

Open Meeting

To	Waikato District Council
From	TN Harty General Manager Service Delivery
Date	20 May 2015
Chief Executive Approved	Y
DWS Document Set #	988503
Report Title	Waikato Waters Study Update

I. Executive Summary

In February 2015 Council approved a recommendation by staff to further investigate a “consolidation” approach for the expansion of services between Council and WaterCare Services Limited. This approach was arrived at through a series of workshops between Council staff and WaterCare, supported by Cranleigh the project consultants.

Since that decision was made WaterCare staff have had further discussions with Council regarding this approach. These discussions have led to a proposal to modify the recommended approach. The recommendation for change has been largely driven by the need for each organisation to remain focused on its own jurisdiction area, but also the view that an alternate approach utilising the existing strong relationship and formal agreement could result in better value for the District and its ratepayers.

Following further discussions a proposal that sees the creation of a Waters Business Unit and the development of a process to add further services to the current agreement over time and on an “as and when there is value” basis, is seen as the most appropriate. The Waters Business Unit would consist of the current Waters Unit structure modified to operate with more autonomy and in a more effective manner. An Advisory Team is also a recommended feature of this approach, with a mandate to assist and support the Waters Business Unit gain future effectiveness and efficiencies.

Staff support this change in direction and have discussed it at a high level with the project consultants Cranleigh. If the change in approach is supported by Council, Cranleigh is ready to commence detailed evaluation and analysis of the Waters Business Unit option and have the report prepared by early June, in time for consideration by Council through the Infrastructure Committee.

2. Recommendation

THAT the report of the General Manager Service Delivery – Waikato Waters Study Update - be received;

AND THAT the Council support a change in approach for Option 4 from a “consolation” model to a Waters Business Unit model;

AND FURTHER THAT the Waters Business Unit model be evaluated by Cranleigh in accordance with the approved methodology;

3. Background

In February 2015 Council approved a “consolidated” approach for expanding its existing relationship with WaterCare Services Limited (WSL) under the Sub Regional Waters Study (the Study). This is commonly referred to as Option 4.

Earlier this year staff work-shopped possible relationship options with senior WSL staff and arrived at the consolidation approach as the preferred model to build an expanded relationship between the two parties. This option was presented along with supporting information to support the staff recommendation.

Following discussion with Council, staff instructed the Project Consultants (Cranleigh) to commence work on fully analysing this option.

Since the February meeting, WSL representatives requested, and have met with, the Deputy Mayor and senior Council staff and discussed a proposed change in direction from the “consolidation” approach.

4. Discussion and Analysis of Options

4.1 Discussion

Following Council approval and Cranleigh commencing initial analysis works, staff and the Deputy Mayor met with the WSL Chief Executive and Chairman of the Board at WSL’s request.

At this meeting a change in approach for Option 4 was agreed. This change was arrived at following agreement that the strategic focus of both organisations needed to remain on their own serviced regions in the medium term. Notwithstanding this, WSL remains committed to providing ongoing assistance to Council, over and above the current commitments and agreements in place in relation to provision of water services in the north of the District.

It was agreed that a better approach for Option 4 was for WSL and Council to better utilise the current relationship for the benefit of Waikato ratepayers.

Under this approach new activities could be added into this agreement on a case by case basis and as both organisations determine those activities will add value. Coupled with this and in order to best leverage the opportunities to deliver better services more cost effectively, Council would need to structure its Waters team in a more effective way.

A Business Unit of Council is considered the best option for a management structure to support this approach.

The key aspects of a Business Unit are:

- Not a separate legal entity, but part of Council
- Operates as a full “profit” centre with all waters revenues, expenses, assets and liabilities attributed to the Business Unit
- Business Unit General Manager is responsible for all aspects of the activity as if he/she were running a separate business, but receiving support from internal council services such as IT, HR, Finance etc.

Attachment I has more detail on benefits of this approach, plus a possible structure.

4.2 Proposed Option

Following discussions, staff have developed the following approach for analysis.

4.2.1 Structure

It is proposed under this option, to transfer the Councils existing Waters Unit to a Business Unit of Council. This provides a number of benefits which are outlined in detail in 4.1 and attachment I.

It is also proposed to create an Advisory Team, to support the running of the Business Unit. This team would comprise two WSL representatives, two WDC representatives and an independent business advisor.

The Advisory Team will assist in the efficient establishment of the Business Unit and will provide ongoing advice and support, as required.

4.2.2 WSL Relationship

The current situation with WaterCare operates on two levels:

Level 1 – An informal collegial idea and assistance exchange relationship.

Level 2 – A formal agreement for the supply of water and receipt of wastewater in the northern portion of Waikato District. This agreement has been in place since the creation of the Super City and was updated in 2013.

The current agreement between WDC and WSL provides an excellent platform on which to provide further services for the benefit of Council ratepayers. By further investing in the relationship, Council will be able to realise the benefits outlined in section 4.1 and attachment I.

4.3 Options

Following discussions between WSL, staff and councillors, the change in option from consolidation to one utilising the current relationship and agreement to bring benefits to Council is seen as appropriate and in the best interest of the Waikato District. This approach fits into the spectrum (Attachment 2) in the Service/Transaction area.

Councillors have informally supported this option being fully analysed by Cranleigh as Council's Option 4.

5. Considerations

5.1 Financial

The cost of this piece of work is capped at \$55,000 with funding approved in October 2014. The balance of the funds in this account is sufficient to complete the study.

5.2 Legal

Legal matters with regards to this process have been addressed within the initial contract and procurement process.

The analysis of the selected option will include understanding any legal matters that will be required to be addressed during implementation.

5.3 Strategy, Plans, Policy & Partnership Alignment

Over the last 18 months Council has resolved a number of key agreements with WSL. The ability to deliver cost effective water and wastewater services in the northern area to facilitate growth are a key outcome of the two organisations working together.

This study represents the next possible step in this relationship and ensures that Council has all the possible information available when asked to make a final decision on the future delivery of 3 water services.

5.4 Assessment of Significance & Engagement

The formation of an alternative service delivery model with WSL could trigger the significance policy and require a full public consultation process. This should only be determined once the business case is evaluated and any further proposals are clear.

6. Consultation

Consultation and communication on the water study is ongoing. The scope and level of consultation will be determined by the outcome of the final study and consideration of all options by Council.

7. Conclusion

Following approval of the initial Sub-Regional Water Review, which saw Council request staff to investigate a WDC only options around building closer working relationships with WSL, staff have organised and participated in an option selection workshop.

Further discussions between both organisations, resulted in a change in approach to the relationship model. There are a number of reasons for this change, with the need to retain focus on jurisdictional areas being the primary consideration.

The alternative approach to the relationship is proposed as the basis for the further study and for comparison with the existing Cranleigh evaluation of water services options in the sub region.

8. Attachments

- Attachment 1 – Business Unit Features and Possible Structure
- Attachment 2 – Options Spectrum

Attachment I

Possible Structure

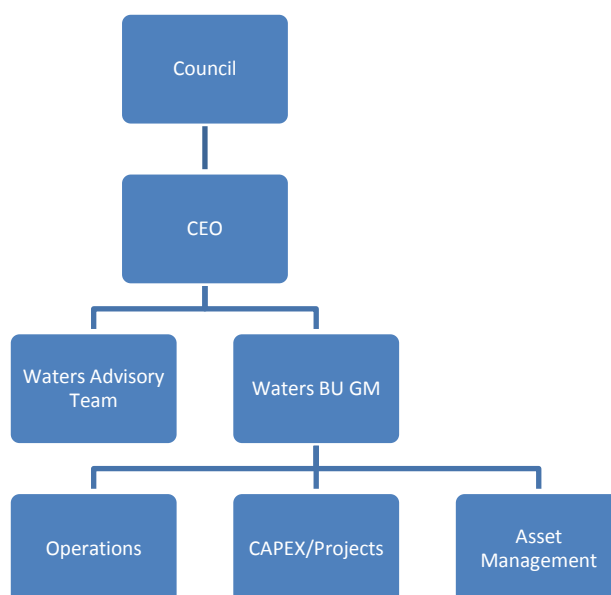
The key features of an in house Business Unit are:

- Not a separate legal entity, but part of Council
- Operates as a full “profit” centre with all waters revenues, expenses, assets and liabilities attributed to the Business Unit
- Business Unit General Manager is responsible for all aspects of the activity as if they were running a separate business, but receiving support from internal council services such as IT, HR, Finance etc.

A Business Unit offers the following benefits:

- Clear managerial responsibility and accountability for all activities
- Transparency as to the full costs, including capital costs of all water activities and services
- Better decision making due to a full understanding of all costs and revenues
- Assist more accurate tariff design due to better cost base data
- Better ability to identify critical success factors and activity drivers
- Assists in benchmarking council water activities against international and domestic water utilities
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Supporting the Business Unit would be an advisory team. The team would be made up of a Senior WDC staff member, one or two WSL senior staff and an external expert. The purpose of the advisory team is to initially assist in the expansion of the WSL agreement, set up the Business Unit and develop KRA’s and KPI’s. Short term the team would support the Business Unit with advice and expertise and monitor performance. Longer term the need for the team would need to be confirmed.



Attachment 2

Options

What form of relationship is most “doable”?

