

***Waipa District Council -
presentation based on
Alternative Service Delivery
Options for Local Government***

29 September 2015



Outline

1. Our involvement
2. Key elements of our webinar on Alternate Service Delivery
3. Overview of our comments on the Waikato sub-regional Water CCO
4. Our advice



Our involvement

- ❖ Initiated by a separate meeting on audit and risk committees
- ❖ Discussed an update on the Waikato Water CCO
- ❖ Proffered our observations **from a distance**
- ❖ Several from Council *attended* our webinar **Alternate Service delivery Options for Local Government**
- ❖ Invited to today's meeting to speak to the whole Council on our views
- ❖ We recognise the decision Council must reach
- ❖ We have not been retained as advisors and therefore bring our experience, not a detailed analysis of the specific proposal

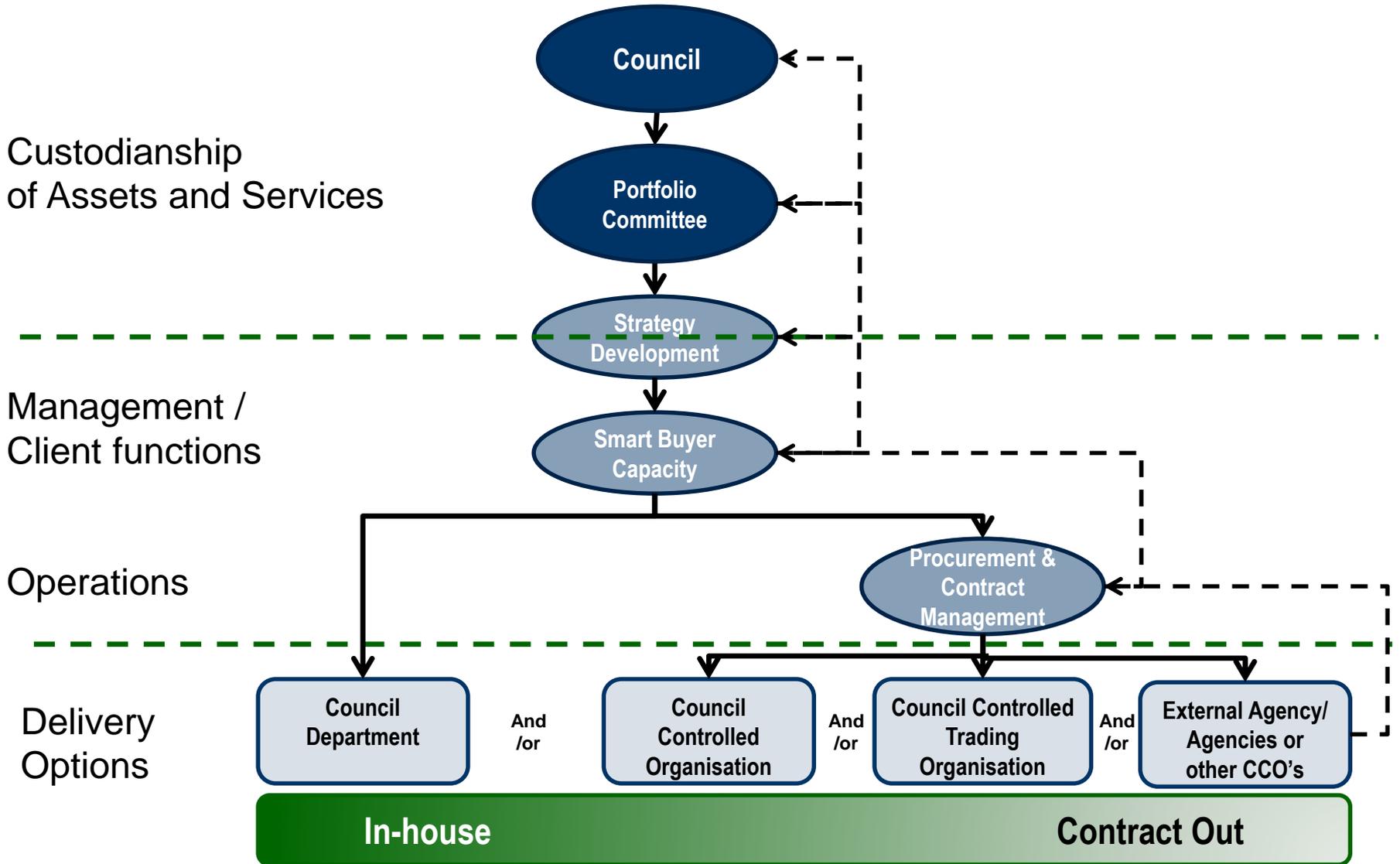
Background - Key Drivers for Change

- ❖ Minister for Local Government signals expectation that local government actively consider and pursue alternative service delivery models –

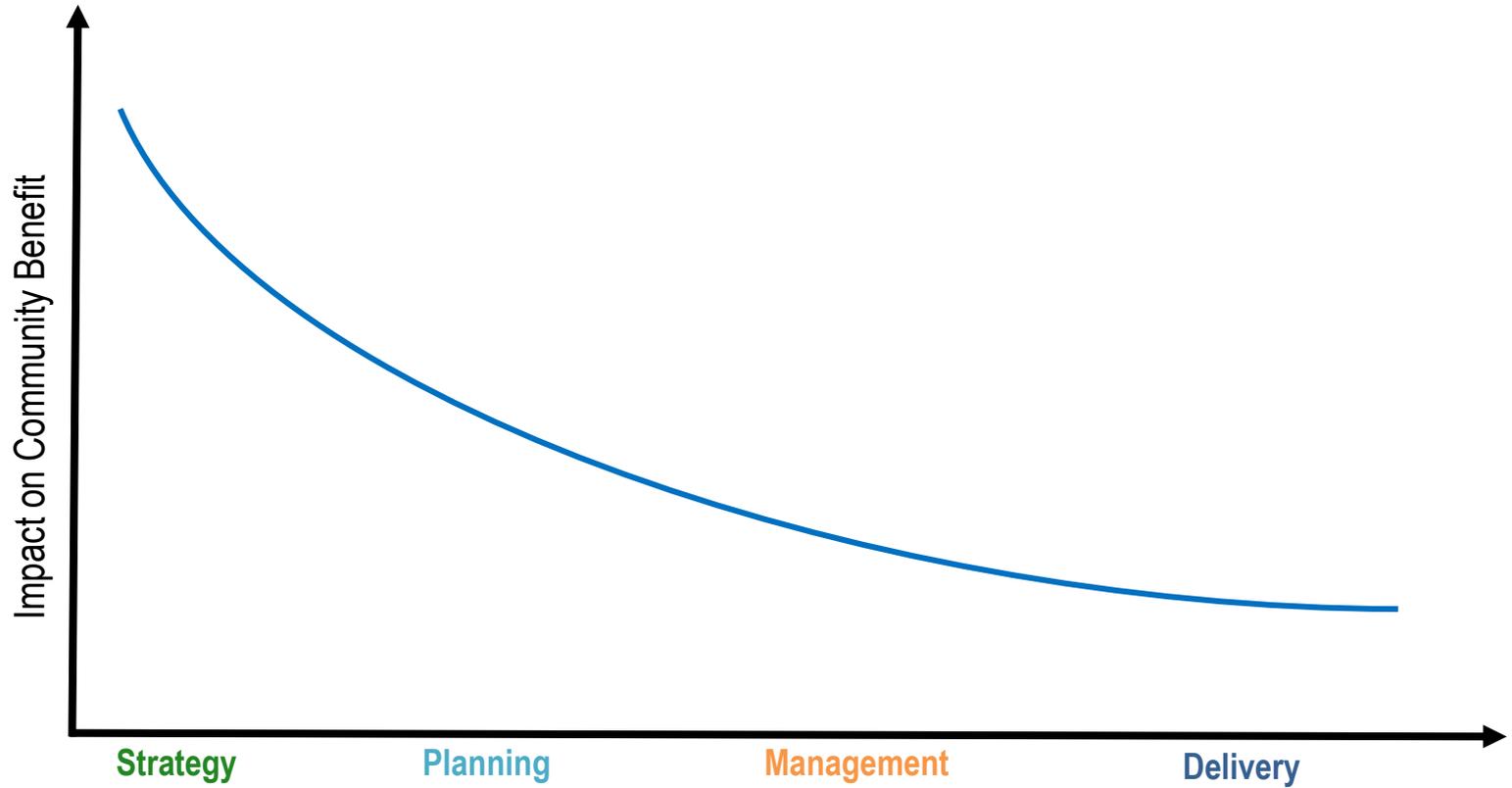
“....various structure options for each region to look at and decide what works best for them” and “where necessary I will legislate to either set a new CCO up across a region – or even to take something away.”

- ❖ LGA - Section 17a - requires Councils to review the cost-effectiveness of current arrangements for providing infrastructure and public services, and performance of regulatory functions
- ❖ 2015 National Infrastructure Plan

Types of Models

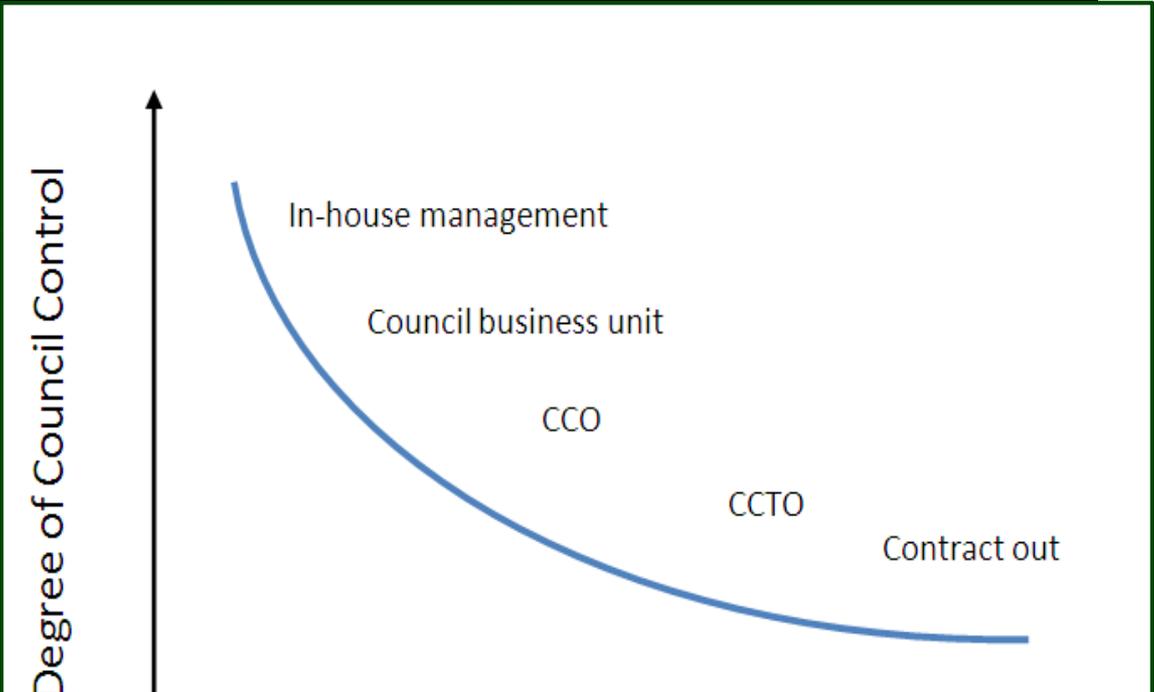


Never Forget

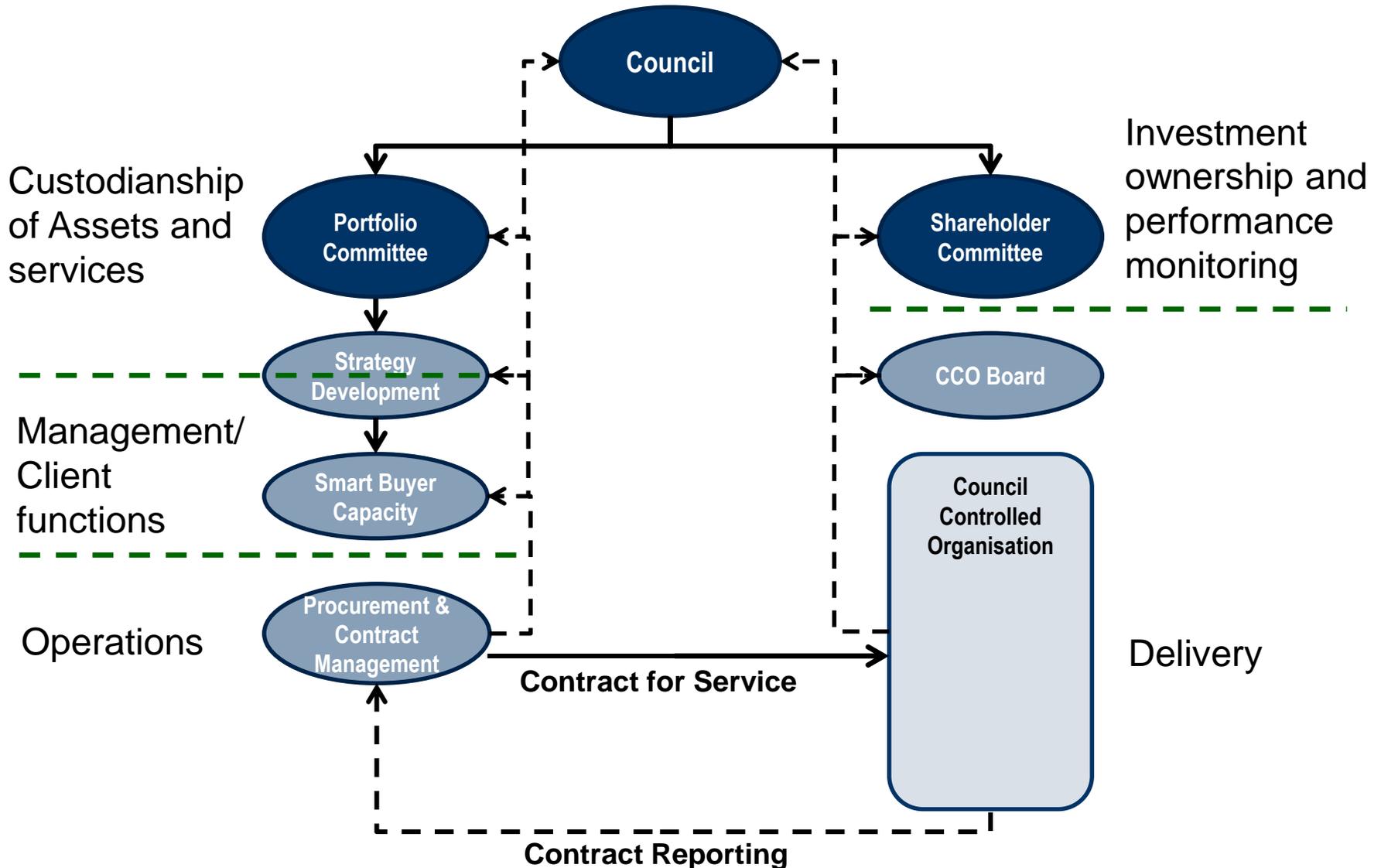


Selecting a Preferred Option

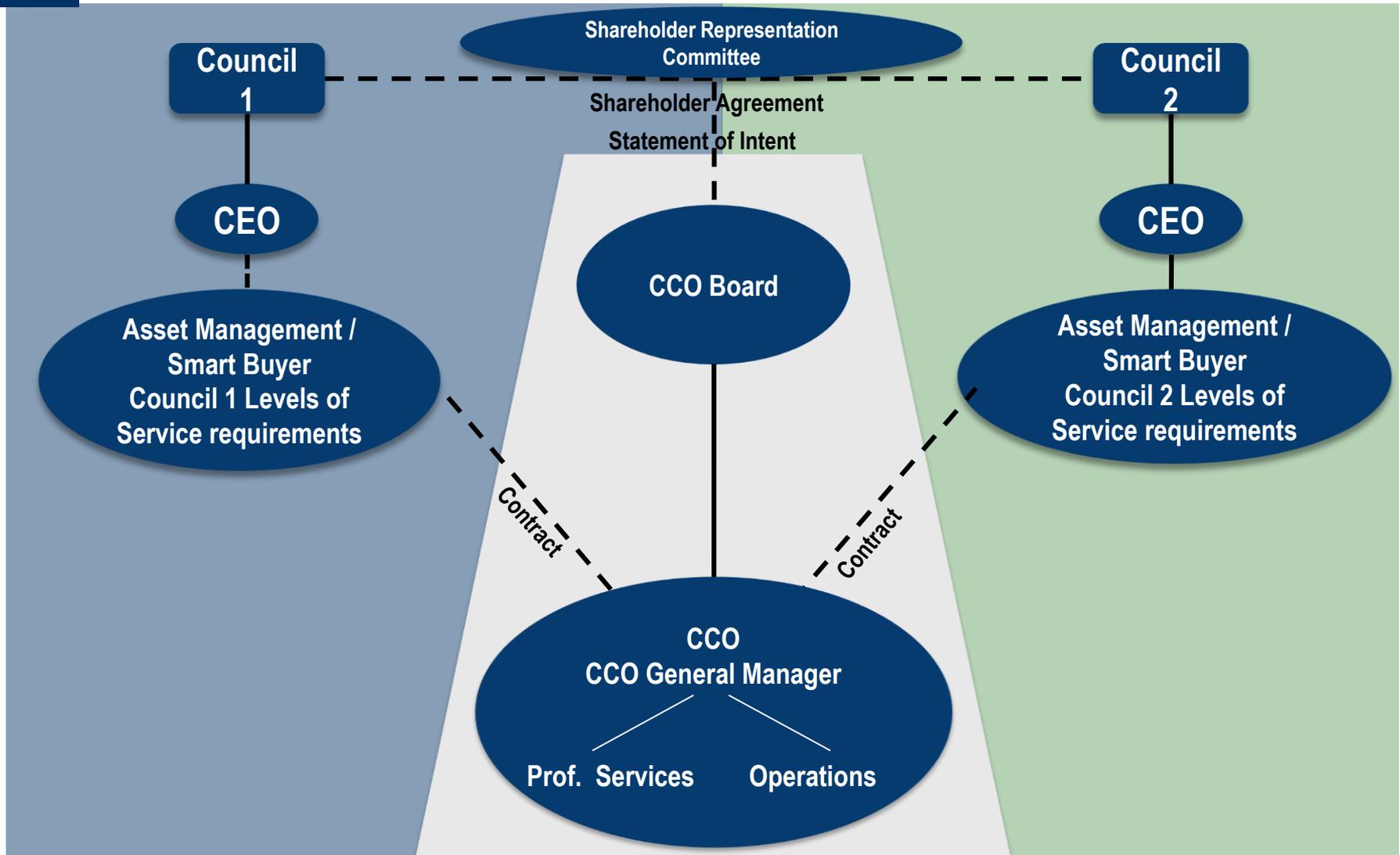
Criteria / Considerations	Council Department	Council Controlled Organisation	Council Controlled Trading Organisation	Contract Out
Degree of Council control	√√√	√√	√√	√

Liability and risk		 <p>The graph plots 'Degree of Council Control' on the vertical axis and 'Commercial attributes and benefits' on the horizontal axis. A blue curve slopes downwards from the top-left to the bottom-right. The area above and to the left of the curve is labeled 'In-house management'. The area below and to the left of the curve is labeled 'Council business unit'. The area below the curve is further divided into 'CCO' (Council Controlled Organisation) and 'CCTO' (Council Controlled Trading Organisation). The area to the far right of the curve is labeled 'Contract out'.</p>		
Strategic capacity and capability				
Joint delivery				
Economies of scale				
Access to alternative funding				
Commercial attributes				
Funding and capital requirements				
Meeting Council strategies				

Practical Considerations - Setting up a CCO



Practical Considerations - CCO Service Delivery Model



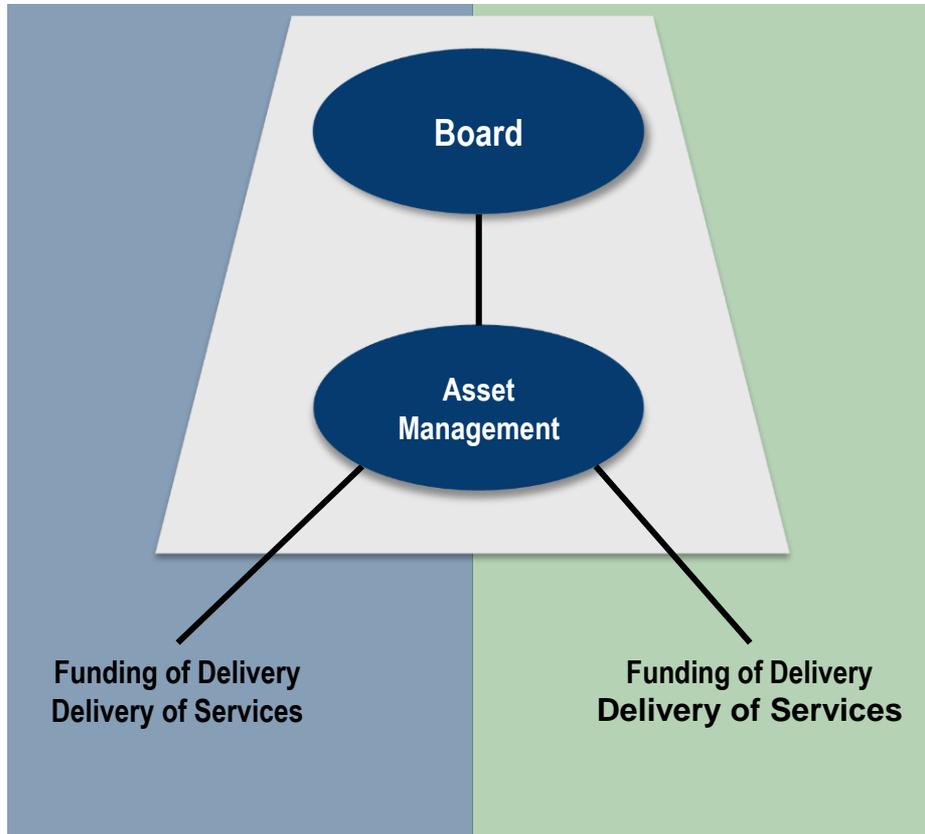
Key:

Employment relationship —————

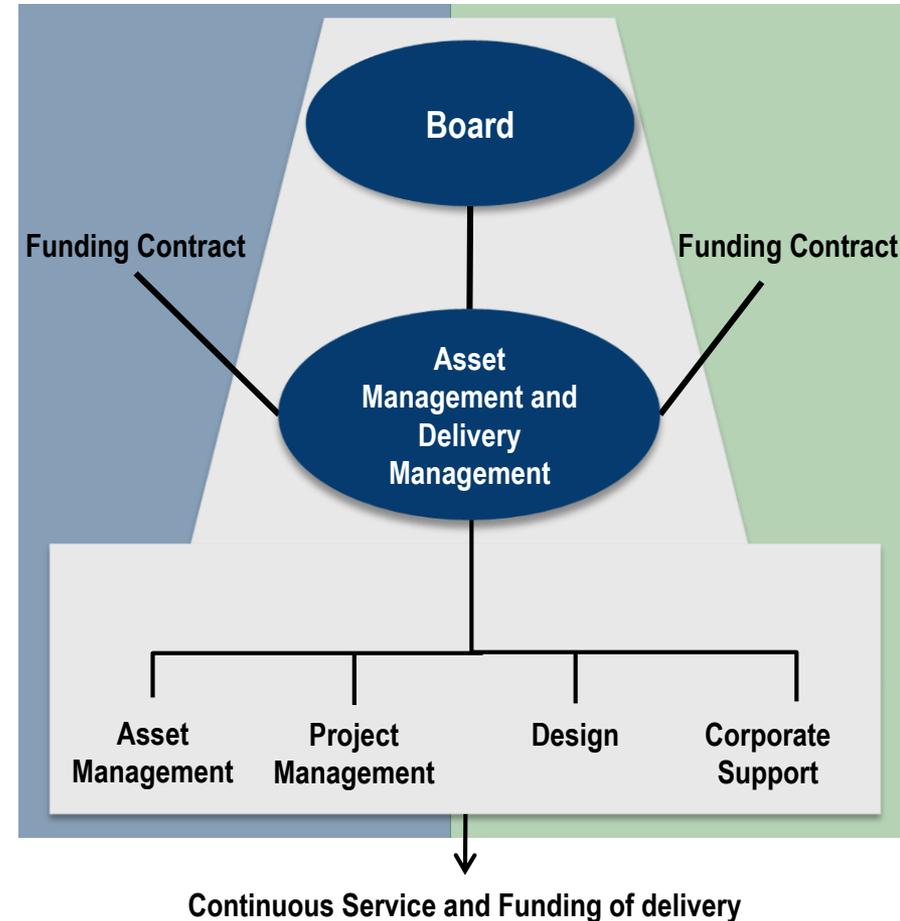
Reporting/contractual relationship - - - - -

Practical Considerations - Management Model

Strategic



Integrated





Key Points from the webinar

- ❖ You need to think carefully through **management** and **service delivery options**
- ❖ There are a range of possibilities, particularly around CCOs/CCTOs
- ❖ You need to invest time upfront – especially where bringing more than one council operation together
- ❖ You need to be strategic



Key Issues for Waipa District Council based on a brief discussion

❖ Savings

- Look at where they are going to come from
 - Delivery savings
 - Management savings
 - Strategic savings eg network optimisation, AM capability etc
- Common ownership of the asset does not necessarily affect:
 - Delivery savings
 - Management savings
 - AM capability
- Value/Equity setting
 - There are at least three recognised methods of valuing the assets
 - Depreciated Replacement Cost
 - Optimal Deprival Value
 - Discounted “Cashflow”
 - All of these will produce different values and therefore affect Waipa DC differently

Key Issues for Waipa District Council ctd

❖ Water Meters

- To drive strategic and AM savings (demand management, network optimisation), water meters are a key tool
- Introducing water meters has generally been difficult for councils
 - Waipa have done this
 - Waikato DC is going to
 - Hamilton hasn't

❖ Price Equalisation

- Usually the low cost producer is averaged up by the higher cost producers they are partnering with

❖ Governance Process

- Shareholders' Agreement
- Statement of Intent
- Letter of Expectation
- Constitution

Comments on Waikato sub-regional Water CCO

❖ Overview of our comments

- There is a natural progression in our mind
- Create a highly efficient and capable asset management and service delivery function (within a CCO)
- Operate for a reasonable period – 2 years
- A set review in which all revenue (water meters) and balance sheet (asset valuation, debt and equity) issues are definitively explored
- There will be many more issues that come up when we can look in more detail at the proposal



Our advice

- ❖ The need to recognise the basis of our advice and the range of options in front of Council
- ❖ Based on the opportunity of what we have seen, our leaning is to advise **YES *but*** with conditions that need to be resolved in the Shareholders' Agreement, Statement of Intent and Constitution

local government
procurement
alliance partnering
long term financial plan
asset management
waste management
governance
financial/feasibility modeling
economic development
sustainability