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

**From:** Deputy Chief Executive

**Subject:** **Shared Waters Management Company - Consultation**

**Meeting Date:** 3 October 2017

**File Reference:** 200-04-01/6

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## **1 EXECUTIVE SUMMARY**

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On 30 May 2017 Waipa District Council agreed a *"non-asset owning, Council-funded Council Controlled Organisation is Waipa District Council's preferred model for continued discussions on waters sub-regional collaboration"*.

The meeting authorised Waters Governance Group members (His Worship the Mayor, Councillors St Pierre and Brown), *"upon reaching mutual agreement with either or both Hamilton City Council and Waikato District Council on a model, to obtain information necessary for public consultation and prepare consultation materials for Waipa District Council approval."*

Hamilton City and Waipa District Councils both agree a Shared Waters Management Company (previously referred to as a non-asset owning CCO) is their preferred model for collaboration in water and wastewater services for the future. Waikato DC has not yet reached this decision and continues to investigate other options.

The essential elements of a Shared Waters Management Company are:

1. The company would be a CCO (a Council Controlled Organisation). It would employ staff who would manage water, waste water and storm water assets on behalf of the shareholding councils.
2. The company would be a not-for-profit entity. (By law, Councils cannot make money out of water. They can only cover the costs to supply, treat and dispose of water).
3. The company would not own any major water assets. Those assets would remain 100 per cent owned by each council. (The company might own some minor assets like cars and computers).
4. All major decisions would continue to be made by shareholding councils. The water company, as a 'specialist waters company' would provide advice to each Council on where and when to invest.

5. The water company would be responsible for maintenance of the waters networks.
6. Each shareholding council would continue to set the cost for water services (to be recovered through general rates, targeted rates, water meters, trade waste fees etc.) – just as they do now.
7. The water company could not force Hamilton City to install residential water meters. Nor could the water company force any other shareholding Council to change the way they charge for water.
8. The water company would be jointly controlled by the shareholding councils through a Shareholders Forum.
9. The water company would be accountable to shareholding councils who would ensure it operated openly and transparently.
10. The water company would offer operational, environmental and financial benefits that could not be achieved by councils operating on their own.

Since the May meeting, an independent report has been prepared by a consortium of Mott MacDonald and Scottish Water International to ensure any change from the status quo would be advantageous to ratepayers. The report concludes that:

*“In summary, it is found that over the long-term, a SWMC will provide financial and non-financial benefits to the three councils and their ratepayers. An SWMC is a better model, both financially and non-financially, than the status quo (where each Council manages water, wastewater and stormwater activities independently).”*

The Waters Governance Groups of both Councils now recommend that each Council publicly consults on the proposal to form a SWMC. Doing so now will allow both Councils to gauge public opinion and make a decision before the draft 10-Year Plans are finalised.

## 2 RECOMMENDATION

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*That*

- a) *The report of David Hall, Deputy Chief Executive be received;*
- b) *Public consultation on the proposal to form a Shared Waters Management Company be undertaken, as required by Section 56 of the Local Government Act 2002;*
- c) *Public consultation be undertaken in collaboration with Hamilton City Council, but be designed to meet the needs of the Waipa District;*
- d) *The Waipa Waters Governance Group be delegated authority to liaise with Hamilton City Council and to finalise the process and materials for public engagement, including the appointment of an independent Chair.*

- e) That Cr\_\_\_\_\_ be delegated to the Waipa Waters Governance Group during Cr Brown's leave.

### 3 OPTIONS AND ASSESSMENT

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#### Background

- 3.1 On 30 May 2017 Waipa District Council passed the following resolution:

*"{That} Council:*

- i) Agrees that a non-asset owning, Council-funded Council Controlled Organisation is Waipa District Council's preferred model for continued discussions on waters sub-regional collaboration;*
- ii) Appoint a Waipa District Council Waters Governance Group comprising of His Worship the Mayor and Councillors Brown and St Pierre.*
- iii) Authorises the Waipa District Council Waters Governance Group members to reconvene discussions with Hamilton City Council and Waikato District Council on a mutually preferred waters sub-regional collaboration model; and*
- iv) Authorises Waters Governance Group members, upon reaching mutual agreement with either or both Hamilton City Council and Waikato District Council on a model, to obtain information necessary for public consultation and prepare consultation materials for Waipa District Council approval."*

- 3.2 Waipa District Council had earlier, in December 2016, requested that Hamilton City and Waikato District Councils consider collaborating with Waipa to form a shared service, non-asset owning waters CCO.

#### Hamilton City Council

- 3.3 On May 4, 2017 Hamilton City Council resolved to (from a media release dated May 4 2017) "approve a shared service, non-asset-owning waters management company as its preferred model for collaborating with other local councils to best manage water.

- 3.4 (from the same media release) "The decision means the Council's Water Governance Group members are authorised to restart discussions with Waipa and Waikato Councils about a joint management approach, and after reaching mutual agreement with those councils, will jointly prepare a public consultation document for approval."

#### Waikato District Council

- 3.5 In a media release dated 12 June 2017 Waikato District Council advised it was considering further options for managing water services (including a closer association with Waikato-Tainui and Auckland Council's waters CCO, (Watercare Services Ltd) but that the "*Hamilton, Waipa, Waikato CCO option is still very much on the table*". Waikato District Council advise these investigations are ongoing and a decision, also pending public consultation, is expected close to Christmas.

- 3.6 There is an open dialogue between the three Councils. Waikato District continues to participate in the Waters Project Group and through that forum is aware of the positions reached by both Waipa District and Hamilton City.

### **Mott MacDonald Report**

- 3.7 A high level review of the SWMC has been undertaken to ensure any transition from the status quo to a SWMC will be advantageous to ratepayers.
- 3.8 Mott MacDonald was commissioned to undertake the review due to their familiarity with the Cranleigh business case (they were a member of the Cranleigh consortium) and their knowledge of Wellington Water, an existing Shared Waters Management Company on which the Waikato SWMC is closely modelled.
- 3.9 The full Mott MacDonald report has been circulated under separate cover and the Executive Summary is attached as Appendix A. It concludes that:

*“In summary, it is found that over the long-term, a SWMC will provide financial and non-financial benefits to the three councils and their ratepayers. An SWMC is a better model, both financially and non-financially, than the status quo (where each Council manages water, wastewater and stormwater activities independently).”*

### **Public Consultation**

- 3.10 Waipa’s Water Governance Group met on 21 August to discuss a range of issues related to the Shared Waters Management Company. The key outcome from this meeting was a recommendation to publicly consult on the SWMC proposal before the end of the year.
- 3.11 In reaching this decision the Governance Group recognised the desirability of informing Council’s 10-Year Plan, particularly given the significant capital expenditure programme driven by growth pressures. Other factors included a desire to ensure that the SWMC proposal was not obscured by other, key debates arising from the draft 10-Year Plan in the new year and the need to provide certainty to staff working in three waters services.
- 3.12 Consultation will be based around Hamilton City and Waipa District being 'foundation' members of a Shared Waters Management Company. However, the door would be held open to other Councils, including Waikato District Council, joining the SWMC at a later date.
- 3.13 Consultation would make it clear a SWMC does not involve any transfer of either assets or debt. Decision-making, including all decisions around the cost of water and major capital investments in water and wastewater would continue to be made by elected members at shareholding Councils.
- 3.14 The consultation would be at a relatively high level and would meet the requirements of Section 56 of the Local Government Act which requires Councils to consult on the formation of any Council Controlled Organisation, irrespective of scale. Further

details would be determined by elected members, following any decision to form a SWMC, should that decision be made.

- 3.15 It is not proposed that a Special Consultative Procedure (SCP) be followed; a SCP is not required for this issue. Nor, given the relatively benign nature of what is being proposed, does this issue trigger any requirements under Council's Significance and Engagement Policy.
- 3.16 A draft consultation process is attached as Appendix B.
- 3.17 An important feature of the proposed process is that an independent Chair is proposed. An independent Chair will ensure consistency between submitters wishing to be heard by both Councils and those who may wish to be heard only by Hamilton or Waipa representatives. This position will need to be approved by both Councils and therefore it is recommended that each Council's Governance Group be given delegated authority to appoint.
- 3.18 Recognising the need for ongoing liaison between Waipa and Hamilton Councils, and to ensure consistency between consultation processes and communications to the community, it is proposed that the final sign-off on consultation materials, and the consultation process, be delegated to Governance Group members.
- 3.19 It is proposed that submitters will be given the opportunity to present their views on 1 December 2017, however this date is still tentative. As Councillor Brown is taking leave from 2 December it is proposed that a Councillor be delegated to fill this position during Councillor Brown's absence.

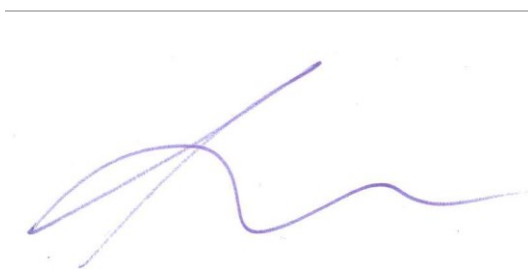
### **Financial and Resourcing Implications**

- 3.20 There is no specific budgetary provision for the proposed consultation process. However funds have been budgeted for pre-consultation on the 10-Year Plan and this would form part of that programme.

### **Statutory and Policy Requirements**

- 3.21 The creation of a Council Controlled Organisation requires public consultation (s.56 Local Government Act 2002) but does not require use of Special Consultative Procedures.

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David Hall

**GROUP MANAGER PLANNING AND COMMUNITY RELATIONS**



Reviewed by Jennie McFarlane  
**MANAGER LEGAL AND CORPORATE  
SUPPORT**



Approved by Garry Dyet  
**CHIEF EXECUTIVE**

# APPENDIX A: MOTT MACDONALD “SHARED WATERS MANAGEMENT STUDY” REPORT

## EXECUTIVE SUMMARY

Hamilton City Council and Waipa District Council have both formally agreed to support the creation of a Shared Waters Management Company (a non-asset owning council controlled organisation (CCO)), subject to community consultation. Waikato District Council has yet to formally consider this model. This report, at a reasonably high level, further quantifies the benefits, or not, of a Shared Waters Management Company (SWMC) across the sub-region in comparison to the status quo and an asset-owning CCO.

In summary, it is found that over the long-term, a SWMC will provide financial and non-financial benefits to the three councils and their ratepayers. An SWMC is a better model, both financially and non-financially, than the status quo (where each Council manages water, wastewater and stormwater activities independently).

While an SWMC offers significant advantages over the status quo, it does not achieve the quantum of efficiencies that could be achieved via the formation of an asset-owning CCO as recommended in the Business Case for Water Services (Cranleigh, May 2015).

### Non-financial Benefits

The non-financial benefits to the three Councils in forming a SWMC would be significant. These benefits would not only improve the effectiveness of the service; they would also help put in place critical components to help deliver efficiencies in future years and build momentum on the maturity curve of ‘best practice’ water companies. This report finds that a SWMC would offer:

- A more targeted focus on the delivery of high-quality water and wastewater services
- An enhanced ability to address capacity issues and meet the significant growth challenges being faced across the sub-region
- Independent expertise at Board of Directors level, not necessarily available with existing Council structures
- The potential for the creation of a regional waters Centre of Excellence, with potential wider benefits across the region
- Improved environmental and drinking water compliance, resulting in enhanced levels of service
- The ability to better respond to increasing regulatory demands and higher quality standards in relation to the delivery of water and wastewater. This is particularly important given the upcoming report on Havelock North
- An enhanced ability to manage risk (including public health risk)
- A more resilient water and wastewater network across the sub-region and potentially beyond

- A standardised and therefore more efficient approach to asset management
- A more attractive environment offering greater development, training and other peer support which is more likely to attract and retain specialist waters staff.

## Financial Benefits

While a SWMC would not deliver the financial benefits expected from an asset-owning CCO (Cranleigh, May 2015) it could be expected to deliver a range of opex and capex efficiencies across planned investment programmes with potential for greater efficiencies over time.

- **Capex** - it has been estimated that capital efficiencies would range from **3 to 9%** across the capital programme. These efficiencies would depend on the adoption of a robust procurement strategy which would allow Councils to take advantage of economies of scale, drive best practice on processes and procedures and adopt a more progressive approach to engaging the supply chain. Capex efficiencies are estimated at between **\$73M** and **\$244M** over a 28 year period.
- **Opex** - further efficiencies could be realised through rationalising plant and network operations and, over time, associated staff. This would provide efficiencies over the longer term of between **1.5** and **5%**. Opex efficiencies are estimated at between **\$43M** and **\$144M** over a 28 year period.

Combined, estimated capex and opex financial efficiencies would equate to between **\$116M** and **\$388M** across three Councils over a 28 year period, as tabulated below. Within the first 12 to 18 months, only marginal financial efficiencies are likely to be realised.

Model	Total Cost (\$M)	Total Efficiencies (\$M)
Status quo	5,653.6	0.0
SWMC – lower limit	5,537.3	116.3
SWMC – upper limit	5,265.3	388.3

Note: Lower limit -includes \$10M establishment costs as capex and low range capex (3%) and opex (1.5%) efficiencies.  
Upper limit -includes \$5M establishment costs as capex and high range capex (9%) and opex (5%) efficiencies.

## Challenges and Limitations

In order to achieve the non-financial and financial benefits offered by a SWMC, the following limitations must be addressed:

- Non-standard working processes and systems across the three councils
- Restrictions associated with delivering programmes of work (where and when you can spend monies)
- Funding restrictions limited to an annual basis from each individual council
- Different asset management IT systems and working procedures
- Differences in levels of services among the three council customers
- Differences in reporting requirements for each of the councils



- The three councils' objectives are not fully aligned in one plan
- Understanding of cross function support functions.

### The SWMC Model

The 2015 *Engineering Assessment and Evaluation Report* (Mott MacDonald, May 2015) which formed an appendix to the *Business Case for Water Services* (Cranleigh, May 2015) supported the recommendation to form an asset-owning CCO based on the findings of key evidence. The same set of findings have been challenged against a SWMC. This report concludes the SWMC would:

- Help facilitate the ability to more effectively manage and deliver an investment programme for the next 30 years through, – One long-term plan for water – Unifying the levels of service across all three councils.
- Enable the realisation of cost efficiencies in capex and opex expenditure
- Facilitate greater resilience of the waters network (if bulk funding and a common approach to operation of assets to benefit two or all three councils is agreed). Contractual arrangements will be needed to provide the supply and services around assets which supply multiple councils (given asset ownership remains with the individual councils).
- Provide a solid foundation to address future growth and economic development challenges through a joined-up approach to long-term planning
- Provide more opportunity to strategically manage assets where there are interdependencies through a common asset management approach and a move towards a common level of service
- Provide the platform to deliver a high level of service through a centre of excellence
- Offer key personnel roles in what has the potential to be a nationally-significant water entity.

### Conclusion

A high-level comparison of the three models is tabulated below.

Model	Governance & Organisation	Asset Management	Levels of Service	Customers & Stakeholders	Efficiency	Ease of Implementation
Status quo	✓	✓	✓	✓	Baseline	Baseline
SWMC	✓✓	✓✓	✓✓	✓✓	✓✓	✓✓✓
Asset Owning CCO	✓✓✓	✓✓✓	✓✓	✓✓	✓✓✓	✓
Note:	✓ Acceptable	✓✓ Improvement	✓✓✓ Significant Improvement			

Whilst an asset-owning CCO provides greater benefits overall, the ease of implementation and the delivery of improvements means a SWMC would offer significant benefits to the councils and their communities. An SWMC would clearly provide financial and non-financial benefits over the status quo.

Transitioning to a SWMC model alone, will not be enough to achieve potential efficiencies or realise potential advantages. There are a number of key enablers to achieving the aforementioned efficiencies, including; one common asset management plan, aligned levels of service, investing for greater efficiency and smarter procurement.

Finally, the quantification of benefits outlined assume the changes will be implemented within the first three years of operation. Delays and parochial behaviours will result in a reduction in these benefits and efficiencies.

## **APPENDIX B: PROPOSED CONSULTATION PROCESS**

### **COMMON MATERIALS**

There will jointly agreed consultation materials, approved on behalf of both Councils by the respective Governance Groups. Materials will include:

1. A consultation document (both hard and soft copies).
2. Media release(s).
3. An on-line survey (questions mirrored in printed material).
4. Series of questions and answers to help improve understanding of what is being proposed (including some questions that might be specific to each council).
5. Key stakeholder communication (i.e., one approach to key organisations). This includes specific communication with iwi.
6. The website [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz) updated.

### **PROPOSED CONSULTATION PROCESS:**

7. Consultation to open Wednesday, October 25.
8. Consultation document hosted on both council websites and community advised of availability.
9. A link on both council websites to a common survey.
10. Hard copy consultation documents also available at council front offices/ libraries.
11. Social media posts from both councils directing people to web links/hard copies to encourage engagement.
12. Direct contact (on behalf of both Councils) with key stakeholders, including iwi.
13. Consultation to close Sunday, November 26.

### **VERBAL SUBMISSION PROCESS**

14. As part of consultation, people will be offered the opportunity to make verbal submissions.
15. Verbal submissions will be heard jointly, by both Councils, represented by the six Governance Group members. All other elected members will be invited to hear verbal submissions if they wish.
16. Verbal submissions will be chaired by an independent chair.
17. Verbal submissions will be heard at a neutral venue, in early December.
18. Submitters will be offered the opportunity to speak separately, just to Waipa DC or just to Hamilton City Council.
19. Following submissions, a deliberations report will be written, for circulation to both councils.

***(Waipa-specific)***

20. A formal report will go to a Waipa meeting on 19 December 2017 for a decision.
21. The decision and any financial implications will be included in the Waipa draft 10-Year Plan.

**NOTE: Final decisions on whether or not to form a SWMC,  
to be made independently, by each (full) Council.**