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The Committee Secretariat
Finance and Expenditure Committee
Parliament Buildings, WELLINGTON.
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Submission on the Water Services Entities Bill (136-1)

Introduction.

The reasons being advanced by government for the biggest upheaval in infrastructure assets the country has ever witnessed do not stand up to scrutiny when examined closely and dispassionately.

While there are some rare exceptions, for the most part an acceptable standard of fresh water is being delivered to the majority of those who receive it from council water systems and waster water treatment is adequate. Standards could always improve, and should, but that could be said for the provision of infrastructure, health, education, safe communities, and public housing, across the board. Failures in the delivery of fresh water and treatment of waste water are not, in the main, due to a lack of expertise, knowledge, skills, or to bad management by local councils.

The key problem is funding.

And a government driven by an ideological view that centralisation works best; that local communities need to be separated from any participation in the democratic decision-making process - as evidenced by the disruption being wrought to the health system, and the centralisation of control of polytechnics, to give just two examples.

Before commenting on the contents of this Bill, we must repudiate the claim made in a Cabinet paper (18 October 2021) that "losing momentum for reform is not justified given the unsustainability of the status quo [and] the lack of viable alternatives..." . True – the status quo is not sustainable so long as successive governments insist on neo-liberal debt funding for our public sector.

What we find objectionable is the outright lie that there are no viable alternatives which could and should be adopted. For a democratically elected government to keep the electorate ignorant of the economic facts is despicable, considering the amount of well-researched information Social Credit has presented to various select committees over many years.

Even the Prime Minister, in her address to the Local Government Association conference this week continued to perpetuate that lie – “The sad reality for all of us is that without change the current system couldn’t afford to resolve what is a looming $185bn problem”.

There is no shortage of funding and there are viable alternatives.

It is curious that two academic historians have served as top Crown ministers for Labour – namely the Hon. Michael Bassett and the Hon. Michael Cullen. Neither saw fit to remind colleagues about how the first Labour Cabinet in 1935 nationalised the Reserve Bank, then proceeded to use its sovereign powers to fund the first state houses (and eventually more than 30,000 of them), plus road-building and bridges. Fortunately the legislation is still intact which could be invoked immediately to fund the infrastructure needs for our water reticulation and treatment. Sadly Labour, supported by the Opposition parties, prefers to continue the policy formally mooted in 2008 - to “deepen the capital markets”. Hence the statement in another Cabinet paper under the name of the Hon. Nanaia Mahuta that the roll-out of 3Waters “depends heavily on the capital markets”.

Hon. Michael Cullen did eventually see the light though, when in November 2020 he called on Finance Minister Grant Robertson to use the money creation capability of the Reserve Bank to fund the government directly, for investment in the economy, saying that if the bank was going to continue printing money, this should be used to buy Government debt directly to finance things such as building homes and infrastructure.

In an opinion piece he wrote “We have an unparalleled opportunity in the current situation to make a quantum leap forward in dealing with some of our needs, which require large amounts of capital. That opportunity could well slip past us: a rethink is needed.”

Reserve Bank Governor Adrian Orr, in an interview with Bloomberg in April 2020 said he remained open-minded about buying the nation’s debt directly from the state. “Direct monetization, I know, has been heresy, taboo for a long time, but it’s only a long time in our lifetime,” Orr said. “It’s not a mysterious issue. It’s just not how we’ve run business.”

The Bank was co-author of an aide-memoire, titled “Quantitative Easing and Monetary Financing Compared”, (attached) which was presented to Minister Robertson in May 2020.

The report says that Monetary Finance could be used to “meet specific funding needs of the Government at lower cost and with greater certainty than QE”.

What we find particularly ironic are the estimates that the amount of investment needed for the 3Waters roll-out amount to between $125 billion to $185 billion. “This equals to between $4 billion and $5 billion per annum”.

Strange!

By a conservative estimate, this what the Government pays per annum in Crown debt-servicing! So what is the problem we ask?

Debt servicing on government borrowing from the private sector – mainly commercial banks and large investors – those same 'capital markets', which Nanaia Mahuta spoke about – and to which various government departments and agencies also pay enormous sums in debt servicing, sap the economic wealth of the nation leaving it unable to afford vitally important services for people.

For your reference we quote the following:-

Treasury warned Kāinga Ora's debt is now forecast to peak at $28.9b in 2033 before it begins to be repaid and that the new debt will not be repaid by 2081 when $8.9b will still be outstanding. Current forecasts have interest costs totalling 39 per cent of its $2.1b rental cashflow in 2025/26. (1) (12th July 2022)

During the debate on the NZ Infrastructure Commission Bill in 2019, the Hon. Phil Twyford signalled the decision to introduce legislation later in the year about "the work I've been leading with Treasury on establishing new ways of funding and financing the infrastructure that's needed .....that will allow private financing [through PPP's] to be invested in infrastructure for new urban growth, paid back over the lifetime of the asset...to allow us to tap into a limitless supply of investment capital to build the infrastructure that our cities need."

New Zealand's roads are often built with funding from debt capital markets. The NZTA uses PPPs (Public Private Partnerships where the developers access the finance) to build major roading projects like Transmission Gully and Puhoi to Warkworth motorways.

PPPs have also been used to build Waikeria prison, maximum security Auckland Prison, Wiri prison, refurbishment of Paremoremo Prison, and more than a dozen schools.

Pre-Covid, the Treasury expected to issue only $8 billion of New Zealand Government Bonds in the year to June 2023. In December its forecast issuance for the 2022/23 year sat at $18 billion. (2) (23rd February 2022)

So do we need to 'depend heavily on the capital markets"?

(1) https://www.nzherald.co.nz/nz/government-faces-60-year-debt-blowout-after-building-costs-explode/R7L54GYHNIEJD3Z6TQDFOYRJMI/?utm_source=substack&utm_medium=email

(2) https://www.interest.co.nz/bonds/114500/treasury-will-likely-need-borrow-more-help-reserve-bank-reduce-size-its-bond-holdings

Not at all !

Current and future residents will have imposed upon them extra debt-servicing, to find from their household incomes besides their rates and other payments, to provide a gold plated return to wealthy New Zealand and overseas investors.

This unnecessary impost is the more galling when our sovereign Reserve Bank has the ability to fund such infrastructure directly - by for instance, providing nil-interest credit lines to district and city councils.

The Reserve Bank has created $60 billion in the last two years to purchase Government bonds and local body debt from banks and private investors, it clearly has the ability to create and issue the necessary loans to local bodies directly so that they can upgrade and build new water infrastructure and ensure high quality water supply.

Specific matters

Governance. Along with most of New Zealand's local councils, Social Credit rejects the bill's proposal to have water infrastructure assets transferred to the management of four corporate entities - or any corporate entity for that matter. We note Infrastructure NZ's recommendation to the Infrastructure Commission (in its 22-06-21 submission) that there be just one overall entity 'for the processing and delivery of infrastructure projects and central government management functions.'

Finance. The corporate model of governance for public assets is inappropriate. It assumes debt-financing as essential plus a pyramid structure of governance. Although, under the Local Government Act (2002), councils must not use water services assets as security for any purpose, the revenues from the near-inelastic demand for water, serve as security for the raising of capital on the money-markets. We reject this neo-liberal view; more-so given the capability of the proposed new water entities to raise capital based on a debt-to-asset ratio of over 600. With assured revenues, there would be no problem attracting investors, given that, in a crisis, the entities would likely be declared 'too big to fail'. Social Credit's funding policies are attached. They are designed for the public good, not private profit.

For the record we note that section 168: Borrowing in foreign currency, provides for a water services entity to borrow or enter into incidental arrangements within or outside New Zealand in currency other than New Zealand currency.

Private Public Partnerships in particular must not be deployed in the building or upgrading of infrastructure.

Procurement Policy. During his recent visit to New Zealand, Scottish Water Commissioner, Alan Sutherland, emphasised the importance of 'scale' for public infrastructures. Hence his support for the current 3Waters proposals. Taken to extremes, 'scale' will likely involve accepting tenders from the largest contractors and asset managers available. This to the detriment of Kiwi-owned firms and their employees. So much for the Government's promotion of the four 'wellbeings' - social, environmental, economic, cultural. We cannot accept empty assurances that big contractors will not over-run their budgets, leaving households incurring the debts.

We note Section 117: **Contracts relating to provision of water services,** Section **118: Joint arrangements for purpose of providing water services** and **127: Method of contracting.**

Nothing set out in those sections give us any confidence that New Zealand owned entities will have the opportunity to gain contracts for the provision of services for the operation on the dams, treatment plants, or pipe networks. In fact there is nothing in the Bill that precludes any of those functions being in the hands of overseas owned entities, which there should be.

Asset Management. During her recent visit to the United States. The Prime Minister, the Rt Hon. Jacinda Ardern, arranged a meeting for her entourage with global financial giant, Blackrock. The CEO, Larry Fink, was in attendance. He is an ardent, even evangelical promoter of capital markets as the most efficient way to distribute the world's resources. We cannot underestimate the significance of this meeting, in light of the government's 3Waters proposals. The question arises as to how much any dealings with this or any other corporation will be deemed commercially sensitive. There is no guarantee that our elected MPs will be permitted access to such details. So we ask the Finance and Expenditure Committee to give this matter its urgent attention and make the appropriate enquiries to ascertain exactly what was discussed at that meeting, and make the details publicly available.

Ownership. Councils have been assured that the "bottom line" for planned reforms is public ownership, but if funding is provided by private investors, the path is open for eventual sell-offs, similar to the way our SOEs (State-Owned Enterprises) have surrendered shares to private interests.

The structure and time-line set up to move water assets into the hands of new water services entities bears a striking resemblance to the road taken to 'reform' the electricity industry in New Zealand and the water industry in Britain, both of which have seen the ownership of the assets and service delivery end up in the hands of private companies (mainly overseas owned) with users effectively paying a 'tax' which guarantees substantial profit for the shareholders of those companies. (See excerpt from 'Private Island' by James Meek (attached)).

Schedule four provides a path for such a divestment which the 75% does not preclude from happening.

Conclusion

The actions of previous governments in drastically under-funding infrastructure and in particular not coming to grips with the need to find innovative solutions to solve the inability of councils to fund improvements to infrastructure of all kinds, has in large part been responsible for the state of water and waste water services in New Zealand.

The report of the Productivity Commission on local government funding, delivered in 2019, is just one example. The report's major recommendations were a series of additional ways for councils to extract more money out of the pockets of already overburdened ratepayers and taxpayers. Our submission to the Commission on using the power of the Reserve Bank to fund council infrastructure was simply ignored, despite less than three months later, that power being used to fund the Covid 19 recovery.

Our submission of June 2010, on the Local Government Act 2002 Amendment Bill was similarly ignored. It proposed:

1. That the provision of public water services be funded interest-free by the Reserve Bank of New Zealand, with management directly under the control of democratically elected councils.

2. That the bill includes a clause permitting local government access to Reserve Bank of New Zealand credit-lines to fund essential infrastructures, utilities and environmental protection.

Final Note

We consider the allocation of a $2.5 billion stimulus to councils announced at the local Government conference last year for their compliance in signing Memorandums of Understanding in regard to the proposed reforms as sheer out and out bribery. (Interestingly $1 billion will be borrowed by the new water entities and therefore be paid for by ratepayers and water users) A further $44 million in funding has been announced at this year's conference, with other individual councils being offered sums to attempt to stop them from criticising the Three Waters plans.

For the government to advance funding, something councils have been crying out for for decades on the basis of them agreeing not to oppose the so-called 'reforms' raises serious questions as to the drivers behind the Three Waters programme, leaving us with grave doubts as to the Government's real agenda.

This comes on top of massive advertising campaigns, set up costs of the new entities, and consulting costs that are costing Kiwis in excess of $1.2 billion.

Had all that money been allocated to councils (particularly those with small populations and those with network problems) the worst cases would already be well down the road of having their water delivery and treatment issues addressed.

We believe we have demonstrated that there is no shortage of funding and there are viable alternatives.

We ask that the Committee recommend to the House that the Bill not proceed.

We look forward to appearing before your Committee in due course.

Chris Leitch
Leader

Attachments:

Funding Three Waters - and other infrastructure – Social Credit Proposal July 2022

Social Credit submission on the Local Government Act 2002 Amendment Bill – 18th June 2010

Social Credit submission to Productivity Commission enquiry - Local Government Funding & Financing Issues – 15th February 2019

Social Credit Press Release - Productivity Commission Recommends Milking Ratepayers More - 13th December 2019

Treasury and Reserve Bank authored aide-memoire, titled "Quantitative Easing and Monetary Financing Compared which was presented to Minister Robertson in May 2020

Excerpt from 'Private Island' by James Meek, published by Verso Publishing – 2015