
To: The Chairperson and Members of the Strategic Planning and Policy Committee

From: Deputy Chief Executive

Subject: **Proposal to Investigate Alternative Options for the Provision of Water Services**

Meeting Date: 1 July 2014

File Reference: 01-22-39/1/1

1. EXECUTIVE SUMMARY

The purpose of this report is to seek Council approval to undertake a detailed business case analysis of the most appropriate means of service delivery for water and wastewater services for Hamilton City Council, Waikato District Council and Waipa District Council. The analysis will consider an enhanced shared services model, a potential Council Controlled Organisation (CCO) or multiple CCOs and the implications of retaining the status quo.

The background is that a recent report to the Mayoral Forum recommended (subject to business case analysis) the establishment of a joint CCO for Hamilton, Waikato and Waipa councils relating to their water and wastewater activities.¹

The Business Case analysis requires specialist and independent skills. This report proposes to discuss and finalise the shape and scale of the business case project (scope, methodology, timeline etc.) through a Registration of Interest procurement process for professional services. This will provide certainty and control over project outputs and project cost.

Approval is therefore sought to undertake a competitive market process to identify a preferred professional services supplier/s. It is intended that elected members will be included in this process.

Once the brief is completed and the service provider identified a report will be brought back to the three councils specifying project detail (scope, methodology, timeline, cost, cost apportionment etc.) and seeking approval to proceed.

¹ The Report makes it clear that: the CCO would be publicly owned by the three councils; it would provide water and wastewater services at the lowest cost consistent with prudent management of assets; it would not run at a profit and it would not pay dividends or surpluses to shareholders; the councils would appoint the company directors and approve the Statement of Intent; and a joint committee of the three councils would monitor the company's performance.

2. RECOMMENDATION

That

- a) The report of David Hall, Deputy Chief Executive be received;*
- b) Council undertake a detailed business case examination for water and wastewater activities as a joint project in Hamilton City, Waikato District and Waipa District;*
- c) The detailed business case should explore the implications of: a) the status quo, b) an enhanced shared services model, and c) a Council Controlled Organisation (CCO) or multiple CCOs;*
- d) The CEO's be delegated authority to conduct a competitive process to identify the special advisor/s reflecting the outline scope in section 3 of this report but with the flexibility to incorporate respondents suggestions;*
- e) His Worship the Mayor and Councillor _____ assist the CEO with the above process as required; and,*
- f) The outcome of the competitive process be reported back to the councils for consideration. The report to include details of the proposed final scope, contract terms, timeframe, cost, cost apportionment and terms of reference for project governance.*

3. OPTIONS AND STAFF COMMENT

3.1. BACKGROUND

In March 2014, an independent report commissioned by the Waikato Mayoral Forum recommended that subject to detailed business case analysis, a Council Controlled Organisation (CCO) be established for the water and wastewater activities of Hamilton, Waipa and Waikato councils. (A copy of the Report was provided to elected members in April).

The rationale for this recommendation was influenced by the central government environment including:

- The National Infrastructure Plan which is critical of the water industry;
- The report of the Local Government Infrastructure Expert Advisory Panel which recommends regionalisation of water;

- Proposed local government legislation which requires (inter alia) a 30-year infrastructure strategy, regular service delivery reviews² and gives the Local Government Commission the power to establish CCO's;
- Various industry reports acknowledging the need for change in NZ Water structure.

Since the Report was published, the Local Government (Financial Reporting & Prudence) Regulations have come into force with the effect of providing greater motivation to consider using CCO structures, particularly for asset-based activities.

The above comments explain the national context but the most compelling reasons for considering an alternative structure for Hamilton, Waikato and Waipa councils relate to the local situation.

- Each council is facing considerable challenge with high population growth and the availability of water to service that growth;
- Each council needs to be able to deliver a large capital expenditure programme over an extended period and there will need to be a lot of attention given to the effective management of water demand;
- The Hamilton, Waikato, Waipa water networks are contiguous (facilitating a collaborative approach); and
- There is a potential opportunity to drive better long-term value through the scale and efficiency of a larger organisation.

It was also noted in the Report that there is a close working relationship between the three councils with regards Waters already.

3.2. KEY ISSUES

3.2.1. Scope

The scope and methodology to be used in the Business Case analysis will not be locked down until after the procurement process for professional services. This is because it is expected that the process may reveal additional information that requires amendment to scope and/or refinement to methodology. The intention is to work with the successful party/parties to define the best way forward. The final scope of the Business Case will be approved by the councils following a competitive market process but it is expected that key outputs of the work will be:

- The shape and scale of each option (the status quo, an enhanced shared services model, and a Council Controlled Organisation (CCO) or multiple CCOs) will be understood in reasonable detail, including: shareholding & governance arrangements, how differing levels of debt across the three councils are managed, financial & funding arrangements, organisation structure and service delivery

² The completion of the business case will meet the proposed service delivery review requirements of the LGA.

model. This is expected to involve comprehensive analysis of customer, engineering, financial, HR, IT and legal issues.

- Establishment and transitional costs will be estimated and the transition process will be well understood.
- The strategic, organisational and financial implications for each council will be understood - including risks and benefits and the implications for local decision-making.
- In the case of the 'status quo' option, the Report will identify what each council will need to do to deliver their expected programmes on their own.

The essential outcome of the Business Case will be the provision of substantive information sufficient for each council, and the residents and ratepayers of each council (via consultation), to make an informed decision on the preferred model of Waters delivery for the future. The Report will result in a clear recommendation on whether to proceed with a CCO or multiple CCOs, an enhanced shared service structure or whether to retain the status quo.

3.2.2. Resourcing

The preparation of the business case is a very large project. Staff of the three councils will be providing technical input but specialist and independent skills are required across a range of topics – particularly financial analysis but also IT and legal. Procurement of the substantive professional service elements will be via a competitive process.

3.2.3. Timeline

Because of the amount of work to be done, the resource limitations of the three councils, the professional services procurement process referred to above and the need for governance input at critical stages of the project, a timeframe for the business case preparation cannot be currently given. In addition, if a CCO is proposed, it would then require public consultation. It is anticipated that the final timeline for the Project will be determined in conjunction with the successful external party/parties.

3.2.4. Cost

It is difficult to accurately estimate the cost of a project like this because:

- Scope and methodology haven't been finalised;
- it is a 'one off' project – there is nothing similar to compare it to;
- it is complex - three councils, multiple considerations (HR, Legal, Financial, Engineering etc...).

Project costs will be finalised, and referred back to each Council, once scope and methodology have been discussed and negotiations have been concluded with the successful external party/parties.

3.3. RISKS

Key risks and mitigations around this project are tabled below.

Risk	Description	Mitigation	Overall Rating
Resourcing	Inability of professional suppliers to deliver. Inability of staff to deliver.	Careful selection. Appropriate project management. CE's providing appropriate resources/priority to Project requirements.	Medium
Cost	Cost overrun.	Careful scoping of project. Careful consultant selection. Careful budget management.	Medium
Timeline	Inability to deliver to programme - most likely caused through delays in supply of high quality/timely input information from councils and complex governance requirements.	CE's providing appropriate resources/priority to Project requirements.	Medium
Communications	Inadequate stakeholder understanding of the scope, purpose, limitations, timeline etc of this project.	Clear communications plan.	Medium

David Hall
DEPUTY CHIEF EXECUTIVE
GROUP MANAGER PLANNING AND COMMUNITY RELATIONS

1 Statutory and policy requirements

The purpose of local government is defined in Section 10 of the Local Government Act 2002, as follows:

“10 Purpose of local government

- (1) *The purpose of local government is—*
- (a) *to enable democratic local decision-making and action by, and on behalf of, communities; and*
 - [(b) *to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.*
- [(2) *In this Act, good-quality, in relation to local infrastructure, local public services, and performance of regulatory functions, means infrastructure, services, and performance that are—*
- (a) *efficient; and*
 - (b) *effective; and*
 - (c) *appropriate to present and anticipated future circumstances.”*

The reference in Section 10 of the LGA to supplying good-quality local infrastructure in a way that is most cost-effective for households and businesses is relevant to this report, as the purpose of the business case investigation is to identify the most cost effective mechanism for the provision of water services.

It is significant that Section 14 of the Local Government Act 2002, sub-section (e), which currently reads *“a local authority should collaborate and co-operate with other local authorities and bodies as it considers appropriate to promote or achieve its priorities and desired outcomes, and make efficient use of resources”* is about to be replaced with: *“a local authority should actively seek to collaborate and co-operate with other local authorities and bodies to improve the effectiveness and efficiency with which it achieves its identified priorities and desired outcomes”*.

It is also relevant that sub-section (g) of Section 14, which currently states: *“a local authority should ensure prudent stewardship and the efficient and effective use of its resources in the interests of its district or region”* is about to be replaced with: *“a local authority should ensure prudent stewardship and the efficient and effective use of its resources in the interests of its district or region, including by planning effectively for the future management of its assets.”*

2 Organisation strategic goals

Economically Progressive - Economic impacts

Studies undertaken by the Waikato Mayoral Forum have indicated that increased scale may create cost efficiencies and improve local resilience. Further work is required to validate these findings, and this is why a detailed business case is proposed.

Environmental/Cultural Champions- Environmental/cultural impacts

Studies undertaken by the Waikato Mayoral Forum have indicated that increased scale may allow more effective water demand management and a voluntary reduction in the total volume of water allocated to municipal supplies.

Connected with our community - Consultation and communication

Any proposal to form a structured alliance with Hamilton City Council and Waikato District Council will require formal consultation with our communities.
