

**Committee:** Council

**Date:** 29 October 2015

**Report Name:** Waikato Sub-Regional Waters  
Study - Next Steps

**Author:** Blair Bowcott

<b>Report Status</b>	<i>Open</i>
<b>Strategy, Policy or Plan context</b>	<i>2015-25 Long Term Plan – Review of Service Delivery</i>
<b>Financial status</b>	<i>There is no budget allocated to fund the \$175,000 costs associated with the next stage of the Waters Study. This cost will need to be funded through the Risks and Opportunities process.</i>
<b>Assessment of significance</b>	<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

2. To approve further analysis on important decision making and shareholding arrangements in relation to a Waters Council Controlled Organisation for Hamilton City, Waikato and Waipa District Councils.

## 3. Executive Summary

4. The proposal for Hamilton City Council, Waikato District Council and Waipa District Council to work cooperatively on the delivery of water services has been the subject of a detailed business case. The business case concluded there would be substantial financial and non-financial advantages if the three Councils worked more closely together through the vehicle of a Council Controlled Organisation (CCO). Hamilton City Council considered this matter on [30 July 2015](#) and resolved to support in principle the formation of a Waters CCO.
5. A number of issues (identified in Attachment 1) require further investigation and agreement in order for the three Councils to develop a fully informed proposal for public consultation. It is proposed work on addressing these issues commence immediately, with the intention of achieving a consensual record of agreement between the Councils by 30 June 2016.
6. To achieve this, Council approval is sought to re-establish the Waters Governance Group (WGG) based on a new Terms of Reference (see Attachment 2), and to approve a budget of \$350,000 to engage specialist advice and the production of associated documentation.

## Recommendation/s from Management

- a) That the report be received;
- b) That Council support the establishment of a Hamilton City Council, Waikato District

Council and Waipa District Council Waters Governance Group to address the issues in Attachment 1 of this report and any other associated issues, in accordance with the Terms of Reference outlined in Attachment 2 of this report;

- c) Council appoint [*Elected Member*], [*Elected Member*] and [*Elected Member*] to the Waters Governance Group;
- d) Council agree to a combined budget of \$350,000 being allocated to the Waters Governance Group to undertake investigations into the issues identified in Attachment 1 of this report “Issues to be resolved prior to public consultation” and such other issues as may be identified, to report back on those investigations and to work towards the completion of a record of agreement between all three Councils by 30 June 2016;
- e) Hamilton City Council fund 50% (\$175,000) of the approved budget and Waikato and Waipa District Councils fund 25% (\$87,500) each of the approved budget;
- f) Hamilton City Council’s share of the funding for this project (\$175,000) will be addressed through the Risks and Opportunities process for the 2015/16 year.
- g) Council delegate authority to the Chief Executive to engage specialist advice as required.

## **7. Attachments**

- 8. Attachment 1 - Issues to be resolved prior to public consultation
- 9. Attachment 2 - Waikato Water Study Governance Group: Terms of Reference

## **10. Key Issues**

### **11. Background**

- 12. Hamilton City Council, Waikato District Council and Waipa District Council have each resolved to support further exploration of a CCO for water, waste water and (on a contractual basis) stormwater services.
- 13. Each Council has recognised further analysis is required before a fully informed proposal will be ready for a formal public consultation process. An indicative list of issues to be resolved is in Attachment 1. In particular, greater certainty is required in relation to the decision-making framework and shareholding arrangements, amongst other matters.

### **14. Governance Group**

- 15. It is proposed that a Waters Governance Group (WGG) be established to assist in considering the issues identified in Attachment 1 and any other issues that require resolution. The WGG, working alongside the existing Waters Project Group (WPG), will be essential to achieving a consensus position on each issue prior to reporting back to individual Councils on a progressive basis for discussion and consideration.
- 16. Recommendations made by the re-constituted WGG and endorsed by individual Councils will establish the essential elements that determine how the proposed Waters CCO will function. It is therefore recommended that membership of the WGG be expanded to comprise three elected members from each Council. Unlike the previous WGG, it is not considered necessary to include a representative from Waikato Regional Council.

### **17. Output**

18. The proposed output of this phase of the project will be a consensus agreement adopted by each of the three Councils along with clear information for the public concerning how a Waters CCO could potentially operate in the Waikato sub-region. It is intended that the information developed will be sufficient to inform a Statement of Proposal, should the three Councils choose to proceed to formal public consultation. The consensus agreement is intended to be provided by the end of June 2016.

**19. Financial and Resourcing Implications**

**20. 2015/16**

21. To complete the work required in the 2015/16 financial year, a budget of \$350,000 is required. This includes a contingency provision of \$50,000. The budget reflects the complexity of the issues and the need for specialist guidance. It covers specialist advice, legal guidance and opinions, financial analysis, project management and the production of associated documentation. This cost forms part of the overall implementation costs of the CCO, estimated by Cranleigh to be in the order of \$10.3 million.

22. A number of WGG workshops will be required plus considerable engagement with staff across all three councils to methodically work through the issues ahead, prior to bringing matters back to Council.

23. There is a need to engage specialist advisors to support staff and the WGG. Due to the nature of the work and the timeframes available, it is proposed three selected consultants are approached to obtain proposals for the next stage, and that the three Council Chief Executives be delegated authority from their Councils to engage the most appropriate advisor. This will provide transparency and cost competitiveness but also minimise delays. The procurement processes of all three Councils allow negotiated direct engagement, subject to meeting delegation requirements.

24. As per the cost split followed to date on this project, it is proposed the \$350,000 be spread as follows:

Hamilton City Council	\$175,000	50%
Waikato District Council	\$87,500	25%
Waipa District Council	\$87,500	25%

25. Council’s share of the project is currently unfunded and would be addressed through Risks and opportunities in the 2015/16 year. This can be funded from the expected \$0.5m interest savings due to the lower than expected opening debt position and improved year-to-date financial results.

26. The estimate for this phase of work excludes staff costs for each Council. It is acknowledged that staff time involved in the project, and thus the staff costs, will be significant but this is very difficult to estimate. Given the importance placed on this project, significant input will be required from the Executive Director Special Projects, General Manager Infrastructure, City Waters Manager, CFO/General Manager Corporate and senior Finance staff. No additional staff costs are anticipated to be incurred by Hamilton City council.

27. No allowance has been made for any work that may be commissioned by an individual Council for its own benefit.

**28. 2016/17**

29. The costs of public consultation will fall into the 2016/17 and later financial years, and will be budgeted separately. Formal public consultation is not proposed within the current financial year.

### **30. Risk**

31. None of the Councils have the necessary range of specialist skills available in-house, notwithstanding that the WPG and other staff (e.g. finance staff) will be required to contribute time to this project. Not securing the appropriately skilled external assistance to support staff and Elected Members through the phase could result in delays in meeting project deadlines, significant rework and associated cost increases.
32. The target deadline of 30 June 2016 is only considered achievable on the basis that WGG members are reasonably available, that individual Council decisions on key issues are reached promptly and that consensus on all matters can be reached. Failure to meet any of these criteria will put the target date of 30 June 2016 at risk.
33. Project risks will be managed by the WPG and regularly reported to the WGG.

### **Signatory**

Authoriser	Blair Bowcott, Executive Director Special Projects
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## Issues to be resolved prior to public consultation

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### Issue

- Agreed asset valuation methodology.
- Agreed treatment of existing council debt, development contributions and reserves.
- Agreed approach to 'consideration' – the balance of cash, shares and shareholder loans.
- The debt/equity position of the CCO.
- The proposed capital expenditure programmes of each Council in their LTP and any capex necessary to address deferred growth or compliance issues and how this is reflected in shareholding levels.
- The decision-making framework, including the respective roles of the CCO Board and shareholders with respect to:
  - Voting thresholds for different types of decisions.
  - Alignment to shareholder's strategic plans and objectives.
  - Debt levels, security and source of borrowing.
  - Approval of the capital works programme.
  - Changes in tariff structures and/or tariff levels.
  - Any extra-ordinary revenue requirements for major/material transactions.
  - Complaints and feedback process between CCO and shareholders (and especially elected members).
  - Appointment of directors.
  - Constitution, statement of intent and letter of expectation.
- How the shareholders make decisions, including a possible shareholders committee and the nature and extent of delegations to that committee and including the appointment of Directors.
- The treatment of future assets vested by either developers or shareholders, including any consideration to shareholders.
- The basis and future significance of shareholding.
- Shareholder entry and exit provisions – including trigger points, treatment of assets and liabilities, vesting of assets on dissolution etc.
- The option to allow new shareholders and how this would be addressed.
- The role of the CCO in providing infrastructure to support council economic development objectives – including the sequencing and timing of capital works and supply of water and wastewater, how integrated planning takes place and how competing shareholder aspirations are resolved.

- Approach to tariff structures and water conservation, including:
  - Consistency of philosophy and principles.
  - Tariff harmonisation parameters and transition.
  - Hardship, debt recovery and disconnection policies.
  - Shareholder consultation/approvals.
- Alignment of council development contributions and CCO connection charges.

Note: The above is not an exhaustive list.

# **Waikato Water Study Governance Group: Terms of Reference**

## **Purpose**

Hamilton City Council, Waikato District Council and Waipa District Council have each agreed to further investigate the formation of a ratepayer owned, Council controlled organisation for the delivery of water, waste water and (on a contractual basis) stormwater. 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 three elected members from each council. Decisions will be made by consensus.

## **Meetings**

The Group will meet as required 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 direction-setting on behalf of the three Councils to develop a record of agreement for consideration and adoption by each Council concerning establishment considerations for a Waters CCO.
- Ensuring that issues of public interest (which can be reasonably expected to arise in the course of public consultation in relation to the establishment of a Waters CCO) are identified and a mutually agreed position is adopted by each of the three Councils.
- Presenting the proposed record of agreement for adoption by each Council no later than 30 June 2016.
- Approving, for consideration by each Council, any public documentation produced to communicate the record of agreement.
- Ensuring Iwi are kept informed and involved in the project.
- Providing direction on issues as they arise throughout the project.
- Managing the allocated budget and overseeing the project's performance against budget.
- Reporting 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.