

**Open Meeting**

<b>To</b>	Waikato District Council
<b>From</b>	TN Harty General Manager Service Delivery
<b>Date</b>	20 October 2014
<b>Chief Executive Approved</b>	Y
<b>DWS Document Set #</b>	829443
<b>Report Title</b>	Sub-Regional Waters Detailed Business Case

**1. Executive Summary**

In July 2014 Council resolved to support the development of a business case to better understand the viability of a collaboration to deliver water services across the sub region (Hamilton, Waipa and Waikato Councils). This study was triggered by works undertaken by the Mayoral Forum indicating that there are likely efficiencies and costs savings, should a collaboration take place.

The proposed study was to look at two separate possible collaboration models, Enhanced Shared Services and a Council Controlled Organisation and test these against the current status quo of the three organisations. This Council also resolved to look at the possibility of expanding the current agreements with Watercare Services Limited and consider this to ensure a completeness of the final evaluation. A public tender process to secure a consultant to undertake the development of the business case was agreed by Council.

To support the above work program and the staff tasked to deliver the work, a Waters Governance Group (WGG) was proposed. Council nominated His Worship the Mayor and Councillor Hayes to be members of this group.

Since the July meeting a number of key actions have been undertaken and the purpose of this report is to seek the approval of additional funding, confirm the successful tenderer and agree the scope of the business case and the terms of reference for the governance and project groups.

**2. Recommendation**

**THAT the report of the General Manager Service Delivery – Sub-Regional Waters Detailed Business Case - be received;**

**AND THAT Waikato District Council approves the Scope of Works, as attached, as appropriate for the works required to carry out a detailed investigation into the viability of a sub regional collaboration to deliver water services;**

**AND FURTHER THAT Waikato District Council approves the engagement of Cranleigh to deliver the scope of works, at a total cost of \$450,000;**

**AND FURTHER THAT Waikato District Council approves a 25% contribution to the costs of the joint study, to a maximum cost to council of \$98,750, and 100% of the costs of the Waikato District requested study, to a maximum cost of \$55,000;**

**AND FURTHER THAT Waikato District Council approves the expenditure of up to \$65,250 for the support works outlined within this report, on the basis that the funds are spent in accordance with Council procurement and delegation processes;**

**AND FURTHER THAT Waikato District Council approves the attached Terms of Reference for the Waters Governance Group and Waters Project Group**

### **3. Background**

At the July 2014 Council meeting, Council resolved to support the development of a joint business case to study options and feasibility of Sub Regional collaboration in the area of the three waters (water, wastewater and stormwater). Prior to the study commencing each Council requested that the outcome of a competitive process to identify the preferred consultant, and to formalise the scope and cost of the study, be reported back to each Council for approval.

The scope of works for the study was developed by the Waters Project Group (WPG), with input from the Governance representatives from both Waipa and Waikato District Councils. The final scope is attached as Appendix 1.

Council also resolved to investigate the possibility of developing closer working relationships with Watercare Services Ltd (WWSL) and to solely fund the business case to consider the options available to do this. The outcomes of this separate work will be part of the larger study (in order to achieve an integrated and comprehensive final report) but the costs and benefits relate to this council and will assist to determine the most appropriate way forward.

#### **3.1 Project Budget Allocation**

The available budget for this work comes from the Waters Operations Cost Centre, as follows:

IOP-16000-E-0-1202-0115 CCO Waters Study \$200,000

Year to date costs for the project have been approximately \$57,560. The Waikato District Council share of this cost is expected to be \$14,390 (based on a 25% allocation).

In addition, Council incurred a further cost of \$1,334 for councillor attendance at the recent waters conference.

#### **4. Discussion and Analysis of Options**

##### **4.1 Discussion**

##### **4.1.1 Tender process**

A Request for Proposal (RFP) was issued to the market on 13 August 2014. As part of the process a tender briefing meeting was held on 20 August for prospective tenderers and the tenders closed on 3 September. The tender evaluation team consisted of one staff member each from Waipa and Waikato District Council's and two from Hamilton City Council.

Under a Brooks Law evaluation method, all tenders received are evaluated against the non price attributes and once agreement has been reached on the highest place tenderer, a second envelope containing their price is opened and negotiated. If an agreement on price cannot be achieved between the parties, then the next ranked non priced tenderer is approached, their costs are opened and negotiated and so on, until an agreement on price with a tenderer is reached.

##### **4.1.2 Tenders received**

Six tenders were received prior to the advertised closing time of 4pm on the 3 September 2014.

##### **4.1.3 Tender Evaluation**

The tenders were assessed in accordance with the approved methodology. In accordance with this tender methodology, the two highest scoring tenderers were invited to present their bids to the WGG and WPG and this took place on 19 September.

The pre estimate for this work was in the region of \$350,000 – \$400,000.

A summary of the tenders received and the results of the evaluation are as follows:

<b>Rank</b>	<b>Consultant</b>	<b>Non Price Score</b>
1	Cranleigh	75.75
2	PricewaterhouseCoopers (PWC)	74.81
3	McGredy Winder & Co.	67.25
4	Morrison Low & Associates Limited	65.63
5	MWH New Zealand Limited	63.16
-	KPMG	Non Compliant

The tender received from KPMG was non conforming with the RFP so was not considered further.

#### **4.1.4 Preferred Tenderer**

Following the evaluations, presentations and price negotiations, Cranleigh was identified as the preferred tenderer. 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.

## **4.2 Options**

### **4.2.1 Stormwater**

As part of the Brooks Law tender process, price negotiations were held with Cranleigh as the preferred tenderer. As part of these negotiations the possibility of removing stormwater from the analysis was raised. A cost saving in the order of \$70,000 was identified should this occur.

Following a discussion between the WPG and WGG, it was determined that stormwater should remain within the project brief and that the cost of the project needed to reflect this.

The main drivers for retaining stormwater within the study at this time is to ensure completeness of analysis (3 Waters approach) and the fact that stormwater management is inextricably linked to the waters businesses within the sub region. Excluding it from the study in it's entirety may well have resulted in poor outcomes for all participants.

### **4.2.2 Tender Options**

There are two options available to Council:

**Option 1:** Reject the tender

**Option 2:** Accept the tender

Staff recommend accepting the tender to undertake the detailed business case.

## **5. Considerations**

### **5.1 Financial**

#### **5.1.1 Total Project Cost**

The total project cost for the development of the detailed business case, including stormwater, is **\$705,000.00**.

The total cost is made up of the following components:

<b>Cost Centre</b>	<b>Costs</b>
Cranleigh	\$450,000
Independent Project Manager (IPM)	\$97,440
Communications	\$50,000
Miscellaneous	\$50,000
Cost to date	\$57,560
<b>Total</b>	<b>\$705,000</b>

#### **Notes:**

1. The Cranleigh/Total costs include \$395,000 of joint funded work and \$55,000 of WDC only funded works
2. This price excludes staff costs and any costs that might arise following the potential adoption of the report (for example, a formal public consultation process would be required if the establishment of a Council Controlled Organisation (CCO) were to be considered).
3. 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.
4. The Independent Project Manager (IPM) contract has yet to be finalised and approved and will be done so in accordance with Council procurement processes. The cost estimates are based on a time/cost basis and as such every effort will be made through the process to minimise the cost of this work.
5. Miscellaneous costs include peer review, meeting costs etc and represent the best estimate of these costs at the time of drafting this report.

6. Costs for Councillor attendance at the recent Waters Conference is included in the overall costs (\$1,334.00).

### 5.1.2 Waikato Study Only Portion

Following tender price negotiations between staff and Cranleigh, the cost for the Waikato only portion of the study is estimated to be \$55,000. This is made up of two separate stages:

**Stage 1** - A discussion between Waikato District Council, Watercare Services Ltd and Cranleigh relating to management services for Water. Cranleigh is expected to prepare for, attend, advise Waikato District Council and document the outcomes and agreements reached at the meeting. The fee for this work is \$5,000 plus GST.

**Stage 2:** Cranleigh will investigate and develop the ideas and agreements reached in Stage 1 to fully develop an option that can be validly compared to the options described in the core work. The result is that Waikato District Council will have four options to consider at the conclusion of the Review whereas the other two councils will have three options to consider. The fee for Stage 2 is expected to be between \$25,000 and \$50,000 depending on the outcome of Stage 1. This fee will be discussed and agreed in writing with Waikato District Council before Stage 2 is commenced.

To control costs, staff recommend that the costs for this portion of the works be capped at a maximum \$55,000.

### 5.1.3 Cost Allocation Methodology

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 and that, irrespective of the outcome, the findings will provide invaluable information for each Council on their water infrastructure and governance options.

An alternative option that has been addressed is the three Councils to split costs in a manner which reflects the cooperative nature of the study and avoids any single Council funding a clear majority of project costs.

Potential options are shown in the following table:

	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

#### **5.1.4 Funding required**

Following discussions at the WGG level, the cooperative split is the preferred option. This cost split results in this Councils contribution to the project being approximately \$219,000.

Council has budgeted \$200,000 towards the detailed business case. Based on the cooperative split a further \$19,000 of unbudgeted funding would be required. This additional expenditure can be accommodated from additional rating income received in the 2014/15 year.

#### **5.2 Project Timeframes**

A detailed project plan, including timeframes, will be prepared for consideration by the WGG following formal appointment of the principle consultant.

The detailed business case will explore the implications of:

- i) The status quo;
- ii) Enhanced shared services, and
- iii) A CCO;
- iv) The preferred option between WDC and WSL

At the time of writing this report, the WPG estimate that this report will be available is the second half of 2015. The timeframe is influenced by the considerable pressure already existing on engineering and finance staff currently engaged in preparing draft 2015-25 Long Term Plans.

#### **5.3 Legal**

There are no legal implications of the process at this time.

#### **5.4 Strategy, Plans, Policy & Partnership Alignment**

In July Council also resolved to support the set up of a WPG and a WGG and resolved to appoint His Worship the Mayor and Councillor Hayes as members of the WGG.

Both groups are now being formalised and draft Terms of Reference (ToR) are attached. It is proposed through the WGG ToR that a Regional Council representative joins the WGG to reflect the broader role of the Regional Council including its interest in stormwater, water demand management and environmental oversight. The purpose of the WGG would be to maintain political oversight of the business case and provide clear project direction as the work commences. Terms of Reference for the WGG are included as Appendix 2.

A WPG would report to the WGG 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.

## 5.5 Assessment of Significance

The formation of a CCO or alternative service delivery method would trigger the significance policy and under legislation requires a full public consultation process. This could only be determined once the business case is evaluated and any future proposals are clear.

## 6. Consultation

The following stakeholders have been/or will be consulted:

Planned	In Progress	Complete	
	X		Internal
	X		Community boards/Community committees
	X		Waikato-Tainui/Local iwi
X			Households
X			Business
X			Other Please Specify

Comment (if any):

Progress of this project was raised at a recent JMA meeting with Waikato Tainui. Staff will continue to keep Waikato Tainui informed of this project as it progresses, through the normal communication processes and ensure that opportunities for involvement in the process are identified and progressed.

## 7. Conclusion

Following approval in July, the scope of works to investigate the viability of sub regional collaboration in the 3 waters area has been drafted and used as the basis to, shortlist a suitable consultant. This process involved both staff and Council's appointed governance representatives.

As per the resolution from Council, further approval is required before finalising the scope of works and formally engaging the consultant to undertake the works required to fully understand the benefits, or not, of moving further towards a collaborative business model across the sub region to deliver water services.



## **8. Appendices**

- Appendix 1 – Final Scope of Works
- Appendix 2 – Terms of Reference for Waters Governance Group
- Appendix 3 – Terms of Reference for Waters Project Group

# Appendix I

## 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 services<sup>1</sup> 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.<sup>2</sup> 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 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.

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<sup>1</sup> Presently, the three councils have a joint office providing water conservation, water quality testing and trade waste services.

<sup>2</sup> 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.

- 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.