

Date: Wednesday 27 June 2018
Time: 4.30pm
Meeting Room: Local Board Chambers
Venue: Papakura Service Centre
35 Coles Crescent
Papakura

Papakura Local Board

OPEN MINUTE ITEM ATTACHMENTS

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Councillors' Office

26 June 2018

Mayor Phil Goff
Auckland Council

Dear Phil,

PROPOSED SPECIAL PURPOSE VEHICLE FOR THE CENTRAL INTERCEPTOR

Following the joint workshop between Auckland Council and Watercare on 21 June 2018, I have given thought to the 'opportunity' to pursue an alternative approach to financing the Central Interceptor project.

I do not support an alternative approach, which would involve the establishment of a Special Purpose Vehicle (SPV) or similar, to finance the Central Interceptor or other major water supply and wastewater infrastructure capital projects.

I believe the approach as outlined represents bad policy-making and contradicts the value of Watercare as Auckland's primary supplier of this type of utility infrastructure.

Current financial mechanism

Under the business as usual model, Watercare funds and delivers capital projects using its balance sheet and revenue streams. This is a simple model of service delivery for its customers (the people of Auckland), which incorporates the safeguard of economic regulation to prohibit price gouging.

Specifically, I refer to the Local Government (Auckland Council) Act 2009, which obliges Watercare to:

'... manage its operations efficiently with a view to keeping the overall costs of water supply and waste-water services to its customers (collectively) at the minimum levels consistent with the effective conduct of its undertakings and the maintenance of the long-term integrity of its assets' [Section 57(1)(a)] and

'... must not pay any dividend or distribute any surplus in any way, directly or indirectly, to any owner or shareholder' [Section 57(1)(b)]

These are important obligations and constitute an economic regulation that is unprecedented in the New Zealand context. The requirement to achieve minimum cost, and the prohibition on the payment of a dividend, is an appropriate mechanism for the pricing of water and wastewater services supplied to, and paid by residential and business customers.

Central Interceptor – proposed financial model

The proposed 13km long tunnel and vertical shafts of the Central Interceptor constitutes a significant project that will vastly improve the conveyance of wastewater from the central isthmus to Mangere. Such an infrastructure project obviously requires a large capital investment.

It was stated at the joint workshop that the Central Interceptor would be owned by the proposed SPV, with an associated pump station at Mangere to be owned by Watercare.

The novation of the contractual rights and obligations from Watercare to the proposed SPV is an unnecessary complication; an argument that is countered by the transparency and relative success of Watercare as an infrastructure provider.

We know that Watercare's financial and non-financial performance sets it apart in the context of service delivery and resilience. Watercare's balance sheet is conservatively geared with a low debt to revenue ratio. That provides ample headroom for Watercare to accommodate the Central Interceptor as a new capital project. I wholly doubt that the proposed SPV could achieve the same or a better financial performance in terms of affordability, transparency and community buy-in.

To date, councillors have been told that Watercare would be excluded from collecting revenue for the Central Interceptor, and that the proposed SPV would:

- have the right to receive its revenue directly from ratepayers;
- outsource revenue collection to recoup via what is in effect a decades-long targeted rate; and
- pay debt holders and return to equity.

The above proposal is a particularly hard-sell when compared to Watercare's track record of infrastructure and service delivery to Aucklanders, which is safeguarded by the economic regulation set out in Section 57 of the Act.

Given regulatory reform was not discussed at the 21 June workshop, I am unsure as to the scale of change that would be required to ensure the same safeguard is enacted in relation to the proposed SPV. Nor am I aware of the level of negotiation, if any, which has taken place between Council and the Government on this proposal. I will seek clarification on both these matters from officers this week.

Council will presumably need to collect revenue on the proposed SPV's behalf via an annual levy. This will be judged by our constituents as a new targeted rate.

The proposal is particularly galling given the Interim Transport Levy, which has not been renewed, allowed headroom to charge a water quality targeted rate and an environment targeted rate.

Now, it seems, a new targeted rate would need to be proposed - a 'Toilet Tax' that will presumably apply for a minimum of 25 years.

Summary

The proposed SVP is predicated on the benefit of providing more headroom vis-a-vis the Council's debt ceiling. This benefit, while desirable, should arguably be delivered in relation to transport and urban development projects other than water supply and wastewater infrastructure.

I fully appreciate the need for a sustainable mechanism by which such a large infrastructure project as the Central Interceptor is to be funded. However, I have concerns that the proposed SPV will cost more than if the project is to be delivered by Watercare.

In the context of a lack of regulatory control and duplication, I fear the proposed SPV will likely be judged as a form of privatisation to repay debt holders that will not win wide public support.

As a Manurewa-Papakura Ward Councillor I see a similarity between the proposed SPV and the franchise agreement that allows *Veolia* to manage the delivery of retail water supply and wastewater services in Papakura.

In my opinion that legacy franchise agreement, and the levels of duplication that it entails, locks Papakura into a sub-optimal contractual arrangement that fails to deliver effective benefits to my constituents. I can assure you that many of my constituents oppose that arrangement.

The proposed SPV for the Central Interceptor, while different from the *Veolia* franchise, would arguably be worse given the lack of safeguard around price and its assumed linkage to property values.

While the workshop presentation offered a 'starter for ten', I anticipate that significant analysis and modelling is taking place to inform the design of the proposed SPV. I will be seeking this information from both Council and Watercare, and would appreciate disclosure of discussions that have taken place with officials from Treasury, MBIE or any other government department.

I anticipate significant community opposition to any proposal to impose a 'Toilet Tax' on Aucklanders.

Yours sincerely,



Daniel Newman
Manurewa-Papakura Ward Councillor

cc. All Governing Body Members
Matthew Walker, Acting Chief Finance Operator
Raveen Jaduram, Chief Executive, Watercare

