

ADDRESSING AFFORDABILITY FOR WATER INFRASTRUCTURE – IS THERE A “SILVER BULLET”?

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ABSTRACT

A common theme with regards to New Zealand water projects is one of unaffordability. The underlying cause being the lack of investment in this infrastructure over preceding decades leading to a requirement for a large capital spend that is seen as unaffordable if funding solely by property rate increases.

There is no silver bullet to ‘solve’ this issue. Whilst private sector capital can be utilised to initially fund projects, the income required to repay this capital ultimately has to come from somewhere, which ultimately leads to ratepayer levies or targeted rates. For some projects, there may be opportunities to derive ancillary income from areas such as energy generation or providing water for irrigation, which would enhance affordability. Private sector capital and innovation could be key to realising these sources of ancillary income, reducing the burden on ratepayers.

Given the necessity of this new or upgraded water infrastructure there is a requirement to better analyse and define this affordability issue rather than simply labelling the project financially infeasible. The starting point is a thorough analysis of local authority funding sources and potential revenue sources for projects including rate increases, targeted development rates and user charges, cross-referenced against constraints such as debt ceilings. This should allow both the drivers and the quantum of the affordability shortfall to be determined.

With this detailed knowledge, a systematic approach can then be taken to determining what would be required to solve the shortfall via increased project revenues (targeted user levies or ancillary income such as energy generation), reduced financing costs (for example, low interest loans from central government) and/or decreased capital costs (reduced project scale or grants).

Whilst this analysis will not solve the affordability gap, it will provide a more accurate picture of what is required to solve it and provide the basis for approaching the government or private sector for the required capital, subsidies, grants and/or a combination thereof. This paper will suggest a structured methodology through which Councils can achieve greater transparency and a higher level of understanding when elected members ask “can we really afford new water infrastructure?”

KEYWORDS

Financial feasibility, funding, affordability, water infrastructure