

Media Release



Auckland Shows Benefits of Rationalising Water Businesses

This week's announcement that customers will benefit from lower prices from the integrated water business in Auckland was predictable and good news, Business Roundtable executive director, Roger Kerr, said today.

"Internationally the trend towards aggregation of water businesses has benefited customers. Combining the seven water businesses in Auckland into one and achieving a 25 percent reduction in the level of staffing has allowed a price to be set that is generally well below current charges", he said.

"Published results from the last annual performance review undertaken by these water businesses point to average savings for residential users of 20 percent or more."

Mr Kerr said that common features of best practice water services include removal from direct political control, amalgamation to achieve economies of scope and scale, professional governance and management, direct billing of customers and high quality regulation.

"There are good examples of rationalisation of water businesses which, if replicated in New Zealand, would be positive. For example, Scotland rationalised more than 200 water businesses over time to only one servicing 5 million people in 2001.

"Publicly owned, Scottish Water has overcome a significant water infrastructure deficit and reduced running costs by almost 40 percent from their historic base. This has delivered customers the fourth lowest average household water bills in the United Kingdom. New Zealand has many similarities to Scotland, with mountainous terrain, a low population and many dispersed urban centres.

"Across the border in England and Wales, 21 water businesses service 54 million people and in Australia 19 water businesses provide bulk and retail water and wastewater services to the state of Victoria's 5.5 million urban and rural irrigation customers.

"By contrast, after the Auckland local government reforms New Zealand will still have 66 other local council businesses providing water services for 2.9 million people. Almost all of those councils fund their household water services inefficiently via rates rather than on a use-related basis.

"Repeated independent reports from the Auditor-General's office make it clear that a proportion of councils are struggling to maintain their water infrastructure and many don't meet our drinking water standards.

"The current arrangements around management of our urban water infrastructure are simply out of step with best practice and don't provide value to customers. Based on the experience of other jurisdictions we would expect that further rationalisation of water businesses in New Zealand would go a long way towards addressing these sorts of challenges."

Mr Kerr said that water services were a classic utility along with the gas, electricity and telecommunications industries. Water and wastewater services in urban areas should be run on commercial lines while remaining in public ownership.

Pricing should be on the basis of marginal cost to achieve efficiency and conservation.

Business organisations associated with the Local Government Forum, including the Business Roundtable, noted in a submission on the bill establishing the new Auckland water entity that its total assets would exceed \$5 billion in value.

The Forum said that in its view, “economies arising from better management of these assets and more efficient investment and pricing policies (together with similar improvements in transport) represent the main potential gains from Auckland reorganisation.” They could be far larger than the administrative efficiency gains estimated in the Royal Commission’s report.

“This week’s announcements vindicate this view and are an initial payoff from the reforms”, Mr Kerr concluded. “There should be more benefits to come.”

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