj_vpzciLcG.y1DH5bt0jHorv1NV>

## Overview of the clinic

* The purpose of this clinic was two-fold. Firstly, for EY and WICS to provide an overview of Section AA (Qualitative) and Section F (Current and Forecast Financial Information) and answer any questions that the local authorities may have. Secondly, to provide an opportunity for Tasman District Council and Watercare to share their experiences.
* The questions and answers from this session are provided in this document.
* Please note that Section AA and Section F are the same for Workbook I and II.

## A note on Internal and External Borrowings

We have had a number of questions regarding the inclusion of internal debt in the AA and F sections. We have provided the following guidance regarding internal debt:

* Where the RFI request/worksheet relates to whole of council borrowing information (e.g.in F2), the response and information should reflect external borrowings only. At the council level, we would expect that internal borrowing should net out.
* Where the RFI request/worksheet relates to three waters borrowing information (e.g. F3), the information should reflect any internal and external borrowing related to three waters (i.e. at a gross level). Internal and external borrowing related to three waters should also be included in AA1.9-AA1.11 responses.

We will update the F schedule supporting guidance to reflect this.

## A note on Real or Nominal Information

* For Sections E and G, the supporting guidance is that forecast information should be based on internal budgets or management accounts and should be reported in nominal terms (i.e. including projected inflation). Please provide the inflation assumptions in Table E12 and G5.
* For Section F, the supporting guidance is that forecast information should be based on internal budgets or management accounts and should be reported in real terms (i.e. excluding inflation) based on the price base in 2019/20 prices. Please include a note in the comment field that the forecasts exclude inflation. (Where easily available forecast information e.g. draft LTPs already includes inflation assumptions and have been provided, please include a note in the comment field that the forecasts include inflation and state the inflation assumptions in the comments field).
* However, to enable to councils to provide the information in the most readily available format, we are happy to receive the information in either real or nominal terms in all sections as long as the assumptions are clearly stated and provided, and the inclusion or exclusion of inflation is consistent within each section of the RFI.

## Questions related to Section AA

### AA1

**Question: Should information on laboratories related to three water services be included?**

Answer: Yes, we would expect to see this level of detail included in the data.

**Question: What if the laboratory is outside of our district?**

Answer: Yes, please include it and note in the comments field that it is outside of your district.

**Question: For AA.1.3, what about for contracts that have a right of extension?**

Answer: Yes, we need to capture the right of extension and any rollovers.

**Question: There are a lot of Local Authority Shared Services contracts (LASS). Are these considered commercial arrangements, and should they be included in AA1.6?**

Answer: Yes, please capture it in AA.1.6. Examples include consultancy services and laboratories.

**Question: Where should internal debt arrangements be covered?**

Answer: *Please see ‘A Note on Internal and External Borrowings’ at the top of this sheet.*

### AA2

**Question: Can we just send in a PDF of all of our consents?**

Answer: Yes. Please select YES in the drop-down list and note in the comment field that you will send the PDF separately.

**Question: Where there is a joint arrangement/joint venture, should the reporting council report each share separately or report it as 100% by the appointed manager of the arrangement?**

Answer: Please provide the percentage that is related to your council. So, if it is shared with another council, please provide your ownership percentage and note who it is shared with in the comments field.

**Question: If there are any issues around land, where the title is not held by the council, for example historical claims, do you want those noted in the asset schedules?**

Answer: To the extent you have this information, please call it out, but to the extent that it is not reported on the balance sheet, we would not report it. We would want to know the nature and quantum of anything that may eventually transition onto the council’s balance sheet.

*Further to the clinic*: Please make a note of this in AA2.

**Question: In AA2.34, the list of water take consents require both a "description" and a "purpose" - what's the difference between these?**

Answer: At a high level, the purpose is to understand what the water take consent is used for. The description would be about where it is from or the quantity of consents. There may be some crossover, so if the purpose is shown in the description, please put N/A in the purpose.

## Questions related to Section F

**Question: Should the forecasts include inflation?**

*Answer: Please see ‘A note on Real and Nominal Information’ at the top of this sheet.*

**Question: Is this data request in F2 for three waters services or at the ‘all of council’ level?**

Answer: The balance sheet information should be provided at the ‘all of council’ level.

**Question: For forecast reporting, do we use the data from the 2018-28 LTP or the draft 2021-2031 LTP? Note that the draft LTP numbers will not be finalised by February 2021.**

Answer: We are looking for the best available information at the moment. We appreciate that the 2021 – 2031 LTPs are still in draft and have not been approved, but we think that these contain the most relevant information. If possible, please provide the data from the 2021-2031 draft LTPs.

**Question: Could you please explain F2a (current liabilities)?**

Answer: F2a is attempting to apportion applicable current assets and current liabilities to the respective three water assets as a proxy for working capital. These balances will be reported in on aggregate. We note that will be a subjective process and ask that councils apply to their best judgement to estimate working capital associated with the three waters. Please make clear the nature and quantum of balance attributed to each water asset in the comments box.

**Question: Where should we put interest swaps in F3, as this is a risk mitigation in liability policy?**

Answer: We have a section in AA1 for outlining the hedging.

*Further to the clinic response*: F3 is for sources of borrowing, which does not include interest swaps. Interest swaps should be included in derivative financial assets/liabilities in F2 (row 31 or row 47).

**Question: Wouldn't local authority hedging be applied across all local authority’s activity areas not specifically to three waters activities?**

Answer: Yes, however could you please provide an estimate as to how much is applied to three waters services.

**Question: In F3, should we report on internal borrowing or council's borrowings directly with external lenders?**

Answer: We are mostly interested in external borrowing and we are still considering internal borrowing. Please provide an overview of internal borrowing in Section AA and also some commentary in F3. If there is internal debt specifically relating to Three Waters, please provide an overview of this in the comments field in F3.

*Further to the clinic response:* For whole of council borrowing information (in F2), the information should reflect external borrowings only. At the council level, we would expect internal borrowing to net out.

For three waters related borrowing information (F3), the information should reflect both internal and external borrowing. Internal and external borrowing related to three waters should also be included in AA1.9-AA1.11.

**Question: Some debt may be specifically allocated to a project to align with charging particular customers. Do you want these identified?**

Answer: Yes, and please leave a comment explaining this in the comment field.

**Question: In regard to debt, our council recently liquidated significant investment assets to reduce debt in stormwater and wastewater activities. How do we reflect this in the relevant sections?**

Answer: This information should be reflected as reported in your accounts. However, to the extent there have been material changes in the balance of outstanding debt against water assets, please note this in the comments field for clarity so we can understand the nature of the shift and whether the current level of debt is the new standard going forward for operating water assets in the forecast period.

**Question: For balance sheet information, how do you want revaluations completed? In Table F9 (Analysis of Fixed Asset by Asset Type) I have included revaluation under reclassification and noted it. Does that work?**

Answer: Yes. We will update the description for F9.4 in the supporting schedule to ‘reclassifications and revaluations’ and circulate this across all the local authorities for completeness. This should ensure that we are capturing complete information on fixed assets. We would however request that you use the comment field to call out the quantum of the two values recorded against this line item so we can separately identify them as needed.

**Question: In F8c.1 what is an example of an exceptional item?**

Answer: Any item within a reporting period that was considered a one off or extraordinary in the course of operating. For example, to the extent that there was a deviation in operating surpluses, say after a natural disaster, please make that clear so that we can normalise this in any financial analysis that we are doing.

**Question: Would the Three Waters Reform Programme stimulus funding be considered exceptional under F8c.1?**

Answer: Yes, we would consider it exceptional in this case.

**Question: Where do you include investments in the cashflows?**

Answer: We will expand the definition of F7.8 in the supporting schedule to be ‘other investing cashflows’ and request the local authorities use the comments field to make it clear the nature and quantum of the balances captured in this bucket for each period.

### Questions related to Tables F10 and F11

**Question: We remit excess water (i.e. where we get excess water claims when there are leaks). Where should that data be included?**

Answer: Please report revenue net of remittances and provide an explanation in the commentary cells.

*Further to the clinic response:* Sources of income reported in Table F10 should reconcile to the income reported for the three waters in the council annual report and accounts.

**Question: In Auckland, Watercare are looking after water and wastewater, and the council look after stormwater. Are you expecting Auckland Council to complete Table F11, column 17? And should they get information from Watercare about the large users?**

Answer: Yes, this table will require Watercare and Auckland to coordinate their response to ensure that they are providing the water, wastewater and stormwater information for each large user.

**Question: Housing NZ might have hundreds of houses within a council area. While they might be individually billed, they are collectively a very large customer. Is this captured anywhere?**

Answer: As background, WICS used this table in Scotland to understand the economics of supplying large users. Several large industrial users, for example, have a connection direct to the trunk water mains and historically received a discount on the basis that they do not use a local distribution main. The information was therefore used to understand whether charges to these customers were cost reflective.

The situation with Housing New Zealand is different to the one outlined above. We would therefore suggest that this is not included in Table F11.

The income from Housing New Zealand would be captured in Table F10.

**Question: Is the measure of 100,000m3 on a per annum basis?**

Answer: Yes.

## General questions

**Question: Rural councils have multiple schemes (not one that serves all users) do you want details per scheme or in total? These schemes are serving individual communities.**

Answer: Most of the information that we are asking for in Section F is on an aggregated position, not just for individual schemes. The information in aggregate form is fine.

**Question: You mentioned the stimulus funding as an extraordinary item in cash flows - is there any other considerations for the stimulus funds in other areas of the workbooks?**

Answer: We don’t have any other specific catchalls in the other tables. To the extent that the stimulus drives unusual trends in say ‘other revenue’ in the P&L, please provide a note in the comments field about the effects of the stimulus.

**Question: Does DIA have a way of asking Audit New Zealand to conclude their annual report audit? They are asking new questions that are preventing this RfI from being worked on.**

Answer: We are aware of the demands that multiple processes are placing on local authorities, and are sympathetic to doing what we can to help manage those competing resource demands. Audits follow an independent process to meet statutory requirements and are not something that can or should be influenced. However, we can inform both the OAG and Audit New Zealand of the process of the RFI and the demands that the process is placing on individual councils.

**Question: Will the provided information for this RfI exercise be audited?**

Answer: No, it is not going through a formal audit, but it will be reviewed by the DIA and its advisors, and we may respond to the council with questions.

**Statement: In order to provide up to date information in the 2021-2031 LTPs, it is going to be extremely difficult to come up with realistic numbers by the end of January.**

Answer: We appreciate that this will be a challenge and recognise that any numbers that you are forecasting will have an element of uncertainty. Please use the confidence grades and the comments field to indicate any uncertainty or assumptions.

**Question: Should water races be included in the asset schedule? These provide stock water only in open channels.**

Answer: If it is something that you are managing and is paid for through charges, yes please include it.

**Question: In regard to question C1.1b (the number of samples). We monitor one minute and five-minute data for all our plants, do we count the one and five minutes as a total for each plant?**

Answer: As context, in Scotland, the Water Quality Regulator requires samples to be taken at customer taps. We understand, however, that there is no such requirement in New Zealand. As such, these lines ask for information on samples taken post treatment – e.g. for some councils, we note that they sample close to the water lateral.

In relation to the specific question, we suggest that you add the one minute and five-minute samples, so you would have 2 samples each five minutes.

**Question: In regard to Section F, for cost allocation you will get quite different answers depending on if the activity is regarded as a cost centre or not. Are both acceptable providing this is noted?**

Answer: Cost centres are fine, if the activity is not a cost centre, we ask that you provide your best estimate of the allocation to the three waters and reflect the uncertainty in the confidence grade.

**Question: In relation to Table E11, could you please discuss the definition of 'depot', 'workshop, and ‘control centres’?**

Answer: The following definitions were suggested:

* Control centres are used, for example, to receive information on incidents (e.g. real time monitoring of the network) and coordinate the response through the operations teams; and
* Depots are used, for example, as a base for operations crews and vehicles and is used as a central store for equipment.

There was discussion of the difference between depots and workshops. It was considered that it may be useful to consider a workshop as a facility that is similar in definition to a depot, but is located on the same site as one of the operational assets (e.g. a water or wastewater treatment plant).

*Further to the clinic response:*

Scottish Water now reports depots and workshops together in its annual return submission. As such, councils may want to use one of the lines and provide an explanation in the commentary cells that you have taken this approach.

 ***Follow on question: Do we include our contractors’ facilities?***

Answer: As a general rule, we suggest that councils report assets that they own. As such, we suggest that councils do not include the contractor’s facilities.

***Follow on question: Do we include the depots of alliance partners?***

Answer: No, the same general rule applies as outlined in the response above.

***Follow on question: Does that also apply to laboratories?***

Answer: If you own and operate a laboratory you would record that in E11. If you do not own it, please include a comment in the comments field that you are sharing it using services provided by other councils or contractors.

**Question: In regard to E11.13 and E11.14 what definition of "control centre" are you using? The supporting schedule doesn't really define, and we need to keep distinct from telemetry**

Answer: Yes, telemetry should be reported separately in line 11.17. The definition for control centres is provided below:

* Control centres are used, for example, to receive information on incidents (e.g. real time monitoring of the network) and coordinate the response through the operations teams.