

Open Meeting

To	Infrastructure Committee
From	TN Harty General Manager Service Delivery
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Prepared By	TN Harty General Manager Service Delivery
Chief Executive Approved	Y
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Report Title	Outcomes of the Sub-Regional Waters Study

I. 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 supported the engagement of 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 requested that a fourth option be investigated at Council's cost, to expand Council's current relationship with Watercare Services Limited (WSL).

In parallel with approving the Cranleigh commission, Council approved the formation and terms of reference for a Governance Group and Project Group, both tasked to oversee the development of the report. The Governance Group, as the political group, was tasked with oversight of the process and the Project Group was tasked with the day to day activities of the process, management of the consultant, budgets and timeframes.

On the 11th of 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 recover basis.

This Council individually work-shopped the report on the 15th of May and discussed the recommendations and information contained within the report, in detail.

The option 4 study was undertaken by Cranleigh and followed the same process as the main study. This ensured that the results of all 4 options were comparable and could be assessed equitably. The option 4 report is intended to be an addendum to the main report.

Following discussions between WSL and Council, this portion of the study focused on a “business unit” model for provision of services, under the umbrella of the current contract arrangement between the two parties.

The outcome of the option 4 report did not change the overall recommendation of the main report. However it, did recommend that, should it not be possible to move into a three party CCO, Council should establish its water activities as a business unit and seek to leverage WSL services as described in this report. The report also noted there are synergies identified in the option 4 report that are transferable no matter what final option may be selected.

The option 4 report was presented to, and work-shopped with Council, on the 9th of June.

The Cranleigh recommendation to form a ratepayer-owned CCO with three Council shareholders represents a significant decision for this Council. At the time of drafting this report, the other parties to the report have not formally considered the recommendation nor made any resolutions regarding the process moving forward. Until these decisions are made, no further substantive progress can be made.

2. Recommendation

THAT the report of the General Manager Service Delivery – Outcomes of the Sub-Regional Waters Study - be received;

AND THAT Council receive the Business Case for Water Services – Delivery Options, inclusive of the Option 4 Study;

AND FURTHER THAT Council support in principle, the formation of a CCO for the three Councils.

3. Background

In November 2014, following a series of reports and respective Council approvals Waikato and Waipa District and Hamilton City Councils (the Councils) engaged Cranleigh, 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).

The study was to look at three options for future management:

- 1) Retaining the status quo
- 2) An Enhanced Shared Service (ESS) and,
- 3) Forming a ratepayer-owned Council Controlled Organisation (CCO)

The study was to use central Government's "Better Business Case" methodology, which was developed by the National Infrastructure Unit, to ensure a robust and transparent reporting methodology.

As part of the pre-engagement process, Waikato District Council approved a fourth option for consideration, expanding Council's current relationship with WSL (option 4). This study was funded by and solely for, the Waikato District Council.

The report development process, looking at the three options, was overseen by a Governance Group and managed through a Project Team. The Governance Group consisted of elected members from each of the Councils. This Council was represented by His Worship the Mayor and the Chair of the Infrastructure Committee on the group. The Project Team consisted of senior staff from each Council.

The roles and responsibilities of these groups has been reported to, and approved by, Council through previous reports.

3.1 Main Study

On the 11th of May 2015 Cranleigh presented the outcomes of the main study via a presentation to all three Councils at the Don Rowlands Centre, Lake Karapiro. The main study concluded that the ratepayer-owned CCO was the most effective model moving forward and the report offered the following key recommendations:

1. Council should transfer their water and wastewater assets into a jointly owned not-for-profit CCO, and
2. Council should retain ownership of their urban stormwater assets, but outsource management of those assets to the CCO on a cost recovery basis.

The report tabled by Cranleigh provided in-depth analysis and data to support these key recommendations.

On the 15th of May 2015 Council held a workshop to discuss the report and consider its findings.

3.2 Option 4 Study

In parallel with the main study, the option 4 study was progressed. The scope of the study was initially confirmed by Council in February 2015 as a "consolidation" model. Following discussions with WSL this was changed to a "business unit" model which was endorsed by Council on the 26th of May 2015. The basis of this change was outlined within the Council report and represented a change in overall management approach but not the services to be offered. This allowed a majority of the work that had been carried out since February to continue and to be used.

The study on option 4 was completed utilising the same methodology as the main study to ensure that the results of all 4 options could be assessed on an equitable basis.

The study was assessed as an addendum to the main report and offered the following key recommendations (a new third recommendation from the main report):

1. Council should transfer their water and wastewater assets into a jointly owned not-for-profit CCO;
2. Council should retain ownership of their urban stormwater assets, but outsource management of those assets to the CCO on a cost recovery basis; and
3. If it is not possible to proceed with the CCO option then Waikato District Council should establish its water activities as a business unit and seek to leverage WSL services as described in this report.

3.3 Hamilton City and Waipa District Councils

Both Hamilton and Waipa Councils have reviewed the reports and held workshops with their elected members, Hamilton on 12 May and Waipa on 2 June.

Both these public workshops were facilitated by Cranleigh and subject to various levels of debate.

Neither Council has signed off on its preferred option. One of these has been the desire to better understand the outcomes of our option 4 analysis.

4. Discussion and Analysis of Options

4.1 Discussion

4.1.1 The Study

The study represents an independent view into the best model for managing water services within the sub-region. A significant amount of work and analysis by the Cranleigh team has led them to the conclusions and recommendations outlined within the report.

Key requirement of the report was for it to be:

- 1) Definitive
- 2) Independent

It must be acknowledged that 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 with an estimated two year implementation process for a CCO and one year for the ESS or EWR options.

It must also be acknowledged that 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 timeframe and the identification of potential sustainable water network efficiencies.

4.1.2 Outcomes of Analysis

Table 1 outlines the outcomes of the analysis of all 4 options. It shows the CCO as the preferred option with the lowest risk and the highest cost savings.

For this Council, the analysis shows that the EWR is the next best option, followed by the Status Quo and then ESS.

Decision Factor	Status Quo	ESS	CCO	EWR
Multi – Criteria Score	58%	60%	82%	68%
Combined \$ Savings (10 years)	NA	\$5.6m	\$28.1m	\$5.8m
Combined \$ Savings (28 years)	NA	\$20.6m	\$105.5m	\$20.7m
Risk Rating	Medium	High	Low	Medium/ Low
Overall Ranking	3	4	1	2

Table 1: Outcome of Analysis

4.1.3 Council's Position

This Council's position moving into this study was that it required all three Councils to participate in the study and that any change would need to be unanimously supported by all three parties prior to moving to the next stage.

At this point of the process it is unclear if both Hamilton City and Waipa District are supportive of the outcomes of the Cranleigh report. This will not be known until both organisations complete their due processes.

4.1.4 Next Steps

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

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.

4.2 Options

The main purpose of this report is to determine whether Council supports the recommendation of the study.

Whilst there are a number of other aspects surrounding the recommendation, such as public consultation, the requirement for an amended LTP, cost and transition processes along with the positions of both Hamilton City and Waipa District, the base consideration is only whether to support in principle the recommendations of the Cranleigh study.

With this in mind, there are three main options available to Council. These are outlined below:

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.

It is recommended that Council support option 2. If either Hamilton or Waipa (or both) do not support the outcomes of the report, then Council will need to reconsider its position.

5. Considerations

5.1 Financial

The delivery of the study 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 within the allocated budgets.

There is no funding for the next stage of the study, if it was to move into an implementation phase. Some initial analysis has been completed and a full Special Consultative Procedure across the sub-region is expected to cost in the order of at least \$100,000 (noting this has yet to be fully costed).

Until such time as all parties determine the next step, no further funding is required. Any requirements for funds into the future would be the subject of another Council report and resolution.

5.2 Legal

In accepting in principle the recommendations of the study there are no known legal issues.

Further work will need to be completed if there is a need to move into the next phase of the project and that will be subject to a Council report and associated legal reviews as and when required.

An amended LTP process would be required if the ultimate decision was to form a CCO.

5.3 Strategy, Plans, Policy & Partnership Alignment

The waters study started through the wider Mayoral Forum. Following the move to just cover the sub-regional Councils, the Governance Group was appointed to oversee the project. This group operate under an agreed terms of reference.

It is important to note that a key condition of this Council's support for this process was that all three Councils participate in the study. To date this condition has been met. At the time of drafting this report, and as noted earlier, the position

of both Hamilton and Waipa in regard to supporting the recommendations of the report is unknown.

5.4 Assessment of Significance & Engagement

The formation of a CCO will trigger the significance policy and require a full public consultation process.

Once all parties' have made a decision the appropriate engagement processes will be determined through the development of an appropriate implementation plan.

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
			Other Please Specify

The level and detail of consultation will be determined in the next steps in the process.

Notwithstanding that, key stakeholders, such as Waikato Tainui, have been briefed through the process and staff will continue to do so.

Media has been engaged both through the wider project as well as directly through Council's Communications Team.

7. Risk

The largest risk to the process at this stage is that the support of Hamilton and Waipa Councils is yet unknown.

This risk is being managed through the Project and Governance Groups and close communications between all three parties.

Council should consider what approach it would take if the CCO option is not supported by all three Councils.

Notwithstanding that, should the CCO not progress, this Council is left with a viable option, option 4, that does add value to the operation of its water business and provides benefits to the ratepayer.

8. Conclusion

The sub-regional waters study represents a significant piece of work that has been undertaken over the last three years. The outcome of the study was the recommendation that the Councils set up a sub-regional CCO to own and operate

the water and wastewater activities of the three Councils and manage the stormwater activities. This was due to the low risk and high overall savings that this model showed, when compared to the other modelled scenarios.

If moving to this option is not possible, option 4 study is a viable alternative.

A possible risk is that not all three Councils will support the recommendations. Council should consider this outcome and in the event, either support the EWR option or look to better understand any alternative options available.

This report recommends the CCO option for the reasons outlined within this document and the study itself. It is acknowledged that further work will be needed if the sub-regional CCO is to be established and that this will be subject to a further Council report.

9. Attachments

N/A