

Open Meeting

To	Waikato District Council
From	TN Harty Service Delivery General Manager
Date	29 October 2015
Chief Executive Approved	Y
DWS Document Set #	1084713
Report Title	Waikato Water Study: Next Steps

1. Executive Summary

The proposal for Waikato District Council, Hamilton City Council and Waipa District Council to work cooperatively on the delivery of water services has been the subject of a detailed business case. The business case concluded there would be substantial financial and non-financial advantages if the three Councils worked more closely together through the vehicle of a Council Controlled Organisation (CCO).

A number of issues (identified in Appendix 1) require further investigation and agreement in order for the three Councils to develop a fully informed proposal for public consultation. It is proposed work on addressing these issues commence immediately, with the intention of achieving a consensual record of agreement between the Councils by 30 June 2016.

To achieve this, Council approval is sought to re-establish the Waters Governance Group (WGG) based on a new Terms of Reference (see Appendix 2), and to approve a budget to engage specialist advice and the production of associated documentation.

2. Recommendation

THAT the report of the General Manager Service Delivery – Waikato Water Study: Next Steps - be received;

AND THAT Council support the establishment of the Waikato District Council, Hamilton City Council and Waipa District Council Waters Governance Group to address the issues in Appendix 1 of this report and any other associated issues, in accordance with the Terms of Reference outlined in Appendix 2 of this report;

AND FURTHER THAT Council appoint His Worship the Mayor, Councillor Baddeley and Councillor Gibb to the Waters Governance Group;

AND FURTHER THAT Council agree to a combined budget of Three Hundred and

Fifty Thousand Dollars (\$350,000) being allocated to the Waters Governance Group to undertake investigations into the issues identified in Appendix I of this report and such other issues as may be identified, to report back on those investigations and to work towards the completion of a record of agreement between all three Councils by 30 June 2016;

AND FURTHER THAT Waikato and Waipa District Councils fund 25% (\$87,500) and Hamilton City Council fund 50% (\$175,000) each of the approved budget;

AND FURTHER THAT Council's share of the funding for this project (\$87,500) be accessed 50% from the District Wide Water Reserve and 50% from the District Wide Wastewater Reserve;

AND FURTHER THAT Council delegate authority to the Chief Executive to engage specialist advice as required.

3. Background

- 3.1** On 30 June 2015 Council resolved to support in principle the outcomes of the Sub Regional Water Study into the formation of a Waters CCO. On 3 July 2015 Council resolved to support the reconstitution of the Waters Governance Group (WGG).

Hamilton City Council and Waipa District Council have also resolved to support further exploration of a CCO for water, wastewater and (on a contractual basis) stormwater services. Following more in-depth discussions, each Council has recognised further analysis is required before a fully informed proposal will be ready for a formal public consultation process. In particular, greater certainty is required in relation to the decision-making framework and shareholding arrangements, amongst other matters. This is a departure from the position supported by Council in July 2015, and is reflective of the complex nature of this project.

An indicative list of issues to be resolved prior to public consultation is attached as Appendix I.

4. Discussion and Analysis of Options

4.1 Discussion

Governance Group

It is proposed that a new WGG be established to assist in considering the issues identified in Appendix I and any other issues that require resolution. The WGG, working alongside the existing Waters Project Group (WPG), will be essential to achieving a consensus position on each issue prior to reporting back to individual Councils on a progressive basis for discussion and consideration.

Recommendations made by the WGG and endorsed by individual Councils will establish the essential elements that determine how the proposed Waters CCO will function. It is therefore recommended that membership of the WGG be expanded to comprise three elected members from each Council. Unlike the previous WGG, it is not considered necessary to include a

representative from Waikato Regional Council.

The next stage of the project is complex and will require specialist guidance and skills that are not available within Councils. Advice, which is consistent across the three Councils and the production of clear and concise public information, is also considered critical.

Output

The proposed output of this phase of the project will be a consensus agreement adopted by each of the three Councils along with clear information for the public concerning how a Waters CCO could potentially operate in the Waikato sub-region. It is intended that the information developed will be sufficient to inform a Statement of Proposal, should the three Councils choose to proceed to formal public consultation. The consensus agreement is intended to be provided by the end of June 2016.

4.2 Options

There are two options available to Council:

- Option 1: Not support the recommendations of this report and withdraw from the Water Study process
- Option 2: Support the formation of the WGG, approve the representation and next stage process as outlined within this report

Consistent with earlier Council resolutions, the recommended way forward is option 2.

5 Considerations

5.1 Financial

Budget

To complete the work required in the 2015/16 financial year, a budget of \$350,000 is required. This includes a contingency provision of \$50,000. The budget reflects the complexity of the issues and the need for specialist guidance. It covers specialist advice, legal guidance and opinions, financial analysis, project management and the production of associated documentation. This cost forms part of the overall implementation costs of the CCO, estimated by Cranleigh to be in the order of \$10.3 million.

A number of WGG workshops will be required plus considerable engagement with staff across all three Councils to methodically work through the issues ahead.

A decision is required to engage the specialist advisors to support staff and the WGG. Due to the nature of the work and the timeframes available, it is proposed three selected consultants are approached to obtain proposals for the next stage, and that the three Councils Chief Executives be delegated authority from their Councils to engage the most appropriate advisor. This will provide transparency and cost competitiveness but also minimise delays. The procurement processes of all three Councils allow negotiated direct engagement, subject to obtaining Council approval.

As per the cost split followed to date on this project, it is proposed costs be spread as follows:

- Hamilton City \$175,000 (50%)
- Waikato District \$87,500 (25%)
- Waipa District \$87,500 (25%)

The estimate for this phase of work excludes staff costs for each Council. Also, no allowance has been made for any work that may be commissioned by an individual Council for its own benefit.

The costs of public consultation will fall into the 2016/17 and later financial years, and will be budgeted separately. Formal public consultation is not proposed within the current financial year.

5.2 Legal

There are no legal implications of the process at this time.

5.3 Strategy, Plans, Policy & Partnership Alignment

The purpose of the WGG and supporting processes is to ensure that close alignment is maintained between Council and related strategies. It also ensures political oversight through the process.

5.4 Assessment of Significance & Engagement

The formation of a CCO, if supported, will trigger Council's significance policy and under legislation, will require a full public consultation process to be followed. Until the next stages are completed and a final decision is made on the way forward, no determination on significance can be made.

5.5 Risk

None of the Councils have the necessary range of specialist skills available in-house, notwithstanding that the WPG and other staff (eg finance staff) will be required to contribute time to this project. Not securing the appropriately skilled external assistance to support staff and Elected Members through the phase could result in delays in meeting project deadlines, significant rework and associated cost increases.

The target deadline of 30 June 2016 is only considered achievable on the basis that WGG members are reasonably available, that individual Council decisions on key issues are reached promptly and that consensus on all matters can be reached. Failure to meet any of these criteria will put the target date of 30 June 2016 at risk.

Project risks will be managed by the WPG and regularly reported to the WGG.

6. Consultation

The following stakeholders have been/or will be consulted:

Planned	In Progress	Complete	
	X		Internal
	X		Community boards/Community committees
	X		Waikato-Tainui/Local iwi
X			Households

X			Business
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Iwi

Iwi are key partners to each Council with the relationships formalised under separate Joint Management Agreements (JMA's). Given this important relationship, it is essential iwi representatives are engaged with the study as it progresses. The WGG and WPG will have important roles in ensuring this is achieved.

7. Conclusion

The overall waters study represents a significant investment and piece of work for the three Councils. Whilst all three organisations resolving to support further exploration into the setup of a sub-regional CCO it has been acknowledged that a series of matters needs to be addressed prior to moving into the next, formal stage of the project. A framework, budget and timeframe have been proposed and once this phase is complete and agreement has been reached, there should be no further impediments to progressing to the next phase.

8. Attachments

- Appendix 1: Issues to be resolved prior to public consultation
- Appendix 2: Waikato Water Study Governance Group: Terms of Reference

Appendix I: 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: Waikato Water Study Governance Group: Terms of Reference

Purpose

Hamilton City Council, Waikato District Council and Waipa District Council have each agreed to further investigate the formation of a ratepayer owned, Council controlled organisation for the delivery of water, wastewater and (on a contractual basis) stormwater. The purpose of the Waters Governance Group (WGG) is to maintain political oversight of the project and to provide political direction.

Membership

The Group will consist of three elected members from each Council. Decisions will be made by consensus.

Meetings

The Group will meet as required for the duration of the project.

Specific Roles and Delegations

The WGG is not a Joint Committee. Specific roles of the WGG include:

- Discussion and direction-setting on behalf of the three Councils to develop a record of agreement for consideration and adoption by each Council concerning establishment considerations for a Waters CCO.
- Ensuring that issues of public interest (which can be reasonably expected to arise in the course of public consultation in relation to the establishment of a Waters CCO) are identified and a mutually agreed position is adopted by each of the three Councils.
- Presenting the proposed record of agreement for adoption by each Council no later than 30 June 2016.
- Approving, for consideration by each Council, any public documentation produced to communicate the record of agreement.
- Ensuring iwi are kept informed and involved in the project.
- Providing direction on issues as they arise throughout the project.
- Managing the allocated budget and overseeing the project's performance against budget.
- Reporting progress to each council.

Relationship With Waters Project Group

The WGG will receive reports from the Chair of the Waters Project Group on a regular basis.