

Committee: Council

Date: 30 July 2015

Report Name: Waikato Sub-Regional Waters Study

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Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>2015-25 Long Term Plan – Review of Service Delivery</i>
Financial status	<i>There is budget allocated of \$10,000 to support interim period works</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

1. Purpose of the Report

- To formally receive the Business Case for Water Services – Delivery Options (“Cranleigh Report”) following its public release at a Karapiro briefing on 11 May 2015 and HCC briefing on 12 May 2015.
- To support “in principle” the formation of ratepayer owned Waters Council Controlled Organisation (CCO), subject to other councils also approving the same.

4. Executive Summary

- During 2014 Council received a series of reports analysing the best option for managing water within the sub-region (Waipa and Waikato District and Hamilton City Council). The reports were based on outcomes and the recommendations of previous work undertaken by the Waikato Mayoral Forum.
- In November 2014 the three Councils engaged Cranleigh (as the main consultant) to analyse in detail three options for future water management in the sub-region and to provide a definitive recommendation for moving forward. The options were Status Quo, Enhanced Shared Services and a ratepayer-owned Council Controlled Organisation. Waikato District Council also commissioned and paid independently for a study to examine options for working more closely with Watercare.
- On 11 May 2015 Cranleigh presented the outcomes of the main study to the three Councils. There were two recommendations:
 - Councils should transfer their water and wastewater assets into a jointly owned not-for-profit CCO; and
 - Councils should retain ownership of their urban stormwater assets, but outsource management of those assets to the CCO on a cost recovery basis.

8. Council work-shopped the report on 12 May 2015 and discussed the recommendations and information contained within the report.
9. At the time of drafting this report, Waikato District Council has approved in principle the formation of a Waters CCO. Waipa District Council has not formally considered the recommendation nor made any resolutions regarding the process moving forward. Until all three councils have made a decision, no further substantive progress can be made.
10. In the interim a small amount of future planning work continues on the project, and it is deemed appropriate for the Waters Project Group (Executive Staff) to continue to manage this.
11. The Cranleigh recommendation to form a ratepayer-owned CCO with three Council shareholders would be a significant decision. It is acknowledged that further work and formal consultation will be needed if the Waters CCO is to be established and that this will be subject to a further Council report. Attachment 3 outlines the process followed to date on the Waikato Sub-Regional Waters Study and the likely next steps in the project if all councils have made a decision on the Cranleigh Report.

12. Recommendations from Management

- a) That the report be received.
- b) That Council receive the Business Case for Water Services – Delivery Options (“Cranleigh Report”).
- c) That Council support in principle the formation of a Waters CCO for the Hamilton City, Waikato and Waipa District Councils.
- d) That staff report back to Council once all three Councils have formally considered and determined their position on the business case.

13. Attachments

14. Attachment 1 - Cranleigh Report (*Under Separate Cover*)
15. Attachment 2 - Mott Report (*Under Separate Cover*)
16. Attachment 3 - Flowchart of process to progress Waters Study

17. Key Issues

18. Background

19. The history and all associated Council, consultant reports and media releases linked to the Waikato Sub-Regional Waters Study can be found on the project website www.waterstudywaikato.org.nz.
20. Hamilton City Council has received the following reports associated with the Waters Study:

28 April 2014	Waikato Water - Mayoral Forum Consultants Report circulated to Elected Members
15 May 2014	Elected Member briefing - Peter Winefield presented the Waikato Water Report
26 June 2014	Council report (Item 12, page 11) – Business Case for a CCO for

	Water and Wastewater. CEO delegated to run REOI process to select consultant.
30 October 2014	Council report (Item 11, page 32) – Sub-Regional Waters Detailed Business Case approval for project to commence (to approve consultant (Cranleigh consortium), scope, cost allocation and governance arrangements). Cnlrs Pascoe and Mallett appointed to Governance Group.
11 December 2014	Council report (Item 12, page 37) – Sub-Regional Business Case – information on Project Timeline.
11 May 2015	Public Release of Cranleigh Report <ul style="list-style-type: none"> • Refer copies in Attachments 1 (Cranleigh Report) and 2 (Mott Report)
12 May 2015	HCC Elected Member briefing following release of Cranleigh Report <ul style="list-style-type: none"> • Cranleigh representatives presented report and answered questions

21. In November 2014 Cranleigh was engaged, in partnership with Mott MacDonald and Martin Jenkins (Cranleigh) to undertake a study to look into the future management of water in the sub-region (the study).
22. The study was to look at three options for future management:
 - Retaining the status quo
 - An Enhanced Shared Service (ESS) and
 - Forming a ratepayer-owned Council Controlled Organisation (CCO)
23. The study used the central Government’s “Better Business Case” methodology, which was developed by the National Infrastructure Unit, to ensure a robust and transparent reporting methodology.
24. Waikato District Council commissioned a fourth option for consideration, expanding their current relationship with Watercare (option 4). This study was funded by and solely for, the Waikato District Council.
25. The report development process, looking at the three options, was overseen by a Governance Group and managed through a Project Group. The Governance Group consisted of elected members from each of the Councils. This Council was represented by Councillors Rob Pascoe and Garry Mallett on the group. The Project Group consisted of senior staff from each Council.
26. **Cranleigh Report**
27. On 11 May 2015 all three councils were invited to a presentation from Cranleigh on the outcomes of the study at the Don Rowlands Centre, Lake Karapiro. The report was publicly released following this presentation.
28. The Executive Summary of the Cranleigh Report (page 7 of Part A) concluded that the ratepayer-owned CCO was the most effective model moving forward and the report offered the following key recommendations:
 - Council should transfer their water and wastewater assets into a jointly owned not-for-profit CCO, and

- Council should retain ownership of their urban stormwater assets, but outsource management of those assets to the CCO on a cost recovery basis.
29. The Executive Summary outlined three key benefits of a Waters CCO over the other options:
- 1) Lower water charges producing savings for councils and customers;
 - 2) A stronger and more resilient waters network across the sub-region;
 - 3) Improved quality of drinking water and treated wastewater across the sub-region.
30. Other strong benefits of the CCO were identified as:
- 1) Ability to attract and retain talented staff;
 - 2) Support for economic growth through improved 3 Waters network and integrated planning;
 - 3) Creating a centre of excellence that can share expertise with other councils in the region on a cost recovery basis.
31. The estimated financial savings for each option are summarised on Pages 8 and 11 of Part A.
32. The table below presents the analysis of all three options for all councils and for Hamilton City Council. It shows the CCO as the preferred option with the lowest risk and the highest cost savings. Estimated financial savings are calculated from a commencement date of 1 July 2017, reflecting a 2 year implementation period from the start of the current 2015-25 Long Term Plan.

Decision Factor	All Three Councils			Hamilton City Council	
	Status Quo	ESS	CCO	ESS	CCO
Multi – Criteria Score	58%	60%	82%	60%	82%
Combined \$ Savings (10 years)	N/A	\$27m	\$107m	Note	\$52.3m
Combined \$ Savings (28 years)	N/A	\$104m	\$468m	Note	\$282.1m
Risk Rating	Medium	High	Low	High	Low
Overall Ranking	2nd	3rd	1st	3rd	1st

NOTE: Split of savings by council for ESS not outlined in Cranleigh Report, but page 43 of Part B, recommends savings to be shared on agreed basis such as percentage of water volumes or operating and capital costs.

33. The report (page 33 of Part A) also outlines the impact on the debt/revenue financial ratio for Hamilton City Council with the establishment of a Waters CCO, and the impact at both a parent and group consolidation level.
34. Governance of the CCO was addressed by Cranleigh in both their report (page 21-23 of Part A) and at the workshop discussions with each Council. Cranleigh explained that while a Waters CCO is a corporate structure, there will need to be a strong “Waikato” flavour to the governance arrangements to reflect local preferences in important matters including accountability, relationship management and independence of the board. These preferences

would be reflected in the Constitution, Statement of intent (SOI) and role of the Establishment Committee.

35. Discussion and Analysis of Options

36. Discussion

37. The study represents a robust, independent view into the best model for managing water services within the sub-region. A significant amount of work and in-depth analysis by the Cranleigh team has led them to the conclusions and recommendations outlined within the report.
38. Subsequent to the report being published, commentary by national bodies/organisations and government representatives has been favourable in terms of support for the findings and recommendations.
39. Whichever option is selected by Council (with the exception of the Status Quo), an implementation plan will need to be developed prior to progressing. This is acknowledged in the study (page 37 of Part A) with an estimated two year implementation process for a CCO and one year for the ESS option.
40. The study identifies costs and benefits over a 28 year period (based on 30-year infrastructure plans less two years for implementation). As with any longer term financial analysis there are inherent difficulties in ensuring absolute accuracy over that longer timeframe and the identification of potential sustainable water network efficiencies.
41. The Cranleigh Report (page 24 of Part A) acknowledges the financial saving projections for the first 10 years (largely based on the councils Long Term Plans) are more reliable than years 11-28 which are long term estimates based on the 30 year infrastructure strategies with less moderation of capital expenditure.

42. Council's Consideration of the Cranleigh Report

43. Waikato and Waipa District Councils have held public workshops with Elected Members (Waikato 15 May 2015, Waipa 2 June 2015) to discuss the Cranleigh Report.
44. Waikato District Council on 16 June 2015 resolved to support in principle, the formation of a Waters CCO for three Councils. They also received a report investigating options for an expanded Watercare relationship, but determined that the formation of a Waters CCO was the preferred outcome. The report concluded that while Waikato is leveraging network opportunities with Watercare in the northern part of their district, any expanded relationship would only be pursued if the Waters CCO was not supported by all three councils.
45. Waipa District Council has not yet determined their preferred option. Following 2 June 2015 workshop, staff were requested to provide more information and it is anticipated that Waipa District Council will formally consider the Cranleigh Report during August 2015.

46. Options

47. Whilst there are a number of other aspects surrounding the Cranleigh recommendation, such as public consultation, the requirement for an amended LTP, cost and transition processes along with the positions of both Waikato and Waipa District, the base consideration and purpose of this report is to determine whether Council supports in principle the recommendations of the Cranleigh study.
48. With this in mind, there are three main options available to Council.

Option 1: Not support the recommendations of the study

Option 2: Support in principle the recommendations of the study

Option 3: Undertake further work as required for Council to make a decision.

49. It is recommended that Council support Option 2, because of the key benefits that would be provided by the establishment of a Waters CCO, summarised earlier in this report. Waikato District Council has already resolved to support this option.

50. If Waipa do not support the outcomes of the report, then Council will need to reconsider its position. If Council wanted to analyse and test a two council Waters CCO with Waikato District Council, (and they were supportive of this approach) then Cranleigh advise that to provide robust information on this scenario would require further work of approximately four weeks duration at an approximate cost of \$40k.

51. **Next Steps**

52. Should the recommendations of the study be supported by all three Councils, the next phase of the project would need to be scoped.

53. At this stage there is no project brief, timeframe or cost for the next steps and these would all be subject to a full report to Council prior to progressing further.

54. Attachment 3 outlines in a flowchart the journey to date and proposed next steps (at a high level) if all three councils support (in principle) the Waters CCO. An agreement in principle would not bind any council to forming a Waters CCO and does not in any way constitute a final decision. More detailed work is likely to be required including the investigation and testing of financial implications for each council, the specific LTP amendment financial proposals, shareholder and constitution arrangements and the form of engagement and public consultation. A detailed project plan will need to be prepared to consider and address all these matters and brought back to each council for consideration.

55. Maintaining strong governance connection to the process via the waters Governance Group is considered essential. The Governance Group has concluded its role with the current phase of the project, and if the project progresses to the public consultation phase, a new Governance Group and terms of reference for their role would need to be established.

56. During this period of each council considering the report, there is still a small amount of background work that continues to be undertaken, such as supporting each council's decision process and early planning for the potential next stage of the project. The Waters Project Group is providing oversight to this work.

57. **Financial**

58. The delivery of the Cranleigh Report to the three Councils represents the end of the initial commission and the budgets allocated for the work. The study and associated works were all completed just under the \$650,000 budget.

59. The budget for the next stage of the project, if it was to move into a public consultation phase, would be the subject of another Council report and resolution.

60. The Project Group has estimated up to \$20,000 may be required for the interim period works. This Council's share of this would be up to \$10,000, which will be funded from existing operations budgets.

61. **Legal**

62. In accepting the recommendations of this report there are no known legal issues.

63. Risk

64. The Cranleigh Report considered a number of risks against each option. These are described, evaluated and ranked in detail on page 88 of Part B.

65. The next steps for the project cannot be determined until all three councils have made a decision on the Cranleigh Report. During this consideration period, the Waters Project Group has ensured that information is being regularly shared between all three councils so that all parties are kept informed.

Signatory

Authoriser	Blair Bowcott, General Manager Performance Group
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