



COLLABORATION ACROSS HAWKE'S BAY: THREE WATERS

PROJECT INFORMATION REQUEST FOR
CROWN INFRASTRUCTURE PARTNERS LIMITED



We are unique

The triennial agreement between all of the five councils in the Hawke's Bay provides the framework for our regional collaboration. Water was identified as our region's **number one priority**.

We have been working together since January 2019 on a regional three waters service delivery project. Our three waters services are critical to the communities we serve, and they link to almost all the economic, social, cultural and environmental outcomes individually and collectively as a region.

Hawke's Bay as a region understands its current three waters situation and the future challenges probably better than any other region in New Zealand. We know what needs to be done to address the challenges.

As an extension of the three waters review that has been carried out in the region, the Hawke's Bay councils have agreed to make a combined regional submission regarding "shovel ready" three waters infrastructure. This will present excellent value for money, using joint expertise and procurement processes while ensuring regional coordination of scarce resource to maximise the economic benefits across the region.



\$314M

of critical three waters projects

This is the only application to Crown Infrastructure Partners from the Hawke's Bay councils. We have all agreed that there should be no competing applications when we all know that investment into three waters infrastructure is the most important thing we can do for our communities.

Our three waters review itself is highly relevant as it provides the basis for the application and the basis for a collaborative regional approach to our three waters projects. The three waters review has been supported by DIA with significant funding (\$1.55M) to undertake the investigation of new service delivery options. It has been highlighted by DIA as an exemplar of how they want regions to respond to the challenges of water reform.

- The project is led by the combined Mayors and Chairs group, with sponsorship of the project itself by the Chief Executives.
- There are wide variations between the four councils in terms of the condition of their three water assets, their approach to service delivery and how the services are funded.
- There are differences in the strategic capability and capacity of smaller, rural councils compared to the city councils.
- There are already significant differences between the cost of the three waters services across the four councils as presented. The cost to produce and supply drinking water as well as the cost to treat wastewater is almost double in Central Hawke's Bay and Wairoa when compared to Hastings and Napier.
- The future investment anticipated as being required across the region to meet the likely new regulatory standards set by government and improve the resilience and efficiency of these critical services, is \$346 million. Again, and largely due to their population base, the cost impact falls disproportionately on the rural councils.



For the Hawke's Bay region to thrive, it is critical that core infrastructure and basic services are provided to all residents in the region at an affordable cost. Covid-19 is going to exacerbate affordability issues as the regional economy stumbles and employment opportunities are reduced.

The review has identified that expenditure on three water services is already at what some international benchmarks consider as unaffordable¹ in two of the council areas, again Central Hawke's Bay and Wairoa, but that this situation will significantly worsen with pending cost increases driven by meeting increased regulation, compliance requirements and environmental standards. This analysis is based on current income levels and inflated income levels that do not include any reductions as a result of Covid-19.

Table 1 Current and future affordability challenges

	Central Hawke's Bay	Hastings	Napier	Wairoa
Current affordability of water and wastewater (water rates as a percentage of household income)	2.69%	1.08%	1.05%	2.33%
Predicted affordability of water and wastewater (2028)	4.3 %	1.9 %	1.5 %	5.6 %

Following the Havelock North water contamination event, a joint working group comprising members of Hastings District Council, Hawke's Bay Regional Council and Hawke's Bay District Health Board staff was established to implement initial recommendations for change. Napier City Council staff then joined the working group.

Subsequently a joint committee, the Hawke's Bay Drinking Water Governance Joint Committee was formally established under the Local Government Act to provide oversight and direction in a range of water related matters across the region. The joint committee has members from all Hawke's Bay councils, the Hawke's Bay DHB, Ngāti Kahungunu Iwi Inc and is chaired by an independent member.

In addition, at Hastings District Council specifically

- A \$47.5 million investment package for the whole district was committed to which would lead to the eventual full treatment (UV and chlorine) of all drinking water sources by 2021.
- The three-waters team had been boosted from 13 to 25 staff members

There is a deep desire within the region to address the issues identified in the three waters service delivery review, but it is unlikely that these can be addressed without either a change in the delivery model and/or without financial support from central government

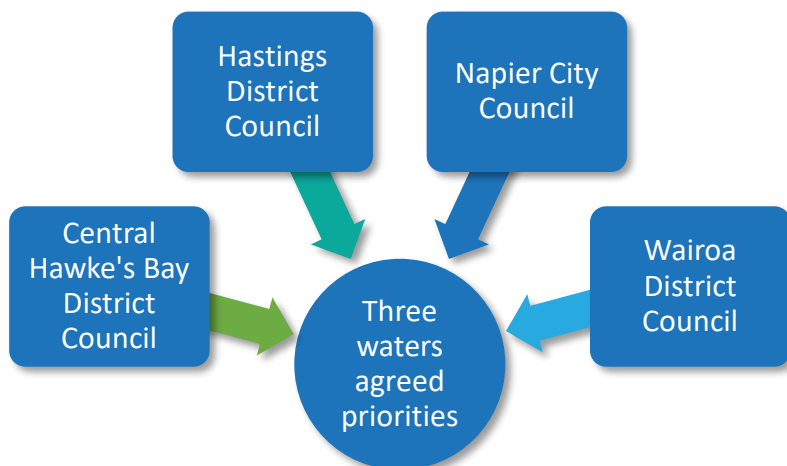
The councils understand that the status quo is not an option.

In developing this regional application to address the issues identified in the three waters service delivery review, the councils have agreed to focus on two themes for investment which respond to the key issues. These are:

- Improving drinking water quality
- Improving environmental outcomes



¹ Internationally, benchmarks range from spending between 2% and 5% of household income on three waters is considered unaffordable – *Water NZ National Performance Review 2017-18*.



This regional application is an excellent example of the strength of the Hawke's Bay councils working together. It builds on the work of the three waters review and is unique. Not just in the application but in the undertaking that if the application is successful, then a regional approach to the procurement will be undertaken and a coordinated approach to delivery of the programme by each council.

All of the upgrades and projects within this application have been factored into the three waters review business case the councils will consider later this year. They are not new.

The three waters service delivery project is about finding regional solutions, with the final report expected to be with the councils in September 2020

We can work together to deliver benefits for our communities

A collaborative approach where we work together to procure our collective programmes will streamline market engagement activities and create efficiencies, improving timeframes and reducing cost.



360 to 490

Additional construction jobs created

Working collaboratively will remove competition from within the region and allow a pipeline of work to be developed and clearly communicated to the market such that industry and councils can resource up to deliver.

Matariki, the Hawke's Bay's regional development strategy for economic, inclusive and sustainable growth identifies *Pou 3 - Resilient Infrastructure*. Improving our water security, quality and safety and developing a regional programme of infrastructure works is a key action within this pillar strategy. The councils already have invested in building capability to develop and deliver a strategic regional procurement perspective, working not only across our councils but also across our regions' stakeholders as a whole. The Director, Regional Strategic Procurement has been in place since early 2020. The role supports the councils with meeting their regional objectives and delivering positive impacts on economic, environmental, social and cultural well-beings across the region. This role provides leadership, develops and executes long-term procurement strategies for all of Hawke's Bay. This regional procurement role will coordinate the regional procurement. We understand the challenges and what needs to be done and already have in place a key part of the structure to deliver regionally.

Where other regions may be focussed on delivering the 'what', we are already looking at the opportunity of the 'how' and associated wider benefits potential for the region's communities.

Our programme will be innovative and focus on delivering *Value for Money, Quality and Social Outcomes*. It will include a range of different approaches to suit the particular requirements of the project, the region, the council itself and the market. For example:

- There is a large number of projects at different phases and of different complexities. This means some works can commence very quickly, and whilst these occur the design and consent of others can be progressed, with this work then being added to the pipeline as the initial work comes to an end.
- Using existing contracts and arrangements in place already.
- Collaborations between local and national contractors. We will take a regional approach to ensure that skills and expertise are allocated to the right projects, maximising employment opportunities and enabling rapid scaling. We have demonstrated capability to adopt these models locally, such as that used by Wairoa District Council where local contracting firm QRS and Fulton Hogan formed a partnership to deliver a PGF Funded project in Mahia.
- Working collaboratively with contractors, engineers, designers and regulators to ensure that issues and roadblocks are identified proactively, minimising the delays between design and construction.
- One innovative procurement approach that may be used is an Early Contractor Involvement model. The procurement will select party(ies) based on non-price attributes that align with key objectives such as local employment, cadetships, training, and specifically for Hawke's Bay, participation rates for Maori and inclusion of local companies and industry. The approach is based around reducing the time prior to construction commencing enabling greater collaboration between designers and contractors.
- Other options considered will be a combined panel arrangement whereby the clients, contractors and consultants operate as a multi-disciplinary panel to work alongside each council to assess projects, agree the dissemination of work then work collectively to deliver the works.
- Traditional procurement approaches will still be relevant for some projects.

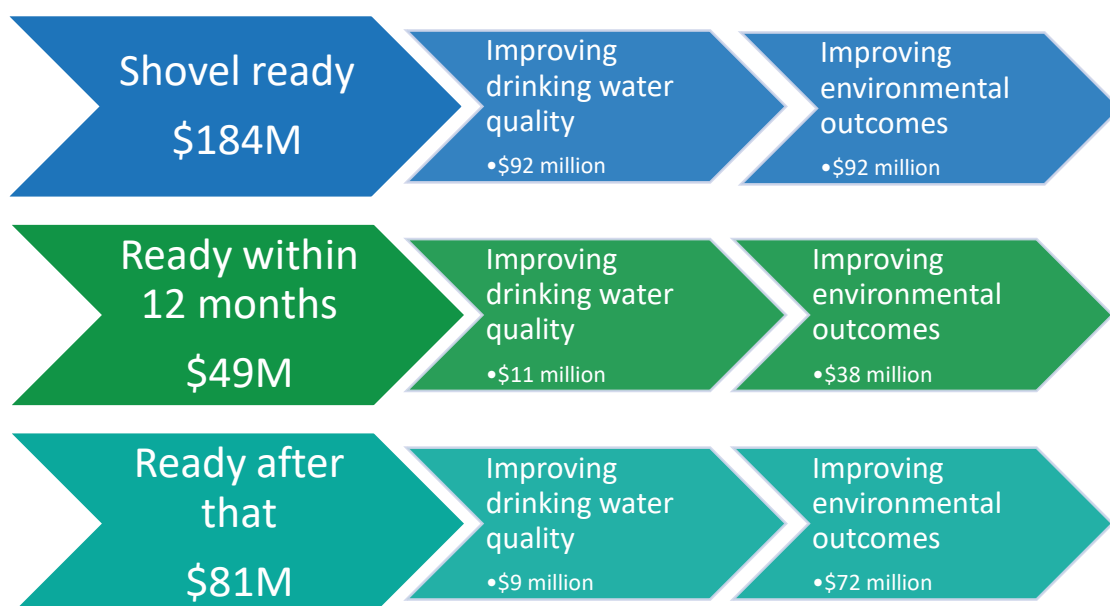


Waipukurau second water supply

- \$12M
- Shovel ready
- Improving drinking water quality

A snapshot of the programme is set out below highlighting the scale of the opportunities available within the region to deliver shovel ready projects which meet regional priorities and align directly with government objectives.

Figure 1 Our programme in a snapshot



The programme of regional planned infrastructure projects, estimated value of \$314M and 67 projects, could help support both the region's recovery (by leveraging the appropriate procurement pathway) as well as deliver the region's business and social wellbeing growth post Covid-19, including but not limited to:

- Value for money and quality
- Building improved skills and opportunities across the regional infrastructure market
- Social outcomes that benefit local industry and local employment such as:
 - Implementation of and use of apprentices and on the job training
 - Encourage and incentivise the use of local subcontractors, SMEs and suppliers
 - Encourage the use of both Maori and Pasifika suppliers
- Creating both short and longer term opportunities which allow local and national contractors to build and keep capability and resources within the region.

There is then an opportunity to further develop on a coordinated procurement approach for major regional infrastructure projects over the next decade, partnering with both industry and the education sector to optimise regional economic growth, improve resilience and sustainable business growth.



Wairoa Wastewater Treatment Plant upgrades

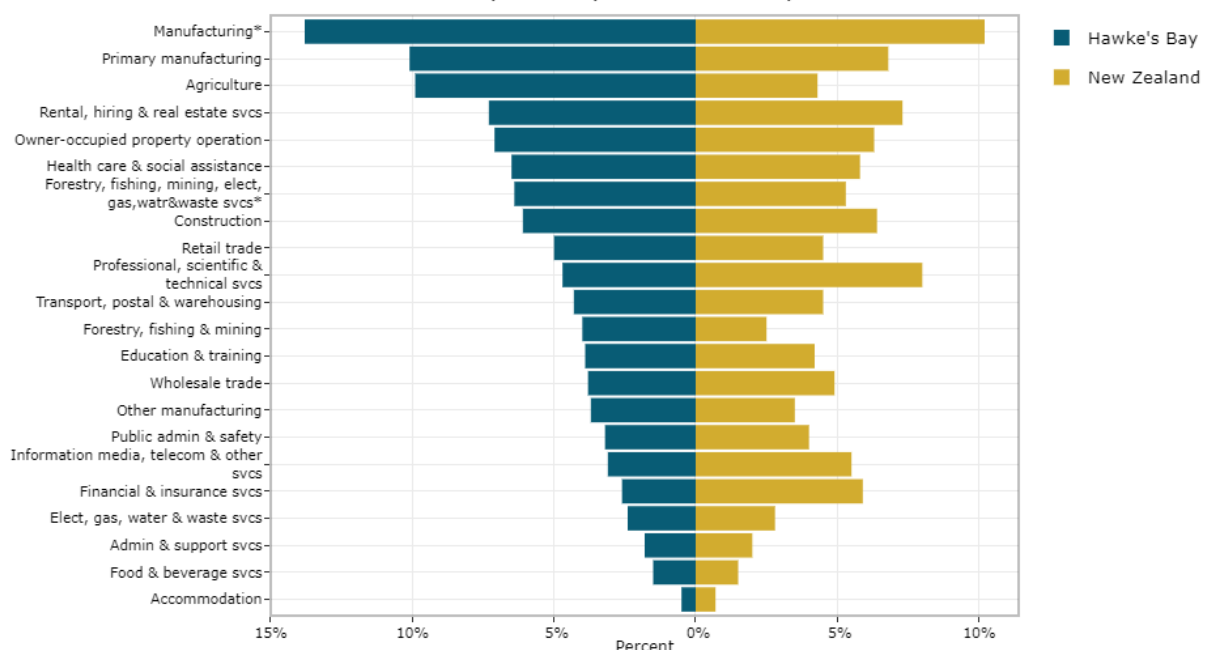
- \$8M increasing to \$60M
- Initial stage shovel ready
- Improving environmental outcomes

Our economy is being hit

Hawke's Bay has been dramatically affected by Covid-19. The OECD predicts a 30% decline in the New Zealand economy and in New Zealand forestry, primary industry and manufacturing are some of the most affected industries.

The Hawke's Bay economy is heavily geared around the agricultural value chain, with agriculture, primary manufacturing and manufacturing making up 33.8% of the regional GDP (as compared to only 21.3% of the national GDP). It also means it is extremely sensitive to changes in export demand, which are likely to arise as the impacts of Covid-19 are felt across the global economy. The regional GDP breakdown, compared to New Zealand, is highlighted in the chart below (source Statistics New Zealand).

GDP contribution by industry for Hawke's Bay and New Zealand in 2018



As suggested in the Statistics New Zealand data, the Hawke's Bay economic profile has the following key features relevant to Covid-19:

- Visitors contributed \$672 million of regional spending in the Hawke's Bay Region in the 12 months to December 2019. Of that figure, \$190 million came from domestic tourism facilitated by regional air connections that are no longer operating, and 26% came from international tourism. Both of these markets are likely to suffer long-term reductions following the Covid-19 crisis.
- The Tourism industry employs 5,600, with a significant number of these jobs now at risk.
- In Napier weekly card transaction data for the week ending 5 April 2020 shows a reduction of over 80% in spending from international cards when compared to the same week last year.
- The same data shows an almost 100% reduction in spending in Hastings and Napier in some industries (hospitality & accommodation, clothing and footwear, home and recreational retail) when compared to the same week last year. Cumulatively, for the period from 3 February 2020, there has also been a reduction of between 16 – 25% in card spending in the hospitality, clothing and footwear, and "other" categories. These spending reductions are not sustainable, and it is anticipated that a number of small businesses are likely to close as a result of the downturn.
- Card expenditure in Napier and Hastings is the only current information available that shows the impact of Covid-19, but they are significant contributors to the regional economy, and we would anticipate similar trends across Hawke's Bay. The change in overall weekly spending in Napier (left) and Hastings (right) is shown in the charts below.²

Figure 2 Weekly card transaction measure (Napier City), week ending 5 April 2020

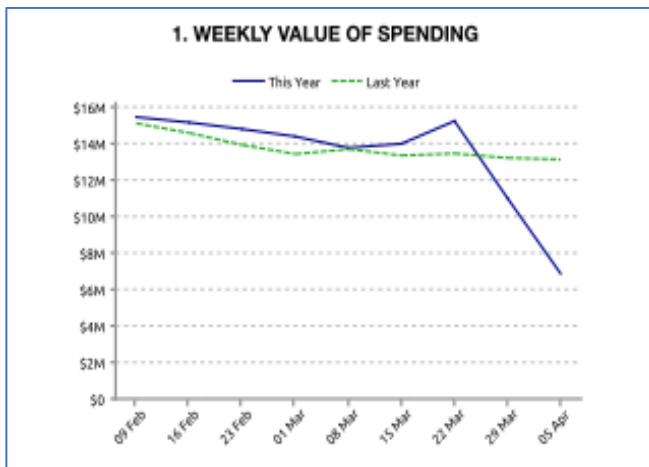
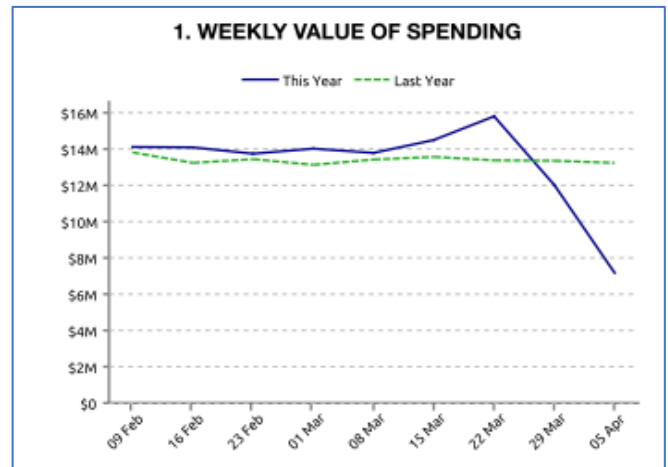


Figure 3 Weekly card transaction measure (Hastings District), week ending 5 April 2020



- Driven by the primary sector with competitive advantage in pip fruit, viticulture, beef to a lesser extent. Hawke's Bay is strongly represented in primary and secondary industries (i.e. growing, production and processing) compared to the national average. Even if demand remains high in this sector the concern is ensuring that Hawke's Bay retains market share with significant international competition in markets that we have been strong in. Impacts are being felt with staffing shortages and the impact on productivity of safe distancing in the workplace slowing down lines, and the additional hygiene procedures required between shifts.
- In line with national projections, we will likely see in the range of 10-20% unemployment as the new norm. Retraining, micro-credentialing and 'earn while you learn' opportunities will be vital in redeployment of the workforce.

² Prepared by Marketview

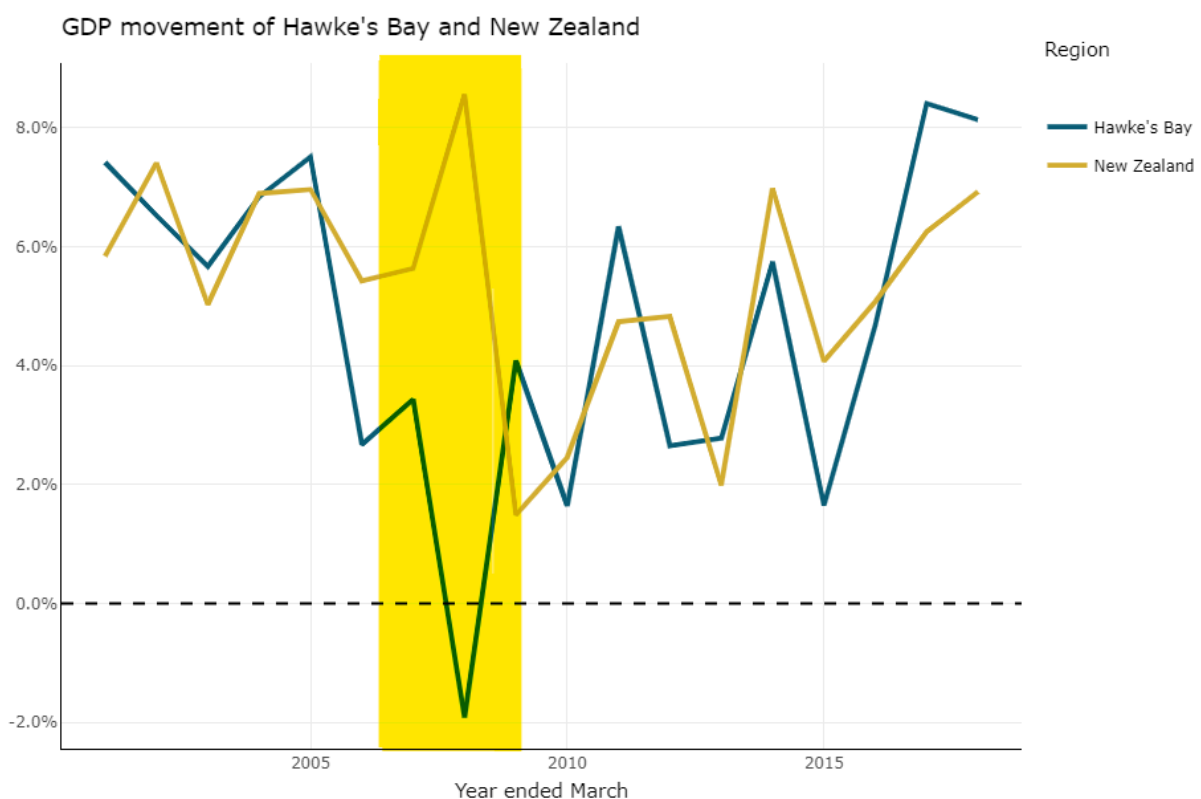
- Many international businesses are located in Hawke's Bay for food processing and food production, including key large-scale exporters and domestic suppliers.
- Heavy reliance on water for growing.
- Forestry and logging, traditionally a competitive regional advantage, is now heavily impacted by the Covid-19 crisis in China, the recent fall in log prices initially and now with classification as a non-essential service halting trading.



- Healthcare is a major employer, with Hawke's Bay having a higher than national average percent of seniors.
- Small food suppliers were initially impacted in the move to Level 4 trading restrictions however this has recently shifted, and we are seeing many of the local producers and artisans (e.g. Farmers Market) having to move to new business models with online deliveries and collective sales.
- Napier is New Zealand's 4th largest container port, with an emphasis on exports.

While the true impacts of Covid-19 are not yet known, Statistics New Zealand publishes historical data on regional and national GDP. This data show that Hawke's Bay, as a region, is particularly sensitive to global economic downturns, with Hawke's Bay experiencing a disproportionate economic downturn during the Global Financial Crisis (in 2007-2008) than the rest of New Zealand (GDP movement in 2008 was lower in Hawke's Bay than any other region in New Zealand).

If economic commentary is to be believed, the shocks to the global economy from Covid-19 are likely to be substantially larger than the Global Financial Crisis.



Support our application

Early economic intervention through a coordinated regional programme of investment into critical three waters infrastructure will greatly assist Hawke's Bay in avoiding the same economic impacts that hit so hard in 2007-2008 and may insulate the local economy.

The program of work submitted in this application is a regionally agreed and prioritised investment programme into critical three waters infrastructure. It builds on the collaborative work in the region on three waters that has been going on since January 2019. It addresses the regional priority the councils gave our waters and three waters infrastructure in the 2019 Triennial Agreement. The region knows what its challenges are, knows that this programme will help address those and can be delivered regionally.

The approach of making a regional application is, we believe, unique in New Zealand and has significant benefits regionally and nationally.

- It will create between an estimated 360 and 490 additional direct construction jobs³ in a regional economy being hit hard by Covid-19.
- It will provide an immediate series of projects right across the region as well as a longer-term pipeline of projects around which local and national contractors and professional services practices can scale up to resource.
- There will be no regional competition for resources: in fact, there will be efficiencies and benefits from working regionally and mobilising local contractors. There will be no regional competition for resources: in fact, there will be efficiencies and benefits from working collaboratively across the region and mobilising local and national contractors
- The investment is in projects which meet regional and national priorities to
 - improve the quality of drinking water
 - improve environmental outcomes from wastewater and stormwater management.



³ If the programme is implemented over a ten year period, a labour resource of between 150 - 210 FTE is required. If the programme is fast tracked over a three year period, labour resource of around 510 to 700 FTE is required.