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

From: Chief Executive Officer

Subject: **Waikato Water Study**

Meeting Date: 1 March 2016

File Reference:

1 EXECUTIVE SUMMARY

The proposal for Hamilton City Council, Waikato District Council and Waipa District Council to work cooperatively on the delivery of water services has been the subject of a detailed business case by Cranleigh. A number of independent reports have subsequently reviewed the Cranleigh work. Those reports all concluded there would be substantial financial and non-financial advantages to ratepayers if the three Councils formed a Council Controlled Organisation (CCO).

The three Councils have now established a Waters Governance Group (WGG) to consider a range of issues around the possible formation of a waters CCO.

It is noted that Hamilton City Council and Waikato District Council have both passed resolutions supporting 'in principle' the formation of a Waters CCO, but that Waipa District Council as yet has not. It is considered appropriate for Waipa to now pass a similar resolution and in doing so, more formally commit to a process (described in Appendix 2).

It is important to note that NO decision to form a CCO has been made. Before any final decision about forming a CCO is made, all three councils must consult widely with their communities. If that was to occur, it would be unlikely to be before 2017 and only if Councils elected in October 2016 agreed to proceed.

2 RECOMMENDATION

That

- a) The report of Garry Dyet, Chief Executive be received;*
- b) Council support in principle the formation of an asset-owning Waters CCO for the Hamilton City, Waikato and Waipa District Councils; and,*
- c) Council's support is subject to the successful resolution of outstanding issues (including those identified in Appendix 1), compliance with statutory obligations and full public consultation.*

3 OPTIONS AND ASSESSMENT

The proposal for Hamilton City Council, Waikato District Council and Waipa District Council to work cooperatively on the delivery of water services has been the subject of a detailed business case from Cranleigh. The business case concluded there would be substantial financial and non-financial advantages to ratepayers if the three Councils formed a CCO.

Since receipt of the business case in May 2015 further independent advice has been commissioned by Waipa District Council in order to fully understand the proposal and its potential impacts on residents and ratepayers.

Reports have been received from McGredy Winder, McKinlay Douglas and Morrison Low. Each of these reports identified aspects of the proposal which require Council's consideration but all concluded that the advantages identified in the Cranleigh business case for Waipa's community were real and attainable

The matters raised, which require further consideration and agreement between the three partner Councils, are identified in Appendix 1.

In order for Waipa to be confident that the identified benefits will be fully realised for Waipa District residents and ratepayers, a satisfactory conclusion must be achieved for each. Resolution of these issues, and other issues that have emerged through discussions (such as critical decision points designed to safeguard the vesting of assets) will also be required before the Councils are able to develop a fully informed proposal for consideration by the public.

To resolve the Appendix 1 issues, the three Councils have established a Waters Governance Group (WGG). The WGG has met twice.

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It is important to note that NO decision to form a CCO has been made. Before any final decision about forming a CCO is made, all three councils must consult widely with their communities. If that was to occur, it would be unlikely to be before 2017.



Garry Dyet
Chief Executive

Appendix 1: Issues to be resolved prior to public consultation

Issue

- Agreed asset valuation methodology.
- Agreed treatment of existing council debt, development contributions and reserves.
- Agreed approach to 'consideration' – the balance of cash, shares and shareholder loans.
- The debt/equity position of the CCO.
- The proposed capital expenditure programmes of each Council in their LTP and any capex necessary to address deferred growth or compliance issues and how this is reflected in shareholding levels.
- The decision-making framework, including the respective roles of the CCO Board and shareholders with respect to:
 - Voting thresholds for different types of decisions.
 - Alignment to shareholder's strategic plans and objectives.
 - Debt levels, security and source of borrowing.
 - Approval of the capital works programme.
 - Changes in tariff structures and/or tariff levels.
 - Any extra-ordinary revenue requirements for major/material transactions.
 - Complaints and feedback process between CCO and shareholders (and especially elected members).
 - Appointment of directors.
 - Constitution, statement of intent and letter of expectation.
- How the shareholders make decisions, including a possible shareholders committee and the nature and extent of delegations to that committee and including the appointment of Directors.
- The treatment of future assets vested by either developers or shareholders, including any consideration to shareholders.
- The basis and future significance of shareholding.
- Shareholder entry and exit provisions – including trigger points, treatment of assets and liabilities, vesting of assets on dissolution etc.
- The option to allow new shareholders and how this would be addressed.
- The role of the CCO in providing infrastructure to support council economic development objectives – including the sequencing and timing of capital works and supply of water and wastewater, how integrated planning takes place and how competing shareholder aspirations are resolved.
- Approach to tariff structures and water conservation, including:

- Consistency of philosophy and principles.
- Tariff harmonisation parameters and transition.
- Hardship, debt recovery and disconnection policies.
- Shareholder consultation/approvals.
- Alignment of council development contributions and CCO connection charges.

Note: The above is not an exhaustive list.

Appendix 2: Proposed Process

