

Each year we spend more than \$100 million dollars delivering water and wastewater services.

We deliver around 38 billion litres of water and dispose of around 23 billion litres of wastewater. That's enough clean, drinking water to fill more than 15,000 Olympic size swimming pools... and enough wastewater to fill more than 9,000 more.

Across the Waikato and Waipa districts, and within Hamilton city, we provide these services to more than 76,000 connected households and businesses.

**WE ARE REQUIRED BY LAW  
TO DELIVER THESE SERVICES  
IN THE MOST EFFICIENT AND  
COST-EFFECTIVE WAY.**



June 2016



## WHY HERE?

Hamilton city, Waikato and Waipa districts are all high-growth areas. Over the next 30 years, population across the three neighbouring Councils will increase from around 265,000 to around 384,000. That's around 75 new people per week moving here.

We will need more water and wastewater infrastructure, or upgraded infrastructure, to cope with our growing population. We will also need to provide the right infrastructure for the industrial and economic growth we'll need to sustain and support our communities.

While Hamilton will experience an increase in the number of young people living in the city, many more people across the three Council areas will be older, with smaller average incomes. Affordability of Council services will be an even more important issue with a greater focus than ever before on efficiency and cost-effectiveness.



## BACKGROUND

Councils by law must provide services, including water and wastewater services, in the most efficient and cost-effective way.

A number of independent reports have suggested that Hamilton City, Waikato District and Waipa District Councils could manage water, wastewater and stormwater infrastructure in a better way; a way which will provide significant financial and non-financial benefits to ratepayers and others.

In late 2014 the three Councils agreed to explore this issue further, commissioning an independent report to look at water infrastructure services in detail. A specialist consultancy called Cranleigh was asked to consider three options:

- (1) Boosting the existing shared service arrangements between all three Councils. (All three currently work together on trade waste and laboratory services and to encourage water conservation)
- (2) Retaining the status quo with each Council continuing to run its own water operations (meaning there would be no change)
- (3) All three Councils forming a joint, Council-controlled organisation (CCO) to run water and wastewater services on behalf of all three Councils.

The report did not consider privatising water services. Privatising Council-delivered water services is against the law in New Zealand. All three Councils support the current legislation and support keeping water assets in public ownership.

## TWO RECOMMENDATIONS

In May 2015, the Cranleigh report was presented to the three Councils. It made two recommendations:

1. That Hamilton City, Waikato District and Waipa District Councils transfer their water and wastewater assets into a jointly-owned not-for-profit Council-controlled organisation (CCO), and
2. That the Councils retain ownership of their urban stormwater assets, but outsource management of those assets to the CCO on a cost recovery basis.

All three councils have agreed to support the formation of the CCO in principle, subject to the outcome of public consultation. That consultation is unlikely to happen before 2017. **No decision to form a CCO has been made or could be made for some time.**

*Full copies of the reports from Cranleigh (including a 38-page summary report) are available at [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz). Copies of a report from Mott MacDonald (who advised Cranleigh on engineering issues) is also available on this website, along with other information.*

## WHAT IS A CCO?

*CCO stands for Council-controlled organisation. In a CCO one or more Councils control 50 per cent or more of votes, or have the right to appoint 50 per cent (or more) of the directors. In other words, Councils 'control' the organisation. Existing local CCOs include Waikato Regional Airport Ltd (jointly owned by Hamilton City, Waipa, Waikato, Matamata-Piako and Otorohanga District Councils) and Local Authority Shared Services (jointly owned by 12 councils).*



# CRANLEIGH

## WHY THE REPORT RECOMMENDED A CCO

The Cranleigh report identified two main areas of benefit from forming a CCO – financial and non-financial.

### NON-FINANCIAL BENEFITS

The Cranleigh report says forming a ratepayer-owned CCO would:

- **improve compliance with environmental and drinking water standards**  
In a CCO structure, the concentration of expertise, a single-minded focus on water services and greater financial resources will ensure environmental and drinking water standards are met. Directors will be personally liable if they are not.
- **help create a stronger and more resilient waters network across the three council areas**  
Combining into one entity would make greater expertise and resources available across the whole sub-region.
- **help attract and retain expert waters service staff to work in the region**  
Working for a larger, dedicated waters organisation is likely to be more appealing to specialist water staff.
- **help develop a regional water centre of excellence**  
Having a specialist waters organisation would provide combined expertise in water infrastructure, available locally.
- **better harness and maximise the economic potential of the region.**  
Water is a critical economic resource. Having water infrastructure managed more efficiently and cost-effectively would ensure water services can better support economic growth and development.

### FINANCIAL BENEFITS

The Cranleigh report also says forming a ratepayer-owned CCO would create significant savings for Councils and ratepayers. The figures in the table below are based on the Councils' 2015-2025 draft 10-Year Plans and draft 30-year Infrastructure Strategies.

COUNCIL	Estimated savings over 10 years (from the Cranleigh report)	Estimated savings over 28 years (from the Cranleigh report)
Hamilton City Council	\$52.3 million	\$282.1 million
Waikato District Council	\$28.1 million	\$105.5 million
Waipa District Council	\$26.7 million	\$80.8 million
	Estimated total savings over 10 years = \$107.1 million (an average of \$10.7 million per year)	Estimated total savings over 28 years = \$468.4 million (an average of \$16.7 million per year)

The Cranleigh report says savings would come from three key areas:

- **Operational expenditure** (the money spent to operate the waters business) would reduce by \$153.5 million over 28 years (an average of \$5.4 million per year)
- **Capital expenditure** (the money spent on items like plant and equipment) would reduce by \$150.9 million (an average of \$5.3 million per year)
- **Debt optimisation:** Debt optimisation involves borrowing more money up front and repaying it over a longer period of time. Cranleigh advise that optimising debt would reduce total charges to consumers by \$164 million – an average of \$5.8 million per year – over 28 years. (See page 8, Q8, for more information on debt optimisation.)

*Comprehensive financial information, including estimated break-downs of annual savings for consumers, is available at [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz). This website also contains a full copy of the Cranleigh report (including a 38-page summary) plus further detailed information.*



## DISCUSSIONS SO FAR

All three Councils have agreed to support the formation of the CCO **in principle**, but have not made a decision. No decision could be made until:

- all three Councils have considered the issue following the 2016 local body elections in October, and
- ratepayers and the general public across all three Council areas have been consulted.

If consultation goes ahead, it would be unlikely to happen until 2017 at the earliest. Following that consultation with the public, each Council would need to make its own independent decision about whether to form a CCO or not.

However, all three Councils have now agreed on what the waters CCO might look like, if it were to go ahead.

This proposed agreement outlined in this document, has been reached in order to give more clarity and certainty to ratepayers, residents and others about what has been discussed.

This proposed agreement is summarised on page 3 – 6. A copy of the full agreement along with much more information, is available at [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz).

# PROPOSED AGREEMENT

*The CCO's purpose would be to provide drinking water and treat and dispose of wastewater across Hamilton, Waikato and Waipa. The CCO would aim to do so in an efficient, effective and sustainable way, maintaining agreed service standards and acting prudently. The CCO would also be contracted by the three Councils to provide stormwater services (with Councils retaining ownership of their stormwater assets).*

*Establishing a CCO would not change, in any way, existing Council commitments to Iwi. Nor would it change Councils' commitment and support for the Vision and Strategy for the Waikato River (Te Ture Whaimana o te Awa o Waikato).*

## VALUES

*The three Councils believe any CCO managing water infrastructure on behalf of communities should adhere to the following set of values.*

### **Transparent, ethical, with integrity**

Be guided by the highest ethical standards and use business practices that are beyond reproach.

### **Open and customer-focused**

Put customers first by being responsive and open to customer feedback while constantly seeking to learn and improve.

### **Reliable**

Invest what is necessary to ensure reliable water and wastewater services.

### **Affordable**

Be focused on delivering affordable services and constantly seek to be cost-effective.

### **Safety**

Foster and support a strong culture of workplace safety.

### **Innovation**

Foster a culture of innovation aimed at delivering more cost-effective services.

### **Kaitiakitanga**

Recognise the guardianship and link between river Iwi, water and natural resources.

### **Environmental care**

Care for water sources, minimise water use, ensure compliance with environmental standards and encourage water conservation.

### **Social responsibility**

Have a strong sense of social responsibility, including in setting prices for water.

### **Enabling economic development**

Plan and develop services in ways that support the economy and growth priorities.

# HOW A CCO MIGHT WORK

Councils have agreed how the CCO might work, if one was formed. The proposed agreement is summarised in this booklet and is available in full at [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz).

## ROLES AND RESPONSIBILITIES

- The CCO would provide drinking water and treat and dispose of wastewater across Hamilton, Waikato and Waipa. It would provide stormwater services under contract to the three Councils.
- The CCO would manage any customer requests or complaints.
- After a transition period the CCO would bill connected customers directly. The Councils would set the principles and limits for water and wastewater charges but actual charges would be set by the CCO.
- Waipa, Hamilton and Waikato are all growing rapidly and new water and wastewater infrastructure will be needed in the future. Councils would maintain full responsibility for deciding growth priorities. The CCO would be responsible for designing and delivering the water and wastewater infrastructure required to support planned growth.

## OWNERSHIP AND SHAREHOLDING

- Any CCO managing water and wastewater infrastructure on behalf of the Hamilton, Waipa and Waikato communities would be 100 per cent owned by Hamilton City, Waikato District and Waipa District Councils. There would be no other shareholders and, effectively, the Councils would control the organisation.
- The CCO would be set up as a limited liability partnership or company and would act as a co-operative, working on behalf of customers and communities.
- The CCO would only earn enough money to maintain and develop the waters network. It would not pay dividends to shareholding Councils.
- The CCO would buy the water and wastewater assets of each Council, meaning it would own all of the water infrastructure assets which currently belong to each Council. In return, each Council would receive a mix of cash, shareholder loans and shares in the CCO (see page 6).

- Councils would transfer existing water and wastewater-related debt to the CCO. This would mean that connected water and wastewater consumers will pay off that debt, not all ratepayers.
- A shareholding Council could leave the CCO if it chose to. But the exit arrangements would need to be fair to all three Councils. Other Councils could also join the CCO at a later date, but this would need to be unanimously agreed by all three Councils first.

## CHECKS AND BALANCES

- Councils would want a number of checks and balances to ensure the CCO was working cost-effectively and efficiently and in the best interests of ratepayers.
- Day-to-day operational decisions about water services would be the responsibility of the CCO. But decisions would be guided by formal agreements the CCO would have with all three Councils. The CCO would also be required to meet agreed service standards.
- Overall, the CCO would be accountable to all three Councils on a range of financial and non-financial targets.

## SPECIFIC ROLES OF COUNCILS

- Councils believe there are some decisions which should be made by the CCO – but those decisions should be based upon principles or limits set by Councils. For example, the CCO would manage its own balance sheet and debt – but it would have to do so within debt limits set by shareholding Councils.
- The Councils would set principles and limits around the price charged for water and wastewater so that customers of the same type, receiving the same level of service would pay the same charge no matter where they were located.
- If the CCO wanted to implement water meters, or take other water conservation or demand measures, it could only do so based upon principles set by the Councils. Specifically, principles around water meters could only be set if Hamilton City Council and at least one of the other shareholding Councils agreed with those principles via a vote at the Shareholders' Forum (see page 5).
- The Councils would also be responsible for establishing a constitution for the CCO. Any changes to that constitution would require the unanimous agreement of all three Councils.

## IWI STATEMENT

Waikato and Waipa River Iwi have a special relationship with the Waikato and Waipa Rivers. Within this relationship exists mana whakahaere (roles and responsibilities) to support the restoration and protection of the health and wellbeing of the Waikato and Waipa Rivers for future generations.

Te Ture Whaimana (Vision and Strategy) is the primary direction-setting document in relation to activities that affect the Waikato River and its catchment.

The significance of the Waikato and Waipa Rivers to all river Iwi is

formally reflected in settlement and co-management legislation. It heralds a new era of co-governance and co-management between the Crown, local authorities and all river Iwi. In all cases, river Iwi reserved their rights and interests in fresh water.

At a national level, the resolution of Iwi rights and interest in fresh water is currently being discussed with the Crown. The resolution of these interests will be essential to the continued development of a robust, enduring and equitable framework for managing fresh water for the future of the country.

# CCO CUSTOMERS

CCO customers would be those connected to the water and wastewater network. Not everyone is, particularly in Waikato and Waipa districts where many people live rurally and are not connected to a Council network (see graphs back page).

- The CCO would need enough money to cover the costs of supplying, treating and disposing of water. After a transition period, that money would come from directly billing customers.
- The CCO would only recover the costs of supplying and treating

water, and disposing of wastewater. It would not seek to make a profit and would not pay any dividends to the shareholding Councils. Any surpluses would be reinvested back into the waters network to benefit connected water and wastewater consumers.

- The CCO would need to meet very clear targets around customer satisfaction. The CCO would also be expected to set up a hardship scheme, equivalent to the current rates rebate scheme, to ensure that low-income customers were no worse off under a CCO, than under the existing Council structures.



## HOW DECISIONS WOULD BE MADE

The CCO, which would be 100 per cent owned by Hamilton City, Waikato District and Waipa District Councils, would be accountable to those three Councils.

Elected members, as representatives of the community, must have a strong influence on the CCO. This would be achieved through a Shareholders' Forum.

### SHAREHOLDERS' FORUM

The Shareholders' Forum would ensure a CCO was strongly guided by what Councils want and need. Its role would be to provide clear guidance to the CCO's Board of Directors.

- The Forum would be made up of three elected members (Councillors) from each of the three Councils (nine Councillors in total).
- For the first 18 months of the CCO, the Shareholders' Forum would be chaired by a non-voting independent Chair (appointed by the three Councils).
- The Shareholders' Forum would make a number of collective decisions on behalf of individual Councils. Those decisions would include things like:
  - establishing how much debt the CCO could incur,
  - approving material transactions,
  - appointing the Board of Directors (including the Chair of the Board),

- developing formal accountability documents (Letter of Expectation and Statement of Intent),
- developing a series of measures (key performance indicators) against which the CCO would be measured,
- setting principles and limits for water and wastewater charges,
- establishing principles for water conservation and demand management, including any implementation of water meters.

### BOARD OF DIRECTORS

- The CCO would be governed by an independent, professional Board of Directors with the right mix of skills and competencies. A key competency would be an understanding of the unique relationship Iwi have with the Waikato and Waipa Rivers, and the laws around this. Another key competency would be experience in dealing constructively with community matters and concerns.
- Other skills would include civil engineering, accounting, law, customer service, financing, staff selection and monitoring, planning, local government expertise, information technology, health and safety, commercial contracts and procurement.
- The Chair of the Board and Directors would be appointed by the three Councils, via the Shareholders' Forum. The Shareholders' Forum could remove Directors at any time.
- Elected Councillors or Community Board members from any of the shareholding Councils would not be permitted to sit on the CCO Board of Directors.

# ASSETS, DEBT AND SHAREHOLDING

If a CCO was formed each Council would be treated in a fair, equitable and even way.

- The size, age, condition and value of the water and wastewater assets belonging to all three Councils is different. Before any CCO was formed, these assets would be valued by a common, independent valuer. The level of water and wastewater-related debt held by each Council would also be independently confirmed.
- The three Councils would transfer their water and wastewater assets to the CCO (at the value determined by the independent valuer.) In return for those assets, each Council would receive a mix of cash, shares in the CCO and shareholder loans. Together, the cash, shares and shareholder loans would equal the value of each Council's water and wastewater assets.
- No Council would be left with water and wastewater-related debt once the CCO was established. This means that each Council would receive cash from the CCO to go towards their water and wastewater-related debt. The amount received would be based on the proportion of assets transferred to the CCO. If necessary, the cash paid by the CCO, and levels of shareholding, would be adjusted to cover the amount of debt each Council had.
- The CCO would borrow the money required to pay the Councils. This would mean that both the water-related debt, as well as water and wastewater assets, would move from the Councils to the CCO.
- The CCO's total debt limits would be set jointly by shareholding Councils and would reflect the requirement of the CCO to keep water costs down and act in the best interests of its customers.

The final value of assets and levels of water and wastewater debt will change between now and when a CCO might be formed.

However, based on financial forecasts for June 2019, and based on the proposed agreement detailed here, this is how the assets, debt and shareholding would look.

<b>Assets, debt and shareholding (based on forecasts to June 2019)</b>				
	Waikato	Hamilton	Waipa	Total
As at 30/06/2019	\$million	\$million	\$million	\$million
<b>Council water and wastewater assets</b>				
Total assets contributed to the CCO	253.0	800.1	236.0	1,289.1
% of total assets contributed to the CCO	19.6%	62.1%	18.3%	100.0%
<b>Council water and wastewater debt</b>				
External debt	38.9	130.9	22.6	192.4
Deficit net reserves	22.5	0.0	8.9	31.4
<b>Total</b>	<b>61.5</b>	<b>130.9</b>	<b>31.5</b>	<b>223.8</b>
<b>Cash, loans and shares in the CCO paid to Councils</b>				
Value of cash	61.5	138.9	41.0	241.3
Value of shares in the CCO	133.6	466.7	142.7	743.0
Value of shareholder loans	58.0	194.4	52.4	304.8
<b>Total value to each Council</b>	<b>253.0</b>	<b>800.1</b>	<b>236.0</b>	<b>1,289.1</b>
% of shareholding	18.0%	62.8%	19.2%	100.0%

*Please note that the above figures are rounded to one decimal place; any slight differences in the addition of rows is due to rounding.*

For more detail on how assets, debt and shareholding might be treated if a CCO was formed, go to [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz)

## MORE INFORMATION IS AVAILABLE

This is a summary of the agreed proposal between all three Councils. A full copy is available at [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz).

This website contains the Cranleigh report recommending the formation of a CCO plus reports from other independent consultants.

The website also contains all reports from all three Councils relating to the recommendation to form a CCO, plus further information, including media releases and other independent reports.

## WHAT HAPPENS NOW?

All three Councils have only agreed to support the formation of the CCO in principle. **No decision to form a waters CCO covering Hamilton City, Waikato District and Waipa District has been made.**

The agreed proposal on what a CCO might look like, outlined here, is not binding on any incoming Council. It has been developed to give more clarity and certainty to ratepayers, residents and others about what has been discussed.

A decision on whether or not to form a CCO cannot be made until:

- All three Councils formally propose forming a CCO following the 2016 local body elections in October, and
- Ratepayers and the general public across all three Councils have been consulted on that formal proposal to form a CCO.

If consultation goes ahead, it would be unlikely to happen until 2017 at the earliest. Following consultation, each Council would need to make a final decision on whether to form a waters CCO or not.

# QUESTIONS AND ANSWERS

- 1. Would forming a CCO mean water services are being privatised?**  
 No. The privatisation of Council-delivered water services is against the law in New Zealand.
- 2. Would the CCO aim to make a profit?**  
 No. The CCO would only recover the costs of supplying and treating water, and disposing of wastewater. Any surplus funds would be reinvested back into the waters network to benefit consumers.
- 3. What is wrong with the way water infrastructure is currently being managed?**  
 The status quo is working, but independent advice suggests it has some limitations and cannot deliver the financial and non-financial benefits that could be offered by a CCO.
- 4. If a CCO was formed could there be staff redundancies from each of the three Councils?**  
 Yes, there could be. Under a CCO it is estimated around 34 fewer staff would be required to run water activities. However the independent report from Cranleigh estimates there would be few redundancies because of natural staff turnover over the two years it would take the CCO to be established. The CCO

- would also require its own staff and these jobs would need to be filled.
- 5. Is this all about 'who owns water'?**  
 No. This issue is about water infrastructure. It has nothing to do with the ownership – or not – of water. It is all about how we deliver more cost-effective and cost-efficient services and also takes into account non-financial benefits.
  - 6. Does a CCO mean the introduction of water meters for those areas that do not already have them?**  
 No. Waipa District Council and Waikato District Council already have water meters in many parts of their districts (\*see below) and in Hamilton most commercial, industrial and rural users are already metered. If the CCO wanted to implement water meters, or take other water conservation or demand measures, it could only do so based upon principles set by the Councils. Specifically, principles around water meters could only be set if Hamilton City Council and at least one of the other shareholding Councils agreed with those principles via a vote at the Shareholders' Forum.
  - 7. Would a CCO be required to meet the infrastructure and development**

- obligations that Councils may already have with developers?*  
 Yes.
- 8. What is debt optimisation?**  
 Debt optimisation involves borrowing more money up front and repaying it over a longer period of time. This reflects that water and wastewater assets have a long life. Using debt in this way allows the cost to consumers to be spread out. It means charges to current water and wastewater customers would be lower, but also means that after 30 years future users would share in some of the cost.

Over the life of the water and wastewater assets, the total interest bill would be higher than what would have been incurred if current council borrowing plans were followed. This is because more money would have been borrowed, overall. The total debt, at peak, would also be higher.
  - 9. Would new Councils elected in October have to abide by the proposed agreement outlined here?**  
 No. It would be up to new Councils as to what they wanted to do.

For a far more extensive series of questions and answers see [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz)

*\*In Waipa there have been residential water meters in Ohaupo since 1991 and parts of Pirongia since 1997. The majority of rural, industrial and commercial users in Waipa are already metered. In the Waikato district all towns apart from Raglan, Ngaruawahia and Huntly already have water meters and all industrial users are already metered. By the time the CCO would be established, the whole of the Waipa and Waikato districts would be metered as the decisions to install meters have already been made. In Hamilton, there are already around 3,900 meters in place, covering most commercial, industrial and rural users.*

## WHERE COUNCIL-SUPPLIED WATER GOES (Based on the 2014/2015 financial year)

