

Report to Strategy and Policy Committee July 2015 – Decision required

File No: 20 00 25
Date: 14 July 2015
To: Chief Executive Officer
From: Director Science and Strategy
Subject: **Outcomes of the Sub-Regional Three Waters Business Case**
Section: B (For recommendation to Council)

Purpose

The purpose of this report is to:

- Inform and update the Strategy and Policy Committee on the recommendations of the Business Case for Three Water Services for Hamilton City Council, Waipa District Council and Waikato District Council.
- Identify implications for Waikato Regional Council (WRC).

Recommendations:

1. That the report '*Outcomes of the Sub-regional Three Waters Business Case*' (Doc #3426834 dated 14 July 2015) be received.
2. That the Strategy and Policy Committee recommend to Council to resolve to continue to have an elected member represent Waikato Regional Council on the Waters Governance Group, should this group continue.
3. That staff maintain a watching brief and report back to the Strategy and Policy Committee as appropriate.

Background

In 2013 the Mayoral Forum commissioned a report by PriceWaterhouseCoopers to gain a broad understanding of the benefits of establishing a three waters (water supply, wastewater and urban stormwater) shared services arrangement. Among other findings, the report concluded that there were potential savings and operational improvements to be made by the Mayoral Forum Councils working together in both the reticulation and plant operations spaces.

This high level report formed the basis for further investigation on behalf of the Mayoral Forum. In 2014 the Waikato Mayoral Forum commissioned a report led by Participate Ltd to explore the concept of regionalisation and/or sub-regionalisation of the three waters activity.

The Participate Ltd report made two key recommendations:

- that the case for a sub-regional (Waipa, Waikato, Hamilton) waters Council Controlled Organisation (CCO) be accepted in principle and the proposal be subjected to detailed business case analysis before the matter is considered further.

- that a 'Centre of Excellence' be incorporated in the sub-regional waters CCO concept as a vehicle to promote regional water initiatives and to support all councils within the Waikato Region.

As a result of the Participate Ltd report recommendation, Hamilton City Council, Waipa and Waikato District Council co-funded Cranleigh to undertake a detailed business case examination for three water activities in the sub-region. A number of factors were central in the commissioning of the business case. These include:

- continuing population and economic growth and the requirement for expanded water services
- challenges with environmental and regulatory compliance
- the requirement for a significant increase in capital investment in the future as a result of the above two factors.

At the same time (November 2014) the Waters Governance Group (WGG) was established with the purpose of maintaining political oversight of the business case and providing clear project direction as the work proceeded. The WGG comprises two elected representatives from each of the three councils and an elected member from WRC. It is advantageous to have WRC representation on the WGG as it ensures WRC has direct involvement in any proposed transfer of the three waters to a CCO and also ensures that WRC has the opportunity to influence how the three waters are managed.

The business case was completed in May 2015. It assessed three separate management options:

- retaining the status quo with each council running its own operations
- boosting the councils' existing shared services into an enhanced shared services model (ESS)
- considering forming a CCO to run water services on behalf of all three councils.

The business case considers if the three waters can be managed and governed in a different way that will generate demonstrable qualitative and financial benefits.

In addition, Waikato District Council commissioned Cranleigh to consider a fourth option based on expanding the existing collaboration with Watercare Services Ltd (WSL) for the Northern Waikato (primarily Tuakau and Pokeno).

Business case findings

The business case recommends that the three councils should transfer their water and wastewater assets into a jointly owned CCO. It is proposed that each council would retain ownership of their urban stormwater assets, but outsource management (other than planning) of those assets to the CCO.

While the main focus of the business case is on cost effectiveness and optimising capital investment, it identifies the following key benefits of a CCO over other options:

- economies of scale will result in lower three waters charges and produce savings for Councils and water customers
- a stronger and more resilient water network across the sub-region
- cleaner water and wastewater that benefits customers, ratepayers and the environment
- attraction and retention of talented staff

- the ability to better support economic development through better access to resources with a single focus on three waters
- centre of excellence available to share expertise with other water authorities in the region
- the ability for other councils in the Waikato region to join the CCO at a later date.

In addition, the analysis of a fourth option commissioned by Waikato District Council recommends that if the CCO option does not proceed then Waikato District Council should establish its water activities as a business unit and seek to leverage WSL services.

Next steps

All three councils have workshopped the recommendations of the business case with their elected members. Waikato District Council took a report to its Infrastructure Committee in June 2015 where it resolved to support in principle the formation of a CCO for the three councils. At the time of drafting this report neither Hamilton City Council nor Waipa District Council has signed off on its preferred option.

The business case states that if Hamilton City Council, Waipa and Waikato District Council decide to proceed with the CCO option in late 2015 then settlement could happen by 1 July 2016 with a three-year transition period anticipated. At this stage there is no project brief, timeframe or cost for the next phase and this would be subject to further consideration by the three councils. Any proposal to establish a three waters CCO is subject to the special consultative procedure as set out in the Local Government Act 2002.

Implications for Waikato Regional Council

WRC does not have a significant role in service delivery of three waters, but does have functions relating to allocation of water and management of water quality. The way in which water is used and managed by territorial authorities therefore has implications for the functions of WRC.

While each council currently contains adequate staffing for three waters service delivery, a CCO will create an organisation with a critical mass of resources (both financial and staff) that are dedicated to this service delivery. This is likely to lead to an increase in the performance of water, wastewater and stormwater systems and management, for the following three reasons.

Firstly, an organisation that is of a certain scale and is dedicated to three waters management is more likely to attract and retain talented staff. This level of expertise may not currently be available to the individual councils as an in-house staff resource. A high level of expertise in-house should enable the CCO to be agile in terms of addressing and foreseeing any operational issues that may arise. This may lead to an increase in plant performance and environmental outcomes.

Secondly, it has been signalled that a CCO could provide a Centre of Excellence. This would offer best practice advice to all the other councils in the region and could provide an opportunity for WRC to achieve the directions contained within the Proposed Waikato Regional Policy Statement. For example the promotion of water conservation practices as outlined in Method 8.7.2.

Thirdly, the establishment of a CCO would mean that financial resources for three waters are ring-fenced from council budgets and reported on separately. It is anticipated that this will reduce the risk of three waters activities being compromised through underfunding (and the

associated deferral of maintenance and capital expansion). It is expected that a CCO will protect resourcing for three waters activities as they will not be weighed against other broader council priorities. This targeting of resources may lead to improved environmental performance.

Assessment of significance

To the best of the writer's knowledge, this decision is not significantly inconsistent with nor is anticipated to have consequences that will be significantly inconsistent with any policy adopted by this local authority or any plan required by the Local Government Act 2002 or any other enactment.

Conclusion

The Business Case for Water Services recommends a sub-regional three waters CCO. Waikato District Council's Infrastructure Committee has supported the formation of a CCO in principle. However, Hamilton City Council and Waipa District Council are yet to identify their preferred option. Therefore, there are uncertainties as to whether the three councils will proceed with a CCO and the process, timeframes and cost should all three councils agree to go ahead with a CCO. It is important that WRC maintain its membership on the WGG (if it continues) and that staff keep a watching brief on developments to ensure that opportunities to influence the CCO are identified and utilised.

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