

Waikato Sub Region

3 Waters Shared Services High Level Assessment

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and Confidential*

March 2013





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28 March 2013

Dear Tim

In accordance with your instructions as confirmed in our letter of engagement dated 29 October 2012, we provide our report outlining the high level assessment of shared operation of water services between Hamilton City, Waipa District and Waikato District Council (the Councils).

This report should be read in conjunction with the restrictions in Appendix 3.

If you require any clarification or further information, please do not hesitate to contact Matt or David.

Yours sincerely

David Walker
Director

Matthew White
Director

Craig Rice
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Table of Contents

	Page
Executive summary	5
Background	9
Overview of 3 Waters network	12
Reticulation analysis	18
Treatment plant analysis	24
An Integrated 3 Waters Organisation	29
Recommendations	33
Appendices	37

Executive summary

Executive summary

Introduction

The Councils wish to gain a broad understanding of the benefits of establishing a 3 Waters shared services arrangement to deliver on the following objectives:

- Create economies of scale
- Develop strategic capacity (resilience) across the water network
- Deliver operational excellence
- Improve service delivery
- Provide greater environmental, community and cultural focus.

It was agreed by the Councils that to expedite this understanding, a high level assessment of the benefits and costs of joint delivery was to be completed.

Approach

At the inception of the process a tour of facilities was performed to develop a collective understanding of the varying scale of facilities operated by the Councils. This informed the subsequent performance of a high level benchmarking and financial analysis of the 3 Waters operations. This tour and analysis identified a number of options where operating collectively could result in benefits to each council which we shared with the steering group members during an update workshop. Other non-operational functions such as consent monitoring were also identified as areas that would neatly fit into the current shared service model being operated for lab testing and trade waste.

As directed by the group at the joint review workshop, this report concentrates on the reticulation and plant operations functions of the 3 Waters operations and seeks to identify opportunities for collaboration in these areas. Other functions were agreed to be excluded from the scope of this report.

Contextual background

- The analysis of the network size and scale highlights the differences between the three councils and the benefit of population density that enables the Hamilton City Council to have larger but fewer treatment plants, pump stations and reservoirs.
- The total cost of delivering the 3 Waters over the Councils is in excess of \$78.8m per annum.
- This cost comprises three components:

	\$000
Reticulation	9,845
Plant	19,310
Shared costs	<u>49,660</u>
	<u>78,815</u>

Shared costs which were out of scope for this review are largely composed of depreciation, interest and overheads.

- Each council has its own reticulation services team. A number of vacancies exist across the councils especially for operations engineering staff, which potentially provides immediate sharing opportunities.
- Hamilton City is the only council which has an in-house works and construction team. There is the potential to outsource this function.

Executive summary (cont.)

Key findings

- Reticulation services make up 12.5% of the spend on the 3 Waters which totals \$10m. The reticulation activities are labour intensive.
- The total operational reticulation team for all councils (below manager) is made up of 59 staff with approximate annual salary cost of \$3m. There is potential for non-specialised work to be contracted out.
- By contracting out the basic reticulation maintenance role, there would be further opportunity for savings from reorganising the remaining staff.
- Hamilton City is the most cost effective council when assessed against volume of reticulated water and properties serviced.
- Waikato District Council's waste water reticulation costs are significantly higher than the other councils.
- Plant operations accounts for over \$19m of the total water spend.
- The core treatment plant teams are lean and reliant on key personnel. Integrating the teams would help reduce key person risk, leverage existing capacity and allow for greater flexibility in shift work reducing over-time payments.
- With its high number of treatment plants and pump stations Waikato District Council has the highest plant operation costs per thousand litres of water processed.
- Analysis of waste water spend highlights the increased costs in running a number of treatment plants. Waipa District appears to be performing well on an operating cost per property serviced basis.
- The benefit of scale is demonstrated by the treatment volume per employee. With its large number of treatment plants and pump stations, Waikato District Council is not able to achieve the economies of scale realised by Hamilton City Council.
- When assessing the staff pool from the three councils as on a single business unit, the structure appears very top heavy with a high level of duplication.
- It appears that the number of FTE could be reduced by combining the reticulation and plant teams from the three councils. This would generate annual staff savings of approximately \$1.4m. This level of reorganisation would require a new delivery model.

Executive summary (cont.)

Summary recommendation

Our analysis has identified that there are potential savings and operational improvements to be made by the Councils working together in both the reticulation and plant operations spaces.

This can be achieved in two ways either moving forward with the full consolidation of the teams (which we recommend) or moving forward in a staged approach. A possible staged approach diagram is provided later in this report.

Full consolidation

To achieve the full benefit from a combined 3 Waters plant and reticulation offering, a full integration of the plant and reticulation teams should be performed. This would result in significant savings in labour and provide a more resilient workforce.

To achieve this outcome a new delivery model would be required.

Staged approach

We note that the current shared service model being operated by the councils is reaching its limit from an administrative perspective. If new services were to be added, additional management resources may be required which would off-set some of the benefits achieved by changes made.

Subject to the comment above, we believe the following could be undertaken utilising the existing delivery model:

- Reorganisation of operational reticulation staff
- Reorganisation of operational plant staff
- Centralisation of SCADA monitor activities, removing this role from the field engineers
- Reorganising engineering staff where vacancies exist and as a result freeing them up from monitoring activities could result in immediate benefit from not having to employ new staff
- Market testing for reticulation outsourcing
- Market testing for construction outsourcing
- Adjusting shift work times utilising a wider pool of plant and reticulation staff to reduce overtime costs
- Centralising negotiation of contractor costs.

This staged approach does not preclude the full consolidation from occurring at a later point. In our recommendation section of this report we outline a potential staged approach whereby the councils would work towards a full consolidation.

Background

Background

Background

Nationally, there is a growing recognition of the importance of water and the opportunities available to better manage this resource. Local government through the provision of 3 Waters services is a significant player in the water sector. The combination of growing expectations associated with increased regulatory standards has driven the requirement to upgrade infrastructure in both water and wastewater schemes. In addition, there is a growing demand for enhanced stormwater services to mitigate the effect of flooding and environmental degradation of receiving waters. The combination of these factors has led to greater funding demand on local government and general focus on water delivery across the country.

Within this context the broader Waikato region is currently investigating the joint provision of 3 Waters services. The councils as a sub regional group, currently work together in a number of areas and have identified that there may be benefits to them delivering water services jointly due to their geographical proximity. They have agreed to initiate a high level study to run concurrently with the region-wide shared services study to identify key benefits and costs of the councils combining their water operation services. This work would be used as an input to the wider review and would also enable the councils to make a decision as to whether or not to develop a full business case for this initiative.

Scope of work

We have been engaged to perform a high level assessment of the potential benefits of sharing 3 Waters services benefits across the Councils, through:

- A general assessment of the current operational functions within the councils. This includes the following key areas:
 - 3 Waters' reticulation/network operations and maintenance activities
 - Treatment plant (water and wastewater) operations and maintenance activities
 - Construction projects (if undertaken)
- Reviewing performance against in-house and external staff resources applied to operational functions
- Understanding network size, scale and scope
- Analysing summary historical information produced by the councils of the 3 Waters' revenue and financing including overhead cost structure
- Identifying at a high level, the potential costs and benefits of shared operational services arrangements
- Documenting the analysis and review in a report, for testing in a workshop with management of the councils
- Producing a final report incorporating details of the analysis undertaken, the findings and high level matters arising from the work. This incorporates a high level assessment of potential structural options including CCO and shared services within current governance arrangements.

Background

Report structure

The report is structured to present the high level findings of the review. This includes a snapshot of key metrics including:

- Network size and scale
- Financials and operating metrics
- Organisation structure.

The following sections features:

- The results of the high level analysis of both the reticulation and treatment plant operations
- A potential structure for a 3 waters organisation
- Conclusions arising from the analysis along with recommendations and next steps.

Workshops

During the project two workshops were held with the steering group which included the Councils 3 Water managers and other key stakeholder senior managers.

These workshops considered and provided guidance both around the scope and initial high level findings.

Specific outputs from those workshops included opportunity impact assessments tables which have been summarised in Appendix 1.

It was also agreed at the second workshop that a roadmap could usefully be drafted to chart the order of change and “tipping points” for governance structure amendments. This roadmap is contained in Appendix 2.

Restrictions and sources of information

This report is based on limited information and limited procedures and should be read in conjunction with the restrictions outlined in Appendix 3. We have relied on the information provided to us by the Councils and have not validated or audited its source.

Overview of 3 Waters network

The overview of the network size and scale highlights the differences between the councils and the benefit of population density that enables the Hamilton City Council to have larger but fewer treatment plants, pump stations and reservoirs

	Hamilton City Council	Waikato District Council	Waipa District Council	Total
General				
Properties	54,320	28,846	20,330	103,496
Water supply				
Total Water Treatment Plants	1	10	6	17
Total Water Pump Stations	6	10	11	27
Total Water Supply Reservoirs	7	31	14	52
Total Water serviced properties	52,829	12,080	10,793	75,702
Total Water main length (km)	1,113	700	585	2,398
Water Supplied to Own System (metres cubed)	19,423,000	4,906,621	6,691,757	31,021,378
Waste water				
Total Wastewater Pump Stations	127	79	48	254
Total Wastewater Treatment Plants	1	8	2	11
Total Wastewater serviced properties	52,340	9,070	11,082	72,492
Total Waste water pipe length (km)	799	246	244	1,289
Total Wastewater Produced (metres cubed)	16,429,813	2,307,163	2,306,381	21,043,357
Storm water				
Stormwater Treatment Devices	27	41	3	71
Total Stormwater Serviced Properties	44,905	9,542	12,805	67,252
Total Stormwater pipe length (km)	651	102	139	892

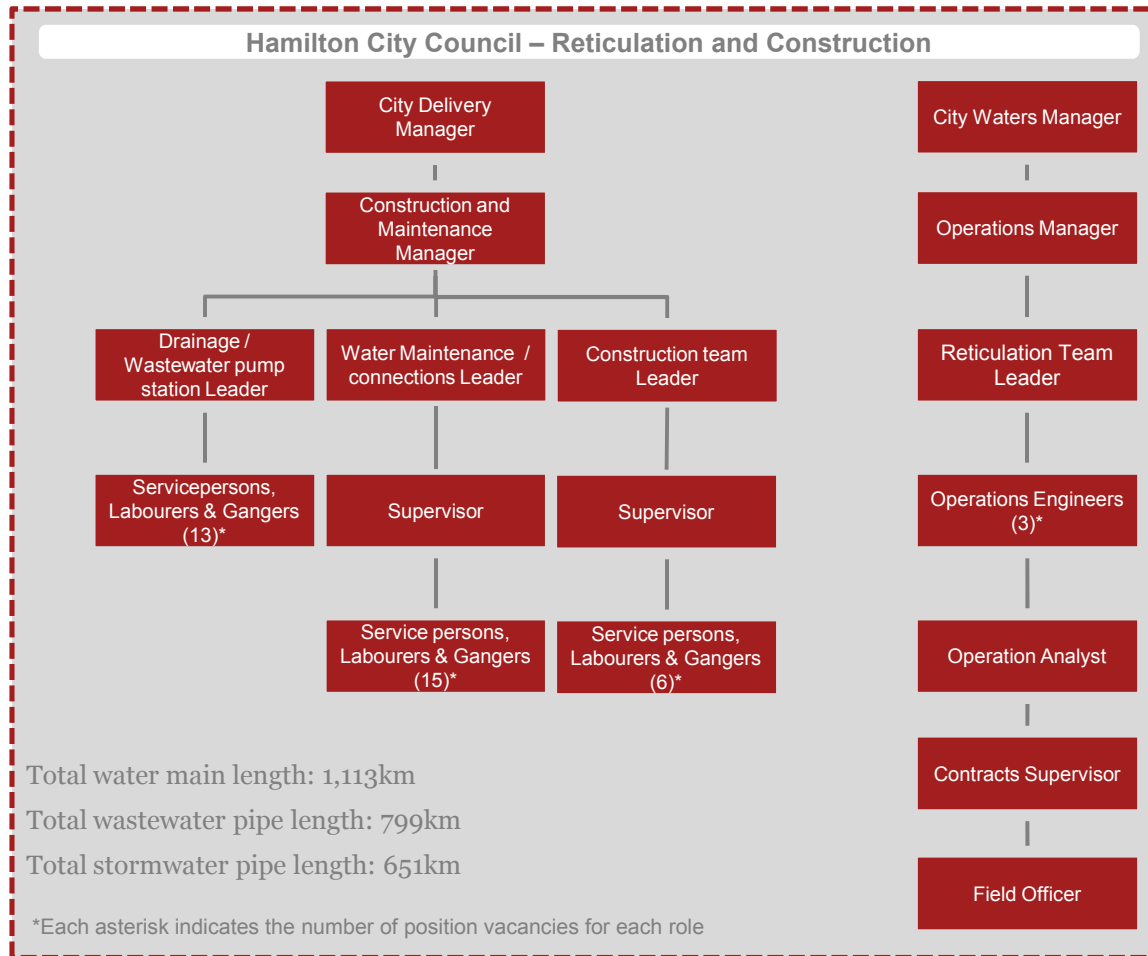
Source: 2011/2012 National Performance Review

The total cost of delivering the 3 Waters over the three Councils is \$78.8m per annum

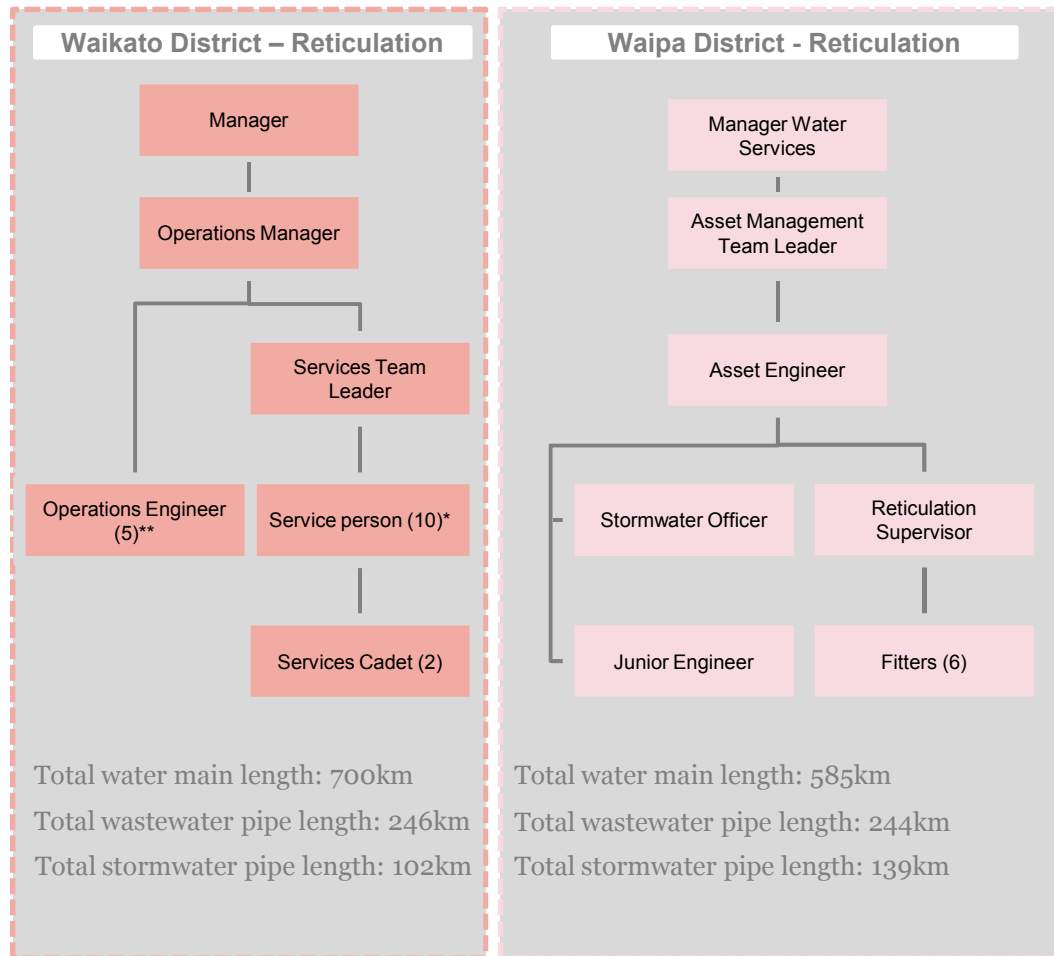
High level cost summary by water service

	Water supply \$000	Wastewater \$000	Stormwater \$000	Total \$000
Hamilton City Council				
Reticulation costs	3,155	709	1,666	5,529
Plant costs	3,830	6,650	0	10,479
Shared costs	12,293	13,133	7,613	33,039
Total costs	19,278	20,492	9,278	49,048
Waikato District Council				
Reticulation costs	1,443	618	487	2,548
Plant costs	2,263	1,898	350	4,510
Shared costs	2,633	2,575	521	5,729
Total costs	6,339	5,090	1,358	12,787
Waipa District Council				
Reticulation costs	1,050	348	370	1,768
Plant costs	2,504	1,415	402	4,321
Shared costs	5,533	4,186	1,173	10,892
Total costs	9,087	5,949	1,945	16,980
Total				
Reticulation costs	5,648	1,675	2,522	9,845
Plant costs	8,596	9,962	752	19,311
Shared costs	20,460	19,894	9,307	49,660
Total costs	34,704	31,530	12,581	78,815

Hamilton City Council is the only council that delivers capital projects in-house. Consideration should be given to testing the market for the external delivery of this service.

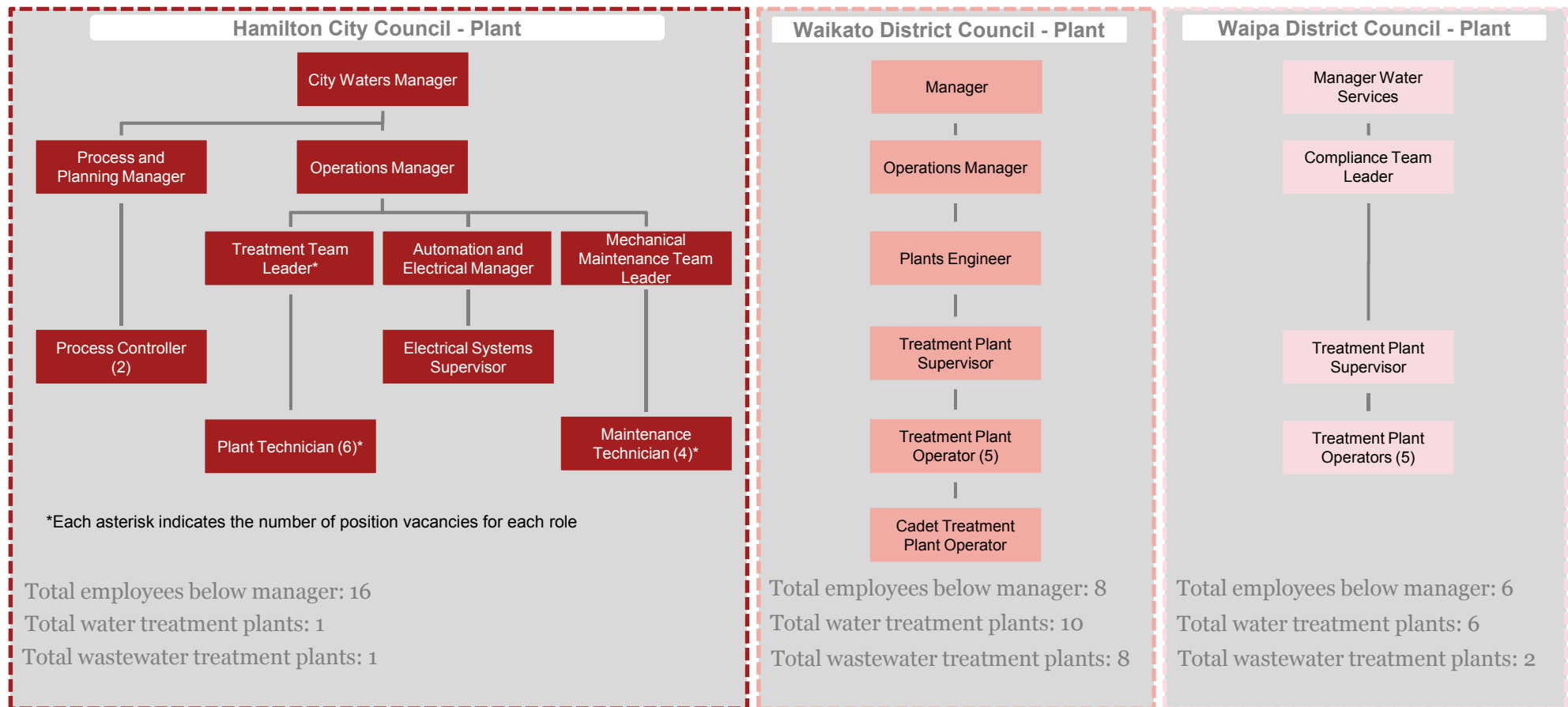


Each Council has its own reticulation services team. A number of vacancies exist across the Councils at the operations engineering staff level



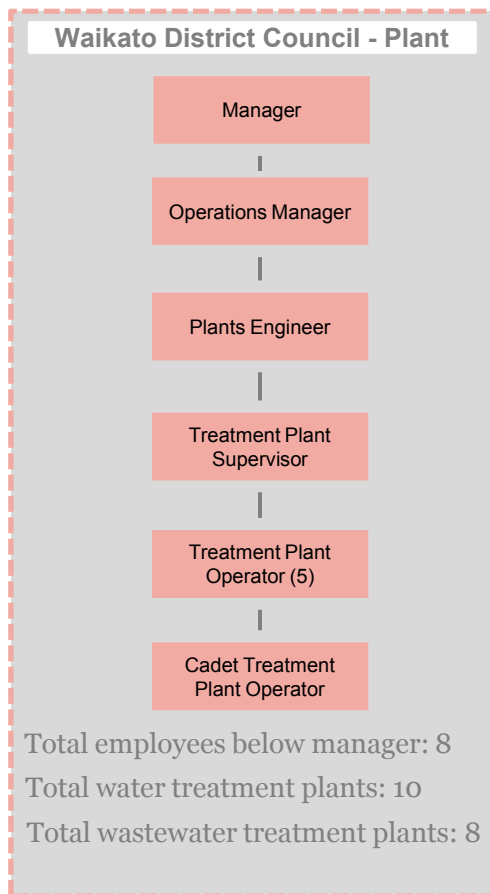
*Each asterisk indicates the number of position vacancies for each role

The core treatment plant teams are lean and reliant on key personnel. Integrating the teams would help reduce key person risk, leverage existing capacity and allow for greater flexibility in shift work, minimising the requirement for wage over time payments

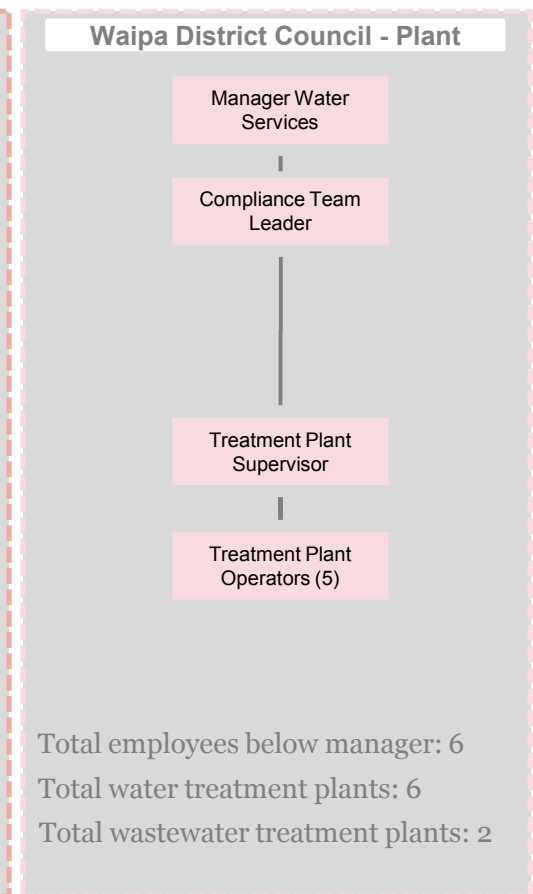


*Each asterisk indicates the number of position vacancies for each role

Total employees below manager: 16
 Total water treatment plants: 1
 Total wastewater treatment plants: 1



Total employees below manager: 8
 Total water treatment plants: 10
 Total wastewater treatment plants: 8



Total employees below manager: 6
 Total water treatment plants: 6
 Total wastewater treatment plants: 2

Reticulation analysis

Reticulation services make up 12.5% of the spend on the 3 Waters with reticulation activities being labour intensive

Reticulation Costs by Council	2012
	\$
Hamilton City Council	5,529,443
Waikato District Council	2,547,794
Waipa District Council	1,727,674
Total Expenditure	9,804,911

Key Reticulation Costs	2012
	\$
Labour	5,859,825
Materials	1,356,469
External Labour/Services	845,568
Other	1,743,049
Total Expenditure	9,804,911

	Water	Waste	Storm
	\$	\$	\$
Reticulation Costs by water service	5,565,936	1,692,493	2,546,482
		Total	9,804,911

Reticulation costs account for \$9.8m of the \$78.8m spend on the 3 waters across the Councils. This is approximately 12.5% of the total spend.

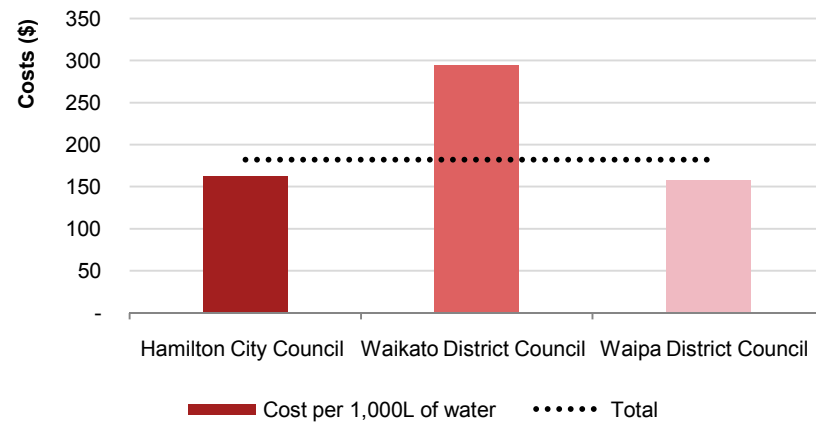
A summary of the key reticulation costs highlights:

- The majority of the costs are labour related costs; and
- External labour is widely used to assist with reticulation services.

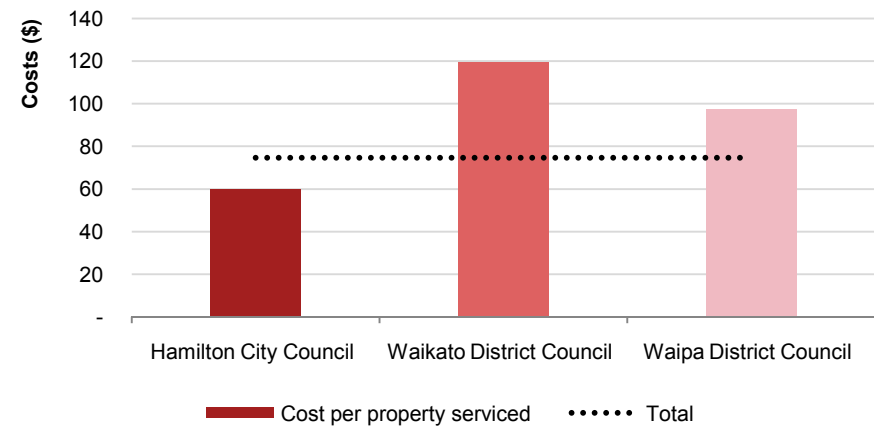
Water reticulation costs are approximately 57% of the total reticulation costs.

Hamilton City is the most cost effective and Waikato District is the most expensive council when assessed against volume of reticulated water and properties serviced

Reticulation cost per thousand litres - water supply

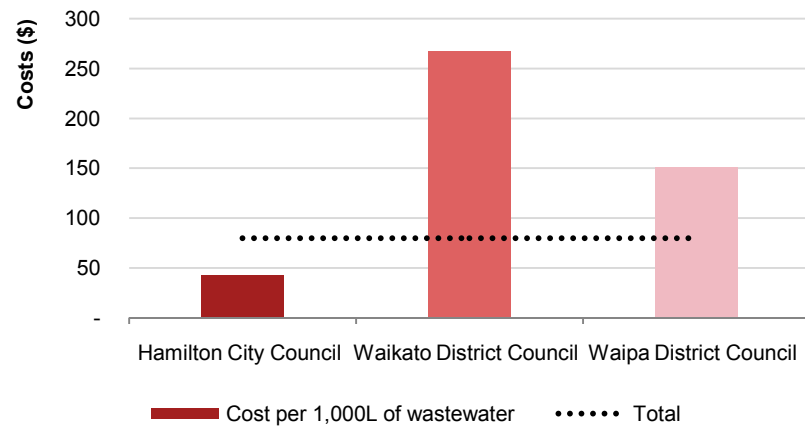


Reticulation cost per property serviced– water supply

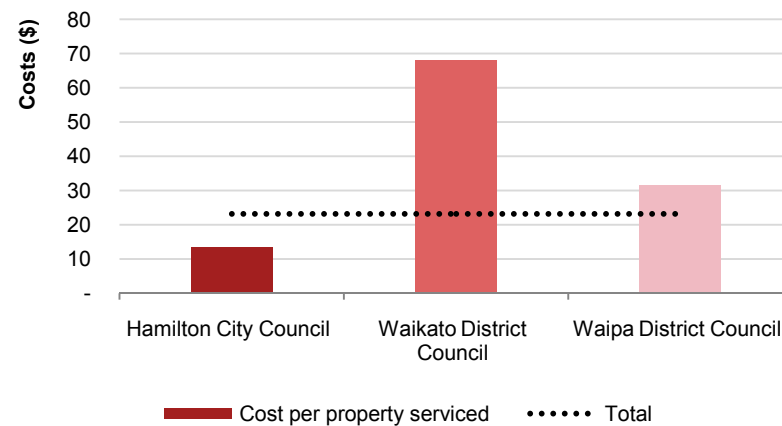


Waikato District Council wastewater reticulation costs are significantly higher than the other two councils. This is likely driven by the higher number of treatment plants, pump stations and reservoirs in the region compared to the other councils

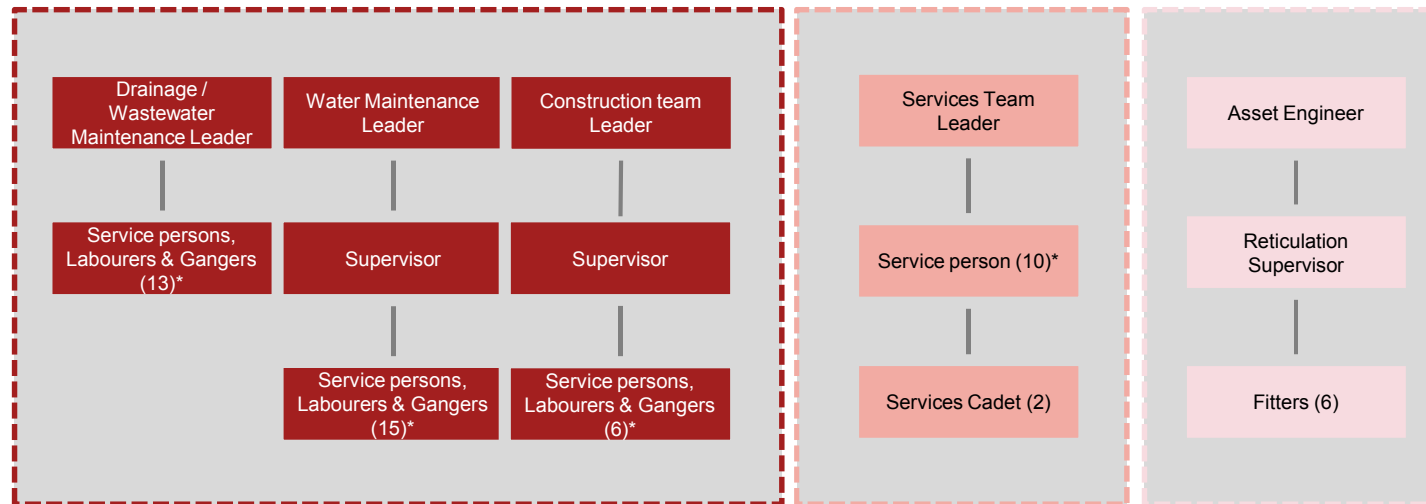
Reticulation cost per litre – wastewater



Reticulation cost per property serviced – wastewater

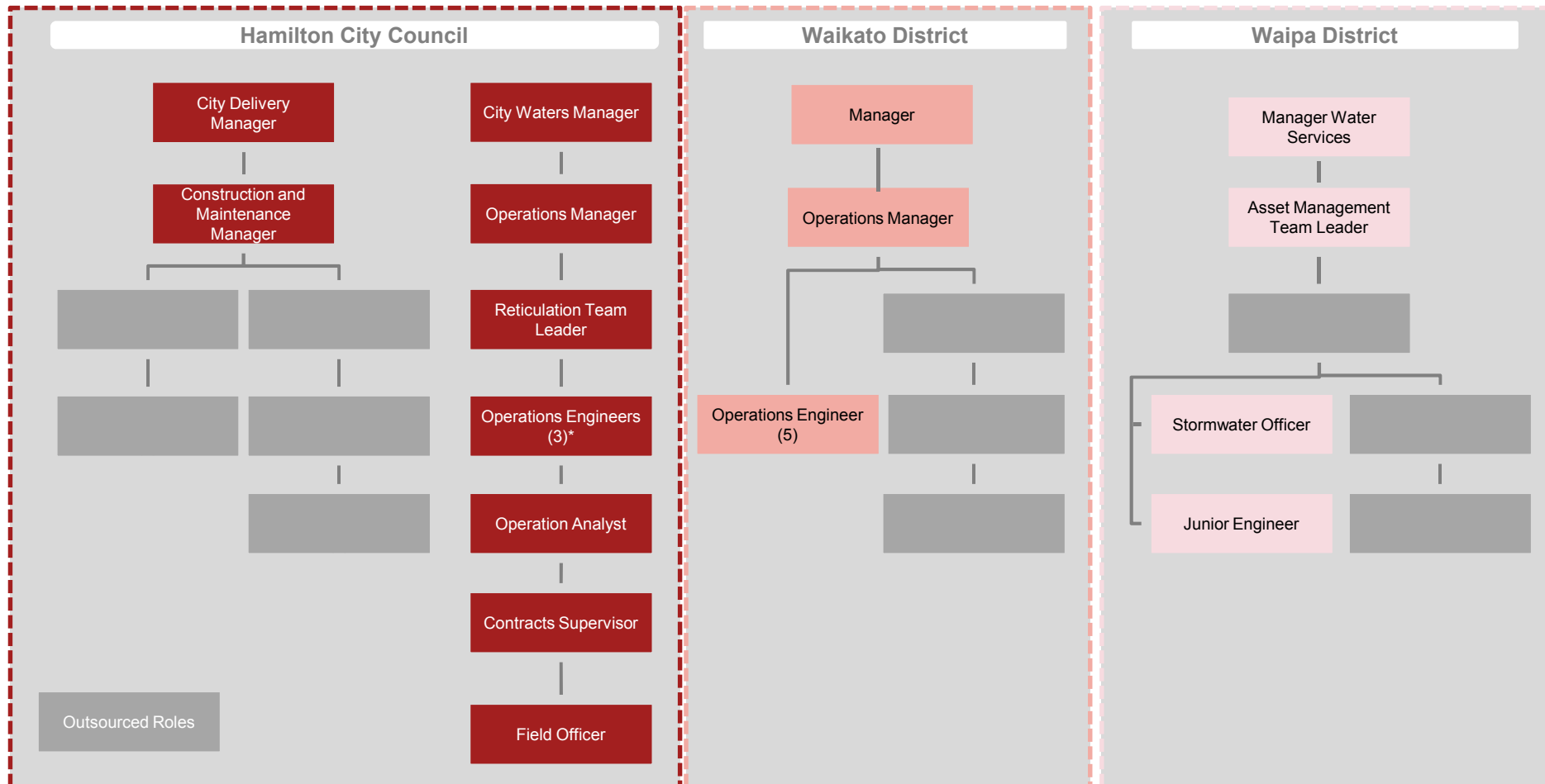


The total operational reticulation team for all councils (below manager) is made up of 60 staff with an approximate annual salary cost of \$3m. There is the potential that this non-specialised work could be contracted out



- By going to market for the services performed by the above team there may be the opportunity to generate savings. For the purposes of this report we have assumed a 3% to 5% reduction is achieved.
- By going to market and contracting out the services this could generate between \$90k and \$150k of annual savings.
- In addition to the savings generated above, there would be 4 managers that would be underemployed which would result in either further savings or operational improvements in other areas.

By contracting out the basic reticulation maintenance role, there would be further opportunity for savings from reorganising the remaining staff. Market testing should also be performed for the construction activities carried out in-house by Hamilton City



Treatment plant analysis

Plant operations accounts for over \$19m of total water spend

Plant Costs by Council	2012 \$
Hamilton City Council	10,479,472
Waikato District Council	4,510,093
Waipa District Council	4,224,518
Total Expenditure	19,214,083

Key Plant Costs	2012 \$
Labour	3,559,099
Bio Solids/Chemicals	2,963,885
Electricity	3,466,255
SCADA	316,844
Contractors	1,007,565
City Delivery - Other Plant	978,976
Water Purchased	964,654
Rates Other Authorities	734,294
Operations	1,271,664
Activity Operating Projects	937,487
Other	3,013,361
Total Expenditure	19,214,083

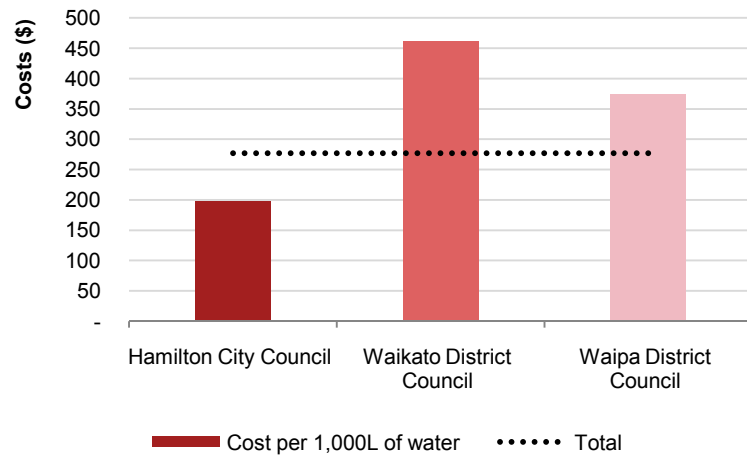
Plant Costs by water service	Water \$	Waste \$	Storm \$
	8,472,774	9,989,201	752,108
		Total	19,214,083

• Our tour of the plant facilities highlighted that plants are being run by very few staff. While consolidation in this area may not lead to a large number of direct staff number savings it appears benefits could be obtained from combining the functions across the councils. Benefits could include:

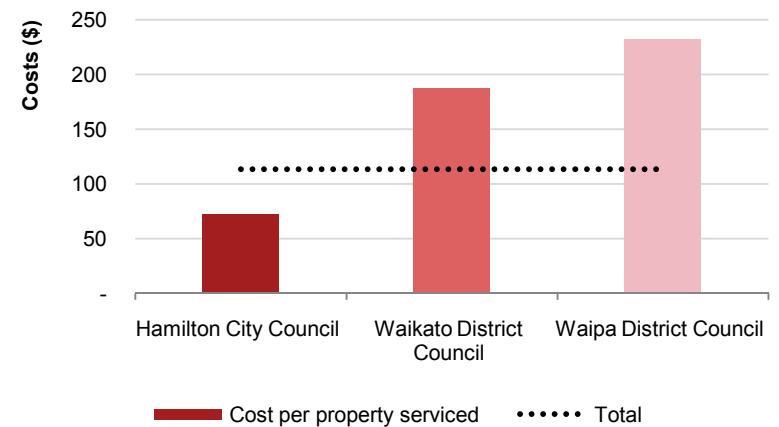
- Centralisation of plant monitoring functions, which would free up engineering staff to focus on operational rather than monitoring tasks.
- Having a larger pool of employees and a centralised function would enable shifts to be structured to reduce the amount of overtime required.
- Reducing key person risk from the regional councils and building overall resilience in the work force.
- Savings from requiring fewer contractors or negotiating improved rates with contractors.

With its high number of treatment plants and pump stations Waikato District has the highest plant operation costs per thousand litres of water processed

Plant operation cost per litre - water supply

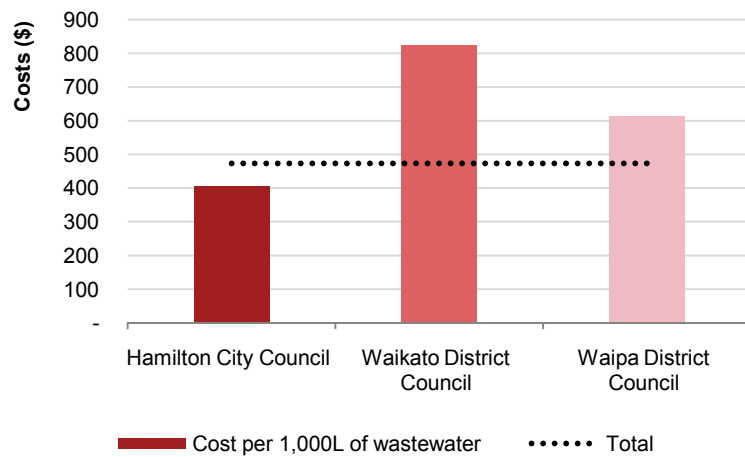


Plant operation cost per property serviced – water supply

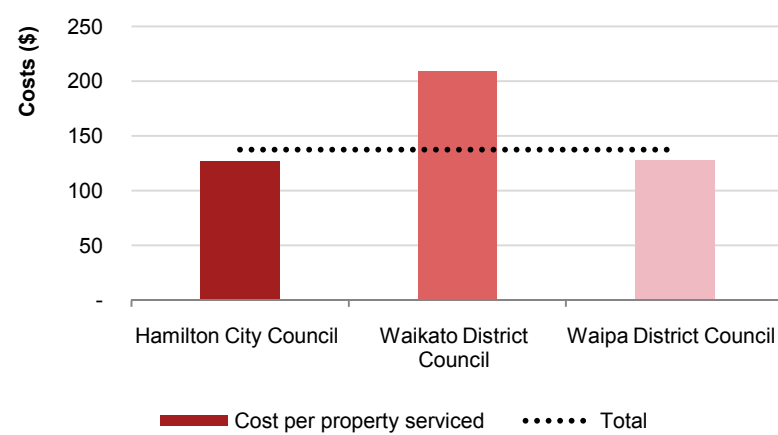


Analysis of wastewater spend highlights the increased costs in running a number of treatment plants. Waipa appears to be performing well on a operating cost per property serviced basis

Plant operation cost per litre – wastewater



Plant operation cost per property serviced – wastewater



•We note that the Waipa district has 2,000 more properties with wastewater connections than Waikato District Council.

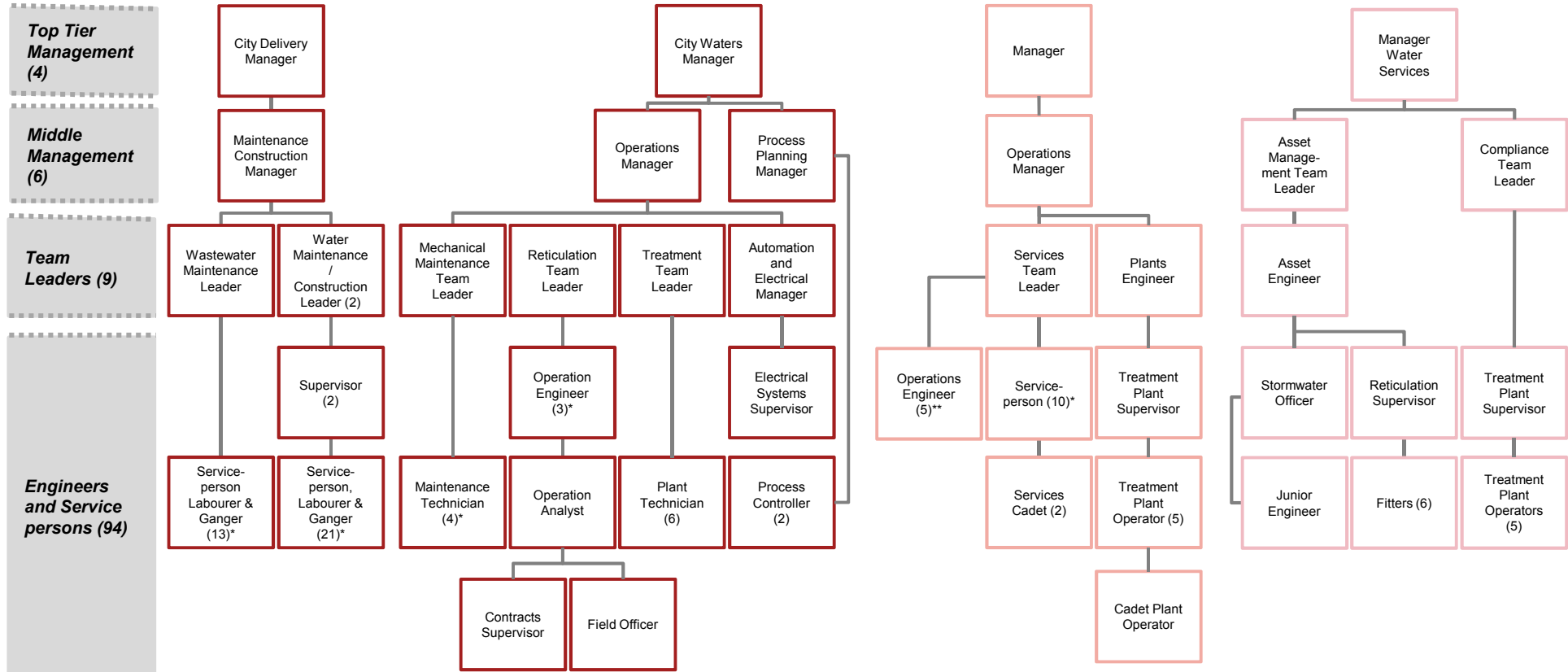
The benefit of scale is demonstrated by the treatment volume per employee shown below. With its large number of treatment plants and pump stations, Waikato District Council is not able to achieve the economies of scale realised by Hamilton City Council

	Hamilton City Council	Waikato District Council	Waipa District Council
	2012	2012	2012
Water treated per employee below manager (m3)	1,213,938	613,328	1,566,667
Wastewater treated per employee below manager (m3)	1,026,863	128,176	384,397
	2,240,801	741,503	1,951,064
Properties Serviced per Employee - Stormwater	2,807	1,193	2,134

An Integrated 3 Waters Organisation

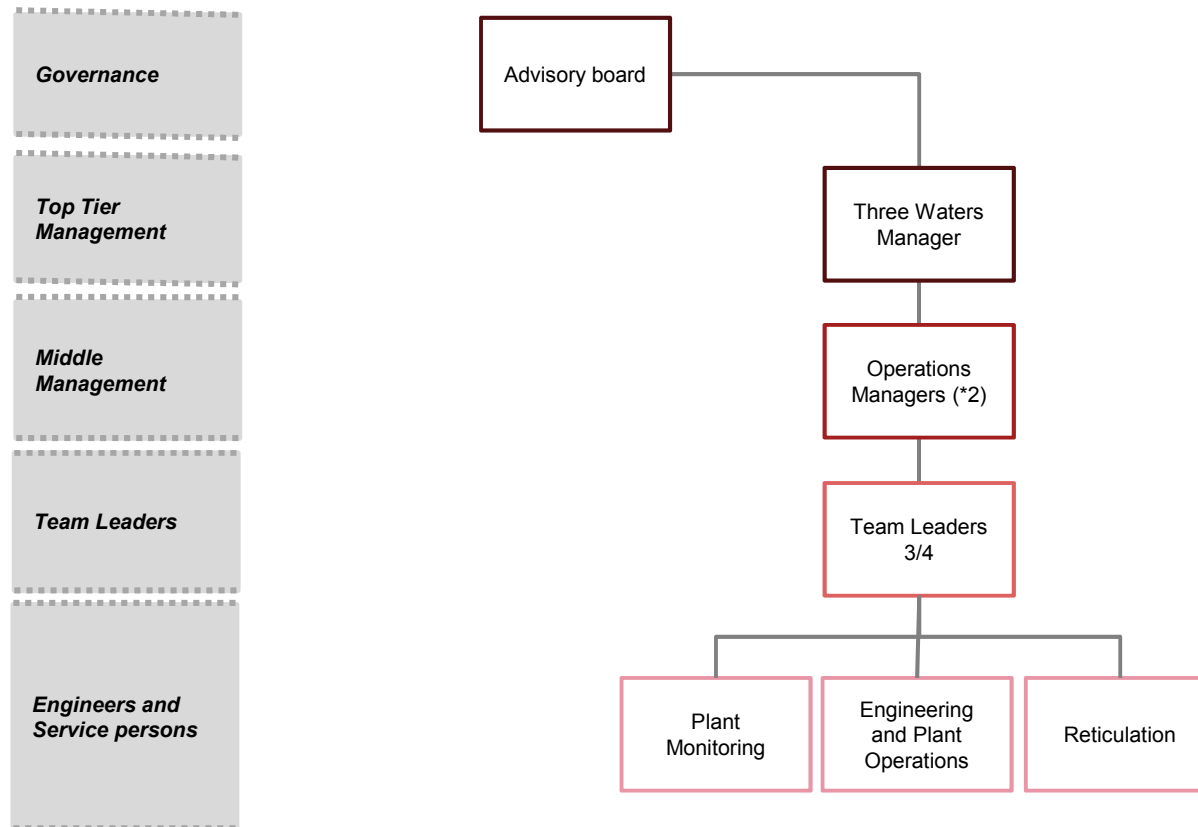
When assessing the staff pool from the three councils as one business unit, the structure appears very top heavy with a high level of duplication

Current Three Waters Operation (reticulation and plant treatment)



*Each asterisk indicates the number of position vacancies for each role

It appears that FTEs could be reduced by combining the reticulation and plant teams from the Councils. This has the potential to generate annual staff savings of approximately \$1.4m. This level of reorganisation would require a new delivery model. A revised structure could look as follows:



Note:

- This chart assumes outsourcing of reticulation team has not occurred.
- Savings have been calculated multiplying the number of FTEs where duplications exist with an average pay rate for each level of employee.

Other benefits from integrated delivery of plant and reticulation services

	Benefit	Opportunity for future cost savings
Workforce reliance	Greater depth, specialisation and capacity. Key person risk will be reduced.	Potential savings from reducing the number of temporary staff required
Operational improvements	Having a larger more specialised team can help drive operational improvements. By taking the best parts from the various councils savings will be possible.	More efficient processes reducing the number of staff required over time.
Separation of monitoring from operational activities	Engineering staff will have more time on the ground performing maintenance activities.	More efficient workforce potential for future reduction in staff numbers.
Optimised workforce that will allow additional shifts to be added and reduce the amount of overtime	Reduction in the “on-call” overtime cost incurred.	Reduced overtime payments
Reduce competition between councils for staff	Less staff movement between councils.	Lower recruitment costs
Consolidation of plant & equipment and depot locations	Better utilisation of assets.	Reduced number of depots required. Potential to delay CAPEX spend by utilising a wider pool of plant and equipment.
Advisory board	Greater strategic focus and asset management understanding.	Potential reduction in renewal costs.

Conclusions and recommendations

To achieve the full benefit from a combined 3 Waters plant and reticulation offering, a full integration of the plant and reticulation teams should be undertaken

Summary of findings

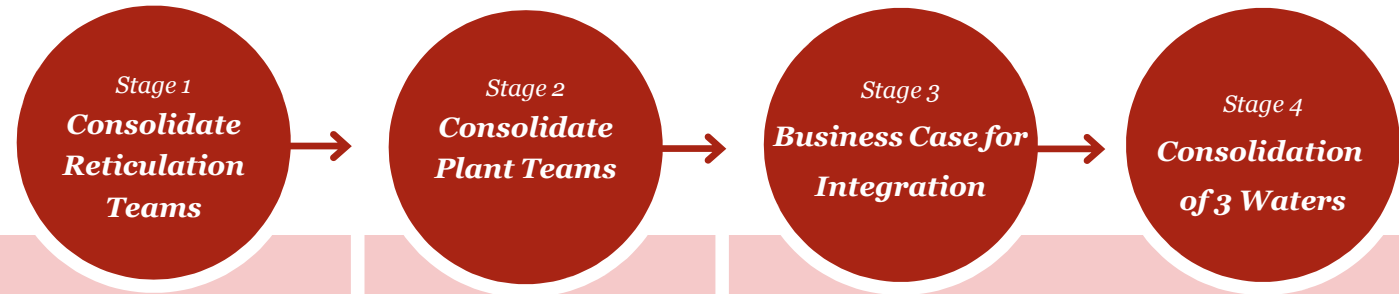
- Our analysis has highlighted a high level of role duplication in the three councils. Each council has its own reticulation, engineering and plant operational teams along with a management structure to support the operational teams.
- The district councils are often reliant on key personnel and lack resilience in their workforce.
- Each council makes significant overtime and standby payments to its employees due to lack of flexibility in standard hours and shift timing.
- There are significant savings to be achieved from consolidating the workforces and removing excess roles.
- By consolidating the operations and management teams, significant cost savings could be achieved. These could be further enhanced by outsourcing non-critical functions.
- Non-financial benefits associated with having a larger and more specialised team would also be achieved by:
 - Centralisation of plant monitoring functions, which would free up engineering staff to focus on operational rather than monitoring tasks
 - Having a larger pool of employees and a centralised function which would enable shifts to be structured to reduce the amount of overtime required
 - Reducing key person risk from the district councils and building overall resilience in the work force

- Greater strategic focus and asset management understanding from an experienced advisory board
- Better utilisation of assets.
- To achieve this outcome a new operating structure would be required as the current shared service model relies on existing Hamilton City water operations to administer. This arrangement is reaching its capacity and would require additional resources to manage the increased scope of shared services.
- A staged approach could be utilised to work towards a fully consolidated entity. This would allow benefits to be achieved while still operating under the existing shared service arrangement in the short term but would require additional administrative resourcing.

Recommendations

- The plant and operations teams from the three councils should be combined and run by one management team under the supervision of an advisory board with relevant industry experience as shown in the integrated 3 waters organisation model on page 30 of this report.
- The management team determine what functions are critical to remain in-house and market testing should be performed to investigate whether savings can be made from the outsourcing of non-critical functions. Functions that may be considered for outsourcing include:
 - Reticulation maintenance
 - Construction (currently performed in-house by HCC).

A staged approach will delay the potential savings from a fully consolidated entity but will help reduce the implementation risk



	Stage 1 Consolidate Reticulation Teams	Stage 2 Consolidate Plant Teams	Stage 3 Business Case for Integration	Stage 4 Consolidation of 3 Waters
<i>What</i>	<ul style="list-style-type: none"> • Consolidate all reticulation staff under one management team. • Operate using current shared service model used for trade waste and lab testing. • Perform market testing for construction work currently performed in house by HCC. • Consider performing market testing for reticulation maintenance tasks. 	<ul style="list-style-type: none"> • Consolidate all plant staff under one management team. • Operate using current shared service model used for trade waste and lab testing. • Separate monitoring roles from maintenance roles 	<ul style="list-style-type: none"> • Consider consolidating the plant and reticulation teams formed in stages 1 and 2. • Consider delivery model for the combined entity (enhanced BU, CCO) • Prepare business case for the integration of the teams 	
<i>Why</i>	<ul style="list-style-type: none"> • More resilient workforce • More streamlined and focused management team • Better utilisation of assets • Consolidation of depot locations 	<ul style="list-style-type: none"> • More resilient workforce • More streamlined and focused management team • Reduced overtime by changing shift times 	<ul style="list-style-type: none"> • More resilient workforce • More streamlined and focused management team • Advisory board or board with relevant skills and experience 	
<i>Action</i>	<ul style="list-style-type: none"> • Prepare detailed business case for consolidation 			

There are potential savings throughout the staged approach however, the full benefits will not be achieved until there is full integration of operational teams and management roles are consolidated

Action point	Potential savings	Rationale	Implementation stage
Outsourcing of basic reticulation operations	\$90k - \$150k	3% - 5% reduction in current cost of reticulation operations	Stage 1
Improved asset utilisation	TBD	More efficient and effective use of assets across the Councils	Stage 1
Outsourcing of construction activities carried out in-house by Hamilton City	\$40k - \$70k	3% - 5% reduction in the current budget allocated to City Development capex	Stage 1
Changing shift work timing to reduce overtime	\$50k +	Larger pool of employees to allow more flexibility in shift time	Stage 1 - 2
Requiring fewer contractors and ability to negotiate improved rates	\$90k - \$180k	Current contractor costs of \$1.8m for plant operations and reticulation, potential reduction of between 5% - 10%	Stage 1 - 2
Consolidation of depot locations	TBD	Reduction in expenses associated with the depots i.e. Rent / financing costs	Stage 3 - 4
Full integration of teams	\$1.4m	Estimated salary cost decrease from the reduction in FTEs as a result of the integration	Stage 4

- These savings presented opposite would be partially off-set by the following costs a number of which are one-off costs:
 - Enhanced business unit / CCO establishment costs
 - Redundancy payments
 - Legal fees
 - Redrafting of employee contracts
 - Advisory board fees
 - Additional support resources (may be required by HCC in stages 1 and 2 while operating under shared services model).

Stranded costs

- Each council allocates a significant amount of council overhead to the 3 waters budget. The changes recommend above would have the impact of reducing the staff numbers in either two or all of the councils (depending on the delivery model adopted) . Overheads which are allocated on a per head basis would therefore be impacted.
- Given there are real cost savings to be had from the consolidation of the teams, stranded costs should not be a deterrent to the project but rather seen as an opportunity to generate further savings in future years.
- Councils could make allocation changes or fix the overhead charge assigned to the 3 waters budget during the initial years to ensure this does not become a factor in moving forward with these changes.

*Appendix 1:
Wider considerations arising from
Steering Group Workshop*

Opportunities: impact assessment of options for broader shared services in delivery of 3 Waters

	Cost saving opportunities	Operational improvements	Workforce resilience	Score (1-5) 1 low – 5 high impact
Network integration	Single organisation structure, processes, asset management, customer management etc.	High, reduced risk profile – North Hamilton	Greater depth, specialisation and capacity	4
Reticulated services and operations engineering	Consolidation of teams [x staff] Consolidation of management roles [x staff]	Prioritisation of jobs through-out 3 councils ensure key issues in region are addressed on timely basis. Enhanced resilience profile with reduction in single point dependencies	Currently 3 operation engineering vacancies between WDC and HCC. Integration of teams may negate the requirement to hire additional staff	3.5
Consent monitoring and compliance reporting	Consolidation of teams [x staff] Efficiency from specialised team Consistency in reporting leading to savings	One point of contact with regional council Create consistency in reporting	Larger dedicated team so less risk to staff movements	2.5
Consent applications	Create consistency in consent targets and reporting requirements Potential savings in legal fees from joint applications No duplication in work to obtain consent	Consistency in compliance reporting requirements with regional council	Limited improvements	2
Iwi consultations	No duplication in work to obtain consent	Consistency in compliance reporting requirements with regional council	Limited improvements	1.0
Inventory management opportunities	Reduce overall inventory levels and therefore amount of cash tied up in working capital	Just in time inventory management	Limited improvements	1.0
SCADA monitoring	Reduction in SCADA licences Field staff focus on assigned tasks rather than monitoring	Ensure key issues across region prioritised. Service enhancements through reduced breakdowns/discharges	Wider pool of employees to performing monitoring Allows segregation of monitoring to performing activities	2

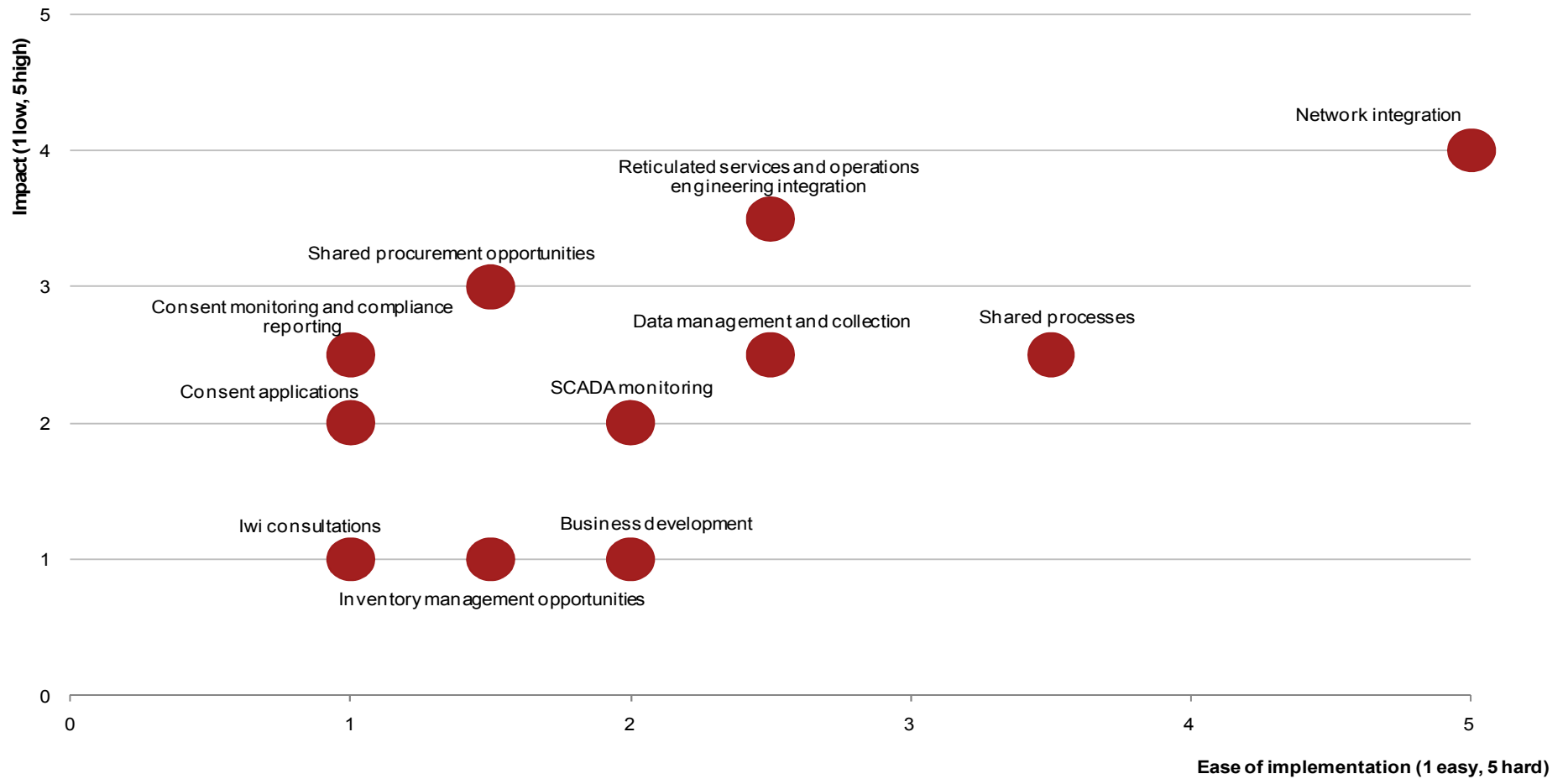
Opportunities: impact assessment of options for shared services in delivery of 3 Waters (cont.)

	Cost saving opportunities	Operational improvements	Workforce resilience	Score (1-5)
Shared procurement opportunities	Lower average costs of chemicals / power / contractors/ consultants/ legal advisors / asset valuations	Improve purchasing power Standard contracts, elimination of duplicated professional advice	Limited improvements, however consolidation of suppliers will facilitate additional staff capacity	3
Shared processes	Rationalised and improved processes and delivery	Bylaw consolidation, project management, contract management	Limited improvements	2.5
Business Development	Revenue enhancement	Leveraging and expanding existing functions e.g. Lab services, wastewater reuse	Wider pool of employees will provide greater critical mass to pursue commercialisation opportunities	1
Data management and collection	Automatic compliance and operational reporting	Single input point for compliance data Elimination of double entry of data Timely availability of data	Limited improvements	2.5

Expenditure impacts of opportunities: implementation assessment of options for broader shared services in delivery of 3 Waters

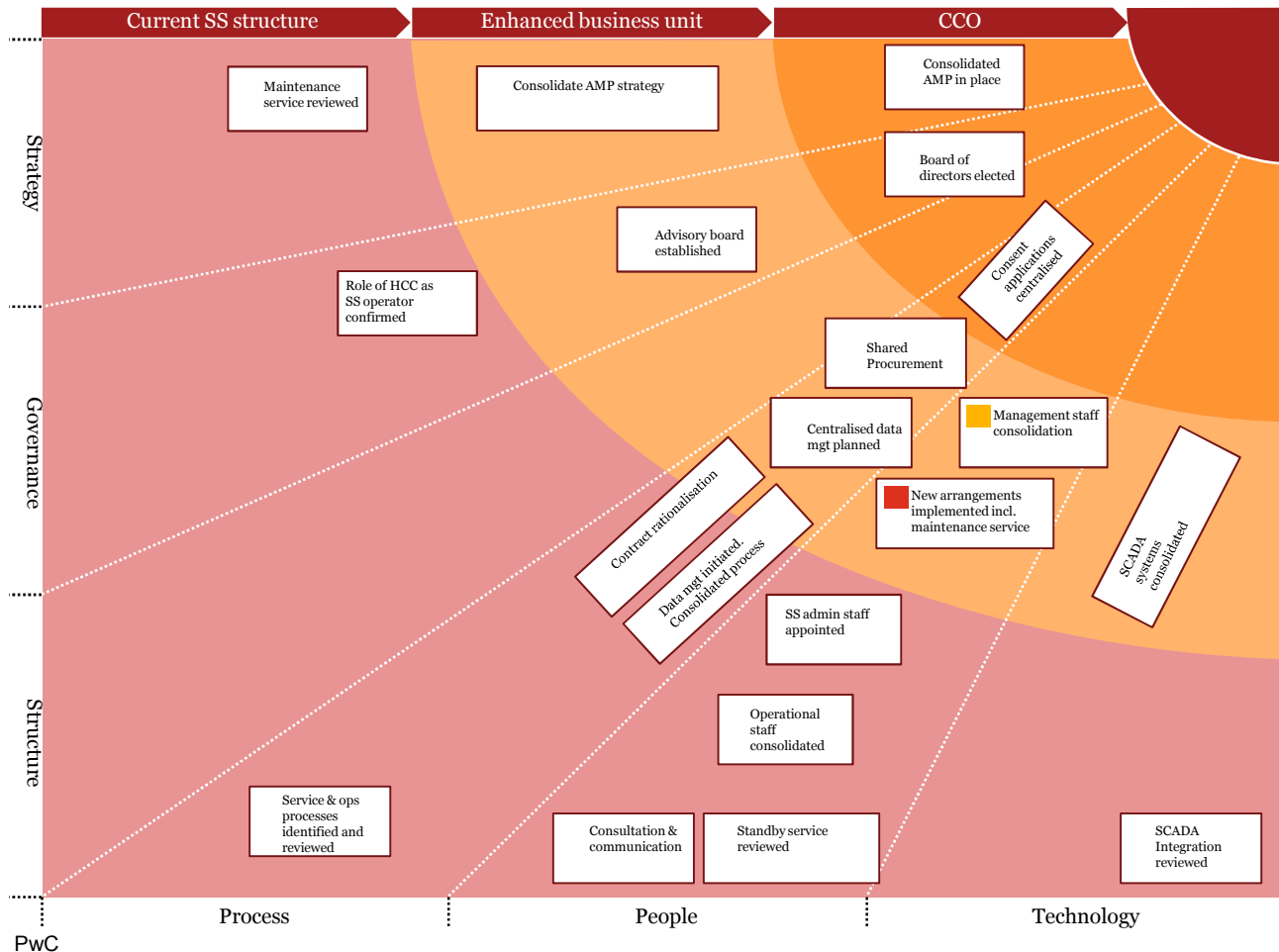
	Capital expenditure	Operational expenditure	Ease of transition	Score (1-5) 1 Easy - 5 Difficult
Network integration	High – large infrastructure spend may be required	High – large amount of planning and management time required	Low	5
Reticulated services and operations engineering	Low	Moderate – review of job requirements and total staffing levels possible redundancy payments. Large number of staff impacted	Could be operated under current SS arrangements	2.5
Consent monitoring and compliance reporting	Low	Low	Could be operated under current SS arrangements	1
Consent applications	Low	Low	Could be operated under current SS arrangements	1
Iwi consultations	Low	Low	Could be operated under current SS arrangements	1
Inventory management opportunities	Low assuming HCC systems can accurately track inventory and location	Low	Logistics to work through	1.5
SCADA monitoring	Low – Moderate based on ability to move current computers	Limited	Changes to job descriptions and roles may be required	2.0
Shared procurement opportunities	Low	Limited	Could be operated under current SS arrangements	1.5
Shared processes	Low	Limited	Could be operated under current SS arrangements	3.5
Business development	Low	Limited	Could be arranged under current SS arrangements	2.0
Data management and collection	Low, smart phone upgrades may be required for some staff	Limited	Moderate, has been implemented in other Councils	2.5

Summary of opportunities for shared service arrangements between the 3 councils



*Appendix 2:
Tipping points for change in delivery
model*

The current shared service model being operated by the councils is reaching its limit. If new services were to be added additional management resources may be required. This may justify moving to a new delivery model



- The chart highlights where potential tipping points are that would require the consideration for a new delivery model to be established.
- The current model for providing shared services is adequate for consolidation of operational staff.
- To achieve the full benefits from shared services a shift would need to be made to either an enhanced business unit or a CCO.
- We note that to add any additional services to the current model would likely require additional staffing to manage the increased services being offered.

*Appendix 3:
Restrictions*

Restrictions

- This report has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose. We accept no liability to any party, including the addressees, should it be used for any purpose other than that set out in the body of the report.
- This report is strictly confidential and (save to the extent required by applicable law and/or regulation) must not be released to any third party without our express written consent which is at our sole discretion.
- To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this report and/or any related information or explanation (together, the “Information”). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.
- We have not independently verified the accuracy of Information provided to us, and have not conducted any form of audit in respect of the Trust or related entities. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the Information provided to us and upon which we have relied.
- The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.
- The statements and opinions expressed in this report are based on information available as at the date of the report.
- We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.
- This report is issued pursuant to the terms and conditions set out in our engagement letter dated 29 October 2012 and the Terms of Business attached thereto.
- In addition the following should be noted:
 - Certain numbers included in tables throughout this report have been rounded and therefore do not add exactly.
 - All monetary amounts in this report are expressed in New Zealand currency and are stated exclusive of Goods and Services Tax (GST), unless indicated to the contrary.