

Committee: Council

Date: 26 June 2014

Report Name: Business Case for a Council
Controlled Organisation (CCO)
for Water and Wastewater

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Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Long Term Plan 2015-25 – Review of Service Delivery</i>
Financial status	<i>There are no significant financial costs associated with this report. The cost of the business case will be included in the next report to Council.</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

1. Purpose of the Report

- To seek Council approval to undertake a detailed business case analysis of a proposal to establish a Council Controlled Organisation (CCO), between Hamilton City Council, Waikato District Council and Waipa District Council for water and wastewater services.

3. Executive Summary

- An earlier report to the Mayoral Forum recommended (subject to business case analysis) the establishment of a joint CCO for Hamilton, Waikato and Waipa councils relating to its water and wastewater activities.
- The Business Case analysis requires specialist and independent skills and it is proposed to discuss and finalise the shape and scale of the business case project (scope, methodology, timeline etc) through the procurement process for professional services. This will provide more control over project outputs and project cost.
- This report seeks approval to undertake a competitive market process to identify a preferred professional services supplier/s.
- Once that process is completed a report will be brought back to the three councils specifying project detail (scope, methodology, timeline, cost, cost apportionment etc) and seeking approval to proceed, along with terms of reference for the business case project governance.

8. Recommendation/s from Management

- That the report be received
- That Council undertake a detailed business case examination of a Council Controlled Organisation for water and wastewater activities as a joint project between Hamilton City

Council, Waikato District Council and Waipa District Council.

11. That the detailed business case also includes an enhanced shared services model as part of the review.
12. That the Chief Executive Officer be delegated authority to conduct a competitive process to identify the specialist advisor/s reflecting the outline scope in Section 22 of this report but with the flexibility to incorporate respondents suggestions.
13. That the outcome of the competitive process be reported back to Council for approval. The report to include details of the proposed final business case.

14. Attachments

15. Attachment 1 - Waikato Water - A report to the Waikato Mayoral Forum on future delivery options (April 2014)

16. Background

17. In March 2014, an independent report commissioned by the Waikato Mayoral Forum recommended that subject to detailed business case analysis, a Council Controlled Organisation (CCO) be established for the water and wastewater activities of Hamilton, Waipa and Waikato councils. (A copy of the Report was provided to elected members in April and is included as Attachment 1.)
18. The rationale for this recommendation was influenced by the central government environment including:
 - The National Infrastructure Plan which is critical of the water industry;
 - The report of the Local Government Infrastructure Expert Advisory Panel which recommends regionalisation of water;
 - Proposed local government legislation which requires (inter alia) a 30-year infrastructure strategy, regular service delivery reviews and gives the Local Government Commission the power to establish CCO's; noting the completion of the business case will meet the proposed service delivery review requirements of the Local Government Act.
 - Various industry reports acknowledging the need for change in NZ Water structure.
19. Since the Report was published, the Local Government (Financial Reporting & Prudence) Regulations have come into force with the effect of providing greater motivation to consider using CCO structures, particularly for asset-based activities.
20. The above comments explain the national context but the most compelling reasons for considering an alternative structure for Hamilton, Waikato and Waipa councils relate to the local situation. Each council is experiencing high population growth; they each have a high level of capital expenditure over an extended period; the Hamilton, Waikato, Waipa water networks are contiguous (facilitating a collaborative approach); and there is clear opportunity to drive better long-term value through scale and efficiency of a larger organisation. It was also noted in the Report that there is a close working relationship between the three councils with regards Waters already.

21. Key Issues

22. Scope

23. The scope and methodology to be used in the Business Case analysis will not be finalised until after the procurement process for professional services. This is because it is expected that the process may reveal additional information that requires amendment to scope and/or refinement to methodology. The intention is to work with the successful consultant party/parties to define the best way forward. The final scope of the Business Case will be approved by the councils following a competitive market process but it is expected that key outputs of the work will be:
- The shape and scale of a CCO (or an enhanced status quo model) will be understood in reasonable detail, including: shareholding and governance arrangements, how differing levels of debt across the three councils are managed, financial and funding arrangements, organisation structure and service delivery model. This is expected to involve comprehensive analysis of customer, engineering, financial, HR, IT and legal issues.
 - Establishment and transitional costs will be estimated and the transition process will be well understood.
 - The strategic, organisational and financial implications for each council will be understood - including risks and benefits.
24. The essential outcome of the Business Case will be the provision of substantive information sufficient for each council, and the residents and ratepayers of each council (via consultation), to make an informed decision on the preferred model of Waters delivery for the future. The Report will result in a clear recommendation on whether to proceed with a CCO (or an alternate structure) or not.
25. Resourcing
26. The preparation of the business case is a very large project. Staff of the three councils will be providing technical input but specialist and independent skills are required across a range of topics – particularly financial analysis but also IT and legal. Procurement of the substantive professional service elements will be via a competitive process.
27. Timeline
28. Because of the amount of work to be done, the resource limitations of the three councils, the professional services procurement process referred to above and the need for governance input at critical stages of the project, a timeframe for the business case preparation cannot be currently given. In addition, if a CCO is proposed, it would then require public consultation. It is anticipated that the final timeline for the Project will be determined in conjunction with the feedback from the successful external consultant party/parties.
29. Cost
30. It is difficult to accurately estimate the cost of a project like this because:
- Scope and methodology haven't been finalised;
 - it is a 'one off' project – there is nothing similar to compare it to;
 - it is complex - three councils, multiple considerations (HR, Legal, Financial, Engineering etc).
31. Project costs will be finalised once scope and methodology have been discussed and negotiations have been concluded with the successful external party/parties.
- 32. Risk**
33. Key risks and mitigations around this project are tabled below:

Risk	Description	Mitigation	Overall Rating
Resourcing	Inability of professional suppliers to deliver. Inability of staff to deliver.	Careful selection. Appropriate project management. CE's proving appropriate resources/priority to Project requirements.	Medium
Cost	Cost overrun.	Careful scoping of project. Careful consultant selection. Careful budget management.	Medium
Timeline	Inability to deliver to programme - most likely caused through delays in supply of high quality/timely input information from councils and complex governance requirements.	CE's proving appropriate resources/priority to Project requirements.	Medium
Communications	Inadequate stakeholder understanding the scope, purpose, limitations, timeline etc of this project.	Clear communications plan.	Medium

Signatory

Authoriser	Blair Bowcott, General Manager Performance Group
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