
To: His Worship the Mayor and Councillors
From: Deputy Chief Executive
Subject: **Sub-Regional Waters Detailed Business Case**
Meeting Date: 28 October 2014
File Reference: 01-22-39/1/1

1 EXECUTIVE SUMMARY

At the July 1 2014 Strategic Policy and Planning Committee meeting resolution 2/14/53 was adopted:

“That

- a) Council undertake a detailed business case examination for water and waste water activities as a joint project in Hamilton City, Waikato District and Waipa District;*
- b) The detailed business case should explore the implications of:
 - i. the status quo;*
 - ii. an enhanced shared services model; and,*
 - iii. a Council Controlled Organisation (CCO) or multiple CCOs;**
- c) The CEO’s be delegated authority to conduct a competitive process to identify the special advisor/s reflecting the scope in section 3 of the staff report (document number 14069017) but with the flexibility to incorporate respondent’s suggestions;*
- d) His Worship the Mayor and Councillor St Pierre assist the CEO with the above process as required; and*
- e) The outcome of the competitive process be reported back to the Councils for consideration. The report to include details of the proposed final scope (both financial and non-financial factors), contract terms, timeframes, cost, cost apportionment and terms of reference for project governance.”*

In accordance with these resolutions a competitive process has been undertaken. The purpose of this report is to report back to Council on the matters listed in resolution (e) above, and confirm Council’s approval to undertake the detailed business case.

2 RECOMMENDATION

That

- a) *The report of David Hall, Deputy Chief Executive be received;*
- b) *Council consider the scope for the preparation of a detailed business case for water, waste water and stormwater activities as outlined in Appendix 1 (document number 14126457) and resolve to undertake as a joint project with Hamilton City Council, Waikato District Council and Waipa District Council, the preparation of a detailed business case for water, waste water and stormwater activities;*
- c) *Following a competitive procurement process, Council approve Cranleigh, supported by Mott McDonald and Martin Jenkins, to be appointed jointly by Hamilton City Council, Waikato District Council and Waipa District Council to prepare the detailed business case for water, waste water and stormwater activities at a cost of \$450,000;*
- d) *Council approve that Waipa District Council's contribution to the total project cost of \$650,000 (which includes provision for procurement processes, project management and contingencies) for the preparation of a detailed business case be 25% of that cost, being ONE HUNDRED AND SIXTY TWO THOUSAND AND FIVE HUNDRED DOLLARS (\$162,500), which can be met from existing operational budgets;*
- f) *The Terms of Reference, including membership, for a Waters Governance Group as outlined in Appendix 2 (document number 14126458) and Waters Project Group as outlined in Appendix 3 (document number 14126434), for the joint project for the preparation of a detailed business case for water, waste water and stormwater activities be approved;*
- g) *Mayor Mylchreest and Councillor Clare St Pierre be appointed to the Waters Governance Group, with delegated authority to make decisions at a governance level, on behalf of Council relating to:*
 - i. *approving the Request for Proposal document,*
 - ii. *observing the consultant procurement process,*
 - iii. *recommending a methodology for allocating costs between the councils,*
 - iv. *ensuring Iwi are kept informed by each Council,*
 - v. *providing direction on issues as they arise throughout the project,*
 - vi. *overseeing a comprehensive communications plan,*
 - vii. *receiving an early version of the Report for comment,*
 - viii. *advising progress to each council; and,*

- h) Council authorise the Chief Executive to appoint two staff representatives to the Waters Project with delegated authority to make decisions on behalf of Council, at an operational level relating to:
- i. direction on all strategic and operational issues,
 - ii. contractual matters relating to the consultant engagement,
 - iii. direction to the independent project manager,
 - iv. managing a comprehensive communications plan,
 - v. approval of all matters going to the Waters Governance Group; and,
- i) A report be provided to Council in 2015, once the detailed business case for water, waste water and stormwater activities has been prepared.

3 OPTIONS AND STAFF COMMENT

3.1 Introduction

Hamilton City Council, Waikato District Council and Waipa District Council have each resolved to complete a competitive process to identify the preferred adviser, and to formalise the scope and cost of the study for a detailed business case to examine three alternative mechanisms for the management and supply of water and waste water services across the Waikato sub-region. Prior to the study commencing each Council requested that the outcome of the competitive process be reported back for formal Council approval, to assist with deciding whether or not to proceed further with the joint project.

Waikato District Council also wishes to investigate the possibility of that Council working more closely with Watercare Services Ltd. While this investigation forms part of the overall study (in order to achieve an integrated and comprehensive final report) these costs (amounting to \$55,000) will be entirely borne by Waikato District, and therefore are not included in this report.

3.2 Competitive Process

A Request for Proposals to undertake the detailed business case was advertised in late August 2014 and six bids were received. Each bid was assessed by a Project Evaluation Team comprised of officers¹ from the three Councils. The two highest scoring bidders were invited to present to an audience which included Mayor Mylchreest, Cr St Pierre and CEO Garry Dyet and other representatives from the three Councils (including members of the project evaluation team). Following the presentations Cranleigh, supported by Mott McDonald and Martin Jenkins, was identified as the preferred supplier.

¹ The members of the Project Evaluation Team were David Hall, Deputy Chief Executive at Waipa District; Blair Bowcott, General Manager – Performance at Hamilton City; Martin Mould, Waters Manager at Waikato District Council and Carol Serra, Manager – Portfolio Management Office at Hamilton City.

Cranleigh is an advisory firm operating in New Zealand and Australia that specialises in:

- Implementation solutions and planning.
- Commercial and financial analysis
- Corporate strategy, structuring and organisational development
- Mergers and acquisitions.

The sectors it specialises in include:

- Health
- Property
- Infrastructure, including wide experience in the water sector
- Food, beverage and agriculture
- Education, economic development, tourism and innovation.

The Cranleigh bid is made up of a consortium of three parties, with Cranleigh taking overall responsibility for the quality of project deliverables. Cranleigh will be supported in the engineering facets of the study by Mott MacDonald, a global engineering firm with experience in the Waikato. Martin Jenkins, a New Zealand-based public policy consultancy, will provide assistance with organisational design and governance.

3.3 Project Scope and Timeframe

The project scope has been developed to reflect specific feedback received from each of the three Councils. In particular, Mayor Mylchreest and Cr St Pierre met with representatives from each of the three Councils in Ngaruawahia on 4 August to consider, and approve, an initial scope of works prior to the RfP being publicly advertised. Following the registration process, the scope of works has been refined (particularly in relation to the inclusion of stormwater) and is included as Appendix 1.

A detailed project plan, including timeframes, will be prepared for consideration by the Waters Governance Group following formal appointment of the principle contractor.

It is expected that a detailed business case exploring the implications of:

- i) The status quo,
- ii) Enhanced shared services, and
- iii) A Council Controlled Organisation (CCO);

will be available in the second half of 2015. The timeframe is influenced by the considerable pressure already existing on engineering and finance officers currently engaged in the final stages of preparing draft 2015-25 Long Term Plans.

3.4 Project Cost

The total project cost for the development of the detailed business case, including stormwater, is **\$650,000**. This comprises the core analysis by the Cranleigh consortium (\$395,000²), Independent Project Management (\$97,440), contingencies (\$100,000) and costs incurred to date (including the procurement process). This price excludes internal officer costs and any costs that might arise following receipt of the report (for example, a formal public consultation process would be required if the establishment of a CCO were to be considered).

A substantial contingency has been allowed to reflect the complexity of this project, and is intended to cover anticipated costs including legal advice, information technology advice, peer review, communications and approved project variations.

The annual operational expenditure for water and waste water across the three Councils is \$74.4 million and previous reports have estimated potential savings for an enhanced shared services model to be in the order of \$2 million per annum. If the detailed business case proves this to be correct the study would provide a pay-back period of less than six months.

The inclusion of stormwater within the study has raised the possibility of Regional Council funding. If additional funding is available it will reduce the cost of the project to each Council. This possibility has not been fully canvassed (at the time this report was drafted) and therefore no provision has been made for third-party assistance.

3.5 Cost Allocation

In order to equitably allocate costs between the three participating Councils, a range of distribution options have been considered.

For the Stage II Waters Study, the Waikato Mayoral Forum allocated costs based on the number of water connections. However, the size of each Council's water network will not necessarily reflect the value of the detailed business case. In addition, this methodology does not recognise the collaborative basis of the study, the fact that decisions referred to the proposed Waters Governance Group and Waters Project Group are intended to be resolved on a consensus basis and that, irrespective of the outcome, the findings will provide invaluable information for each Council on their water infrastructure and governance options.

A preferable alternative may be for the three Councils to split costs in a manner which reflects the cooperative nature of the study and thereby avoids any single Council funding a clear majority of project costs.

Potential options are shown in the following table:

² As noted previously in this report, the total contract price is \$450,000 inclusive of Waikato District Council's investigation of an association with Watercare Services Ltd. The additional cost, \$55,000, is entirely funded by Waikato District Council.

	Water Connections		Cooperative Split	
Hamilton	69%	\$450,000	50%	\$325,000
Waikato	13%	\$86,000	25%	\$162,500
Waipa	18%	\$114,000	25%	\$162,500

The cooperative split is the recommended option, meaning that Waipa's contribution to the project would be \$162,500.

Waipa District Council has budgeted \$150,000 towards the detailed business case. Based on the cooperative split a further \$12,500 of unbudgeted funding would be required. This additional expenditure can be accommodated from within existing budgets.

3.6 Project Governance

It is proposed that a 'Waters Governance Group' be established for this project made up of two elected representatives from each of the three councils and an elected member of the regional council. Regional Council representation reflects the broader role of the Regional Council including its interest in stormwater, water demand management and environmental oversight. The purpose of the Waters Governance Group would be to maintain political oversight of the business case and provide clear project direction as the work commences. Terms of Reference for the Waters Governance Group are included as Appendix 2.

At the July Strategic Planning and Policy Committee meeting, Mayor Mylchreest and Cr St Pierre were elected to assist with the competitive process for selecting the principal consultant. This has provided both elected members with a good understanding of the project. It is recommended that both continue in this role and be formally appointed to the Waters Governance Group.

A Waters Project Group (WPG) would report to the Waters Governance Group including at least one officer representative from each council. It is also possible that external expertise will be co-opted onto this group. A draft Terms of Reference is included as Appendix 3.

D R Hall
DEPUTY CHIEF EXECUTIVE

Appendix 1

SCOPE OF WORK

OUTPUTS OF THE DETAILED BUSINESS CASE

The project will deliver the following key outcomes.

- The shape and scale of an asset-owning CCO (as recommended in the Stage 2 report) will be understood in detail, including: governance and shareholding arrangements; how differing levels of debt across the three councils are managed; financial and funding arrangements; organisation structure and service delivery model. (Comments on the advantages/disadvantages of this model over a non-asset owning structure will also be included.)
- The Business Case will consider the different standards and scale of network across the three communities; different levels of service; forecast capital works; the risk and debt profiles of each council and the operational implications of merging the networks.
- The advantages and disadvantages of an enhanced shared services³ model will be understood. The intent is to look at the viability of adding additional services without going as far as a CCO structure. For example a wider range of back-office services or the joint delivery of physical works using a joint committee between the councils should be considered.
- The Business Case will confirm what changes each council will need to make (resourcing for example) to comfortably deliver their respective LTP programme of work, in the event that no change is made. It will be important to ensure that consistent assumptions are used across the three councils.⁴ This represents the 'control' option.
- Determine whether stormwater services are appropriately delivered via any/all of the options being considered or whether stormwater is better left with the parent councils. The implications for stormwater under each option should be identified.
- The establishment and transitional costs of each option will be estimated and the transition process will be well understood.
- The strategic, organisational, financial and other implications of options for each council will be understood - including risks and benefits and the implications for local decision-making.

The detailed business case analysis will follow the NZ Treasury 'Better Business Case' model. The essential outcome will be the provision of substantive information sufficient for each

³ Presently, the three councils have a joint office providing water conservation, water quality testing and trade waste services.

⁴ Draft 2015-25 LTP figures will be used as the benchmark for this analysis and the draft 30-year strategies will also be used as a reference point.

council, and the residents and ratepayers of each council, to make an informed decision on the preferred long-term model of waters delivery.

The business case will result in a firm and clear recommendation on whether a CCO, an enhanced shared service structure or status quo will deliver the best long-term outcome for the sub-region.

Note 1: *There is no preference for any option at the moment. All are to be considered equally.*

Note 2: *The report must clearly show the full implications of each option for each council.*

Note 3: *It is expected that the work will be sufficiently comprehensive that no further work will be required for the councils to make a decision.*

Note 4: *Because of the complexity of this project, independent peer review will be undertaken at appropriate project milestones.*

Appendix 2

TERMS OF REFERENCE FOR WATERS GOVERNANCE GROUP

Purpose

Hamilton City Council, Waikato District Council and Waipa District Council have agreed to consider a detailed business analysis of various structural options for the delivery of water and wastewater activities. The purpose of the Waters Governance Group (WGG) is to maintain political oversight of the project and to provide political direction.

Membership

The Group will consist of two elected members from each council. Recognising the regional component of this project, an elected member of the Waikato Regional Council will have ex officio, but non-voting status on the Group. Decisions will be made by consensus.

Meetings

The Group will meet at least every two months for the duration of the project.

Specific Roles and Delegations

The WGG is not a Joint Committee. Specific Roles of the WGG include discussion and decision-making on behalf of the three councils relating to:

- approving the Request for Proposal document
- observing the consultant procurement process
- recommending a methodology for allocating costs between the councils
- ensuring Iwi are kept informed by each Council
- providing direction on issues as they arise throughout the project
- overseeing a comprehensive communications plan
- receiving an early version of the Report for comment
- advising progress to each council.

Relationship With Waters Project Group

The WGG will receive reports from the Chair of the Waters Project Group on a regular basis.

Appendix 3

TERMS OF REFERENCE FOR WATERS PROJECT GROUP

Purpose

Hamilton City Council, Waikato District Council and Waipa District Council have agreed to consider a detailed business analysis of various structural options for the delivery of water and wastewater activities. The purpose of the Waters Project Group (WPG) is to provide strategic and operational direction to the Project.

Membership

The Group will consist of up to two members from each council appointed by the respective chief executive. Decisions will be made by consensus.

Meetings

The Group will meet at least monthly for the duration of the project.

Specific Roles and Delegations

Specific Roles of the WPG include discussion and decision-making on behalf of the three councils relating to:

- direction on all strategic and operational issues
- contractual matters relating to the consultant engagement
- direction to the independent project manager
- managing a comprehensive communications plan
- approval of all matters going to the WGG.

Each member will report back to their respective council as appropriate.

Relationship With Waters Governance Group

The WPG will report to the Waters Governance Group on a regular basis.

Managing Confidentiality & Conflicts of Interest

Because of the decision-making role of this group, confidentiality of information and potential conflicts of interest will be actively managed by the Project Manager.