

Committee: Council

Date: 30 October 2014

Report Name: Sub-Regional Waters Detailed
Business Case

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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>The cost to Hamilton City Council is \$325,000. A specific budget of \$75,000 is available, with the balance of \$250,000 to be identified during this financial year from within existing budgets and reported through Risks and Opportunities register.</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 approve the consultant, project scope, cost allocation and governance arrangements for the business case analysis of collaboration in waters activities which is proposed as a joint project between Hamilton, Waikato and Waipa Council.

3. Executive Summary

- On 26 June 2014 Council resolved to develop a detailed business case to better understand the viability of a collaboration to deliver water services across the sub region (Hamilton, Waipa and Waikato Councils). This study was triggered by works undertaken by the Mayoral Forum indicating that there are likely long term efficiencies and costs savings, should a collaboration take place.
- The proposed study is to look at two separate possible collaboration models, Enhanced Shared Services and a Council Controlled Organisation and test these against the current status quo of the three organisations. A public tender process to secure a consultant to undertake the development of the business case was agreed by Council.
- Since the June 2014 meeting a number of key actions have been undertaken and the purpose of this report is to confirm the successful tenderer and agree the scope of the business case, agree the financial contribution to the project cost and approve the terms of reference and two Elected Members for the Waters Governance Group.
- The total net project cost is budgeted at \$650,000 and Hamilton City Council share is proposed at 50% (\$325,000).

8. Recommendation/s from Management

- a) That the report be received.
- b) Following a competitive procurement process, the Cranleigh consortium be appointed to prepare the detailed business case for collaboration in water, waste water and the inclusion of storm water at a total cost of \$450,000 (representing \$395,000 of joint Hamilton, Waikato and Waipa Council funded work and \$55,000 of Waikato District Council funded work).
- c) The scope of works for the detailed business case as outlined in Appendix 1 be approved.
- d) Hamilton City Council's contribution to the project be \$325,000 which is 50% of the total net project cost of \$650,000.
- e) The Terms of Reference, including membership, for a Waters Governance Group as outlined in Appendix 2 be approved.
- f) Councillors (two to be included) be appointed to the Waters Governance Group.

9. Attachments

10. Attachment 1 - Scope of Work
11. Attachment 2 - Terms of Reference for Waters Governance Group
12. Attachment 3 - Terms of Reference for Waters Project Group

13. Background

14. Hamilton City Council, Waikato District Council and Waipa District Council have resolved to commission a detailed business case to examine three alternative mechanisms for the management and supply of water and waste water services across the Waikato sub-region.
15. At the [26 June 2014 Council meeting](#) a report on a Business Case for a Council Controlled Organisation (CCO) for Water and Wastewater was received and the following resolutions were adopted:

That:

- (a) The report be received,*
- (b) 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,*
- (c) The detailed business case also includes an enhanced shared services model as part of the review,*
- (d) 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, and*
- (e) The outcome of the competitive process be reported back to Council for approval. The report to include details of the proposed final business case.*

16. Prior to the study commencing each Council requested that the outcome of a competitive process to identify the preferred adviser, and to formalise the scope and cost of the study, be reported back for formal Council approval.
17. Waikato District Council also wishes to investigate the possibility of that Council working more closely with Watercare Services Ltd as part of the comprehensive evaluation of options alongside this joint council's business case. While this investigation forms part of the overall study and procurement arrangements with Cranleigh (in order to achieve an integrated and comprehensive final report) these costs (amounting to \$55,000) will be entirely borne by Waikato District.

18. Key Issues

19. Competitive Process

20. A Request for Proposals to undertake the detailed business case was advertised in late August and six bids were received. Each bid was assessed by a Project Evaluation Team comprised of officers from the three Councils (David Hall - Deputy Chief Executive at Waipa District, Blair Bowcott - General Manager Performance at Hamilton City, Martin Mould - Waters Manager at Waikato District and Carol Serra - Manager Portfolio Management Office at Hamilton City). The two highest scoring bidders were invited to present to an audience which included representatives from the three Councils (including members of the project evaluation team). Following the presentations Cranleigh, supported by Mott McDonald and Martin Jenkins, was identified as the preferred supplier.

21. Cranleigh is an advisory firm operating in New Zealand and Australia that specialises in:

- Implementation solutions and planning.
- Commercial and financial analysis
- Corporate strategy, structuring and organisational development
- Mergers and acquisitions.

22. The sectors it specialises in include:

- Infrastructure, including wide experience in the water sector
- Health
- Property
- Food, beverage and agriculture
- Education, economic development, tourism and innovation.

23. The Cranleigh bid is made up of a consortium of three parties, with Cranleigh undertaking the majority of the project work and taking overall responsibility for the quality of project deliverables. Cranleigh will be supported in the engineering facets of the study by Mott MacDonald, a global engineering firm with experience in the Waikato. Martin Jenkins, a New Zealand-based public policy consultancy, will provide support with organisational design and governance.

24. Project Scope and Timeframe

25. The project scope has been developed to reflect specific feedback received from each of the three Councils including feedback provided at the Hamilton City Council meeting on 26 June 2014. Representatives from each of the three Councils met in Ngaruwahia on 4 August 2014 to consider, and approve, an initial scope of works prior to the RfP being publicly advertised.

Following the registration process, the scope of works has been refined (particularly in relation to the inclusion of storm water which has a strong link to water and wastewater activities and was viewed as logical for review) and is included as Appendix 1.

26. The main drivers for including stormwater within the study at this time is to ensure completeness of analysis (3 Waters approach) and the fact that stormwater management is inextricably linked to the waters businesses within the sub region. Excluding it from the study in its entirety may result in poor outcomes for all participants.
27. A detailed project plan, including timeframes and key milestone reporting, will be prepared for consideration by the Waters Governance Group following formal appointment of the principle contractor.
28. It is planned that a detailed business case exploring the implications of:
 - i) The status quo,
 - ii) Enhanced shared services, and
 - iii) A Council Controlled Organisation (CCO);
 will be available in the second half of 2015. The timeframe is influenced by the considerable pressure already existing on engineering and finance officers currently engaged in the final stages of preparing draft 2015-25 Long Term Plans.
29. The project is not expected to start in earnest until the beginning of 2015.
30. Project Cost
31. The total net project cost for the development of the detailed business case, including stormwater, is \$650,000. This comprises the following components:

Cost Type	Net Project Costs (Shared between HCC, Waikato and Waipa Councils)	Waikato District Council Cost	Total Project Cost
Cranleigh Consortium – core analysis	\$395,000	\$55,000	\$450,000
Independent Project Management	\$97,440		\$97,440
Other Professional Services	\$100,000		\$100,000
Costs incurred to date to establish this project	\$57,560		\$57,560
Total	*\$650,000	**\$55,000	\$705,000

* Cost split - 50% HCC/25% Waikato/25% Waipa

** Cost split - 100% Waikato District

32. As noted previously in this report, the total contract price for Cranleigh is \$450,000 inclusive of Waikato District Council's \$55,000 investigation of an association with Watercare Services Ltd. The additional cost, \$55,000, is entirely funded by Waikato District Council, with the core \$395,000 funded by the three councils as part of the joint project.

- 33. The net project cost of \$650,000 excludes internal officer costs and any costs that might arise following receipt of the report (for example, a formal public consultation process would be required if the establishment of a CCO were to be considered).
- 34. The Independent Project Manager (IPM) contract has yet to be finalised and approved and will be done so in accordance with Council procurement processes, subsequent to the recommendations in this report being approved by the three councils.
- 35. A substantial sum for other professional services has been allowed to reflect the complexity of this project, and is intended to cover anticipated costs including legal advice, information technology advice, peer review, communications and approved project variations.
- 36. The inclusion of stormwater within the study has raised the possibility of Regional Council funding. If additional funding is available it will reduce the cost of the project to each Council. This possibility has not been fully canvassed (at the time this report was drafted) and therefore no provision has been made for third-party assistance.
- 37. Cost Allocation
- 38. In order to equitably allocate costs between the three participating Councils, a range of distribution options have been considered.
- 39. For the Stage II Waters Study, the Waikato Mayoral Forum allocated costs based on the number of water connections. However, the size of each Council’s water network will not necessarily reflect the value of the detailed business case. In addition, this methodology does not recognise the collaborative basis of the study, the fact that decisions referred to the proposed Waters Governance Group and Waters Project Group are intended to be resolved on a consensus basis and that, irrespective of the outcome, the findings will provide invaluable information for each Council on their water infrastructure and governance options.
- 40. A preferable alternative may be for the three Councils to split costs in a manner which reflects the cooperative nature of the study and thereby avoids any single Council funding a clear majority of project costs.
- 41. Potential options are shown in the following table:

	Water Connections		Cooperative Split (Recommended)	
Hamilton	69%	\$450,000	50%	\$325,000
Waikato	13%	\$86,000	25%	\$162,500
Waipa	18%	\$114,000	25%	\$162,500
Total	100%	\$650,000	100%	\$650,000

- 42. The cooperative split is the recommended option, meaning that Hamilton’s contribution to the project would be 50% or \$325,000.
- 43. An existing \$75,000 budget for shared service projects will be utilised as partial funding towards the detailed business case. Based on the cooperative split a further \$250,000 of unbudgeted funding would be required.
- 44. This business case analysis is a high priority project and both Waikato District and Waipa District have allocated funding for this next stage. It is important a decision is made at this time to proceed and thus retain alignment with the other two councils despite no project or budget savings having been identified at this time to fund this \$250,000 shortfall. The Senior

Leadership Team will through the course of this financial year target to balance the overall budget. In the meantime the \$250,000 will be reported in the next Risks and Opportunities register to the Finance Committee for visibility and overall financial management.

45. Project Governance

46. It is proposed that a ‘Waters Governance Group’ be established for this project made up of two elected representatives from each of the three councils and an elected member of the regional council. Regional Council representation reflects the broader role of the Regional Council including its interest in stormwater, water demand management and environmental oversight. The purpose of the Waters Governance Group would be to maintain political oversight of the business case and provide clear project direction as the work commences. Terms of Reference for the Waters Governance Group are included as Appendix 2. Decisions of the Waters Governance Group will be made by consensus.

47. Hamilton City Council need to identify the two elected representatives for the Waters Governance Group.

48. A Waters Project Group (WPG) would report to the Waters Governance Group including at least one officer representative from each council. It is also possible that external expertise will be co-opted onto this group. A draft Terms of Reference is included as Appendix 3 for information.

49. Risks

50. Key risks and mitigation 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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SCOPE OF WORK

OUTPUTS OF THE DETAILED BUSINESS CASE

The project will deliver the following key outcomes.

- The shape and scale of an asset-owning CCO (as recommended in the Stage 2 report) will be understood in detail, including: governance and shareholding arrangements; how differing levels of debt across the three councils are managed; financial and funding arrangements; organisation structure and service delivery model. (Comments on the advantages/disadvantages of this model over a non-asset owning structure will also be included.)
- The Business Case will consider the different standards and scale of network across the three communities; different levels of service; forecast capital works; the risk and debt profiles of each council and the operational implications of merging the networks.
- The advantages and disadvantages of an enhanced shared services¹ model will be understood. The intent is to look at the viability of adding additional services without going as far as a CCO structure. For example a wider range of back-office services or the joint delivery of physical works using a joint committee between the councils should be considered.
- The Business Case will confirm what changes each council will need to make (resourcing for example) to comfortably deliver their respective LTP programme of work, in the event that no change is made. It will be important to ensure that consistent assumptions are used across the three councils.² This represents the 'control' option.
- Determine whether stormwater services are appropriately delivered via any/all of the options being considered or whether stormwater is better left with the parent councils. The implications for stormwater under each option should be identified.
- The establishment and transitional costs of each option will be estimated and the transition process will be well understood.
- The strategic, organisational, financial and other implications of options for each council will be understood - including risks and benefits and the implications for local decision-making.

The detailed business case analysis will follow the NZ Treasury 'Better Business Case' model. The essential outcome will be the provision of substantive information sufficient for each council, and the residents and ratepayers of each council, to make an informed decision on the preferred long-term model of waters delivery.

The business case will result in a firm and clear recommendation on whether a CCO, an enhanced shared service structure or status quo will deliver the best long-term outcome for the sub-region.

Note 1: *There is no preference for any option at the moment. All are to be considered equally.*

Note 2: *The report must clearly show the full implications of each option for each council.*

¹ Presently, the three councils have a joint office providing water conservation, water quality testing and trade waste services.

² Draft 2015-25 LTP figures will be used as the benchmark for this analysis and the draft 30-year strategies will also be used as a reference point.

Appendix 1
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Note 3: *It is expected that the work will be sufficiently comprehensive that no further work will be required for the councils to make a decision.*

Note 4: *Because of the complexity of this project, independent peer review will be undertaken at appropriate project milestones.*

TERMS OF REFERENCE FOR WATERS GOVERNANCE GROUP

Purpose

Hamilton City Council, Waikato District Council and Waipa District Council have agreed to consider a detailed business analysis of various structural options for the delivery of water and wastewater activities. 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 two elected members from each council. Recognising the regional component of this project, an elected member of the Waikato Regional Council will have ex officio, but non-voting status on the Group. Decisions will be made by consensus.

Meetings

The Group will meet at least every two months 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 decision-making on behalf of the three councils relating to:

- approving the Request for Proposal document
- observing the consultant procurement process
- recommending a methodology for allocating costs between the councils
- ensuring Iwi are kept informed by each Council
- providing direction on issues as they arise throughout the project
- overseeing a comprehensive communications plan
- receiving an early version of the Report for comment
- advising 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.

TERMS OF REFERENCE FOR WATERS PROJECT GROUP

Purpose

Hamilton City Council, Waikato District Council and Waipa District Council have agreed to consider a detailed business analysis of various structural options for the delivery of water and wastewater activities. The purpose of the Waters Project Group (WPG) is to provide strategic and operational direction to the Project.

Membership

The Group will consist of up to two members from each council appointed by the respective chief executive. Decisions will be made by consensus.

Meetings

The Group will meet at least monthly for the duration of the project.

Specific Roles and Delegations

Specific Roles of the WPG include discussion and decision-making on behalf of the three councils relating to:

- direction on all strategic and operational issues
- contractual matters relating to the consultant engagement
- direction to the independent project manager
- managing a comprehensive communications plan
- approval of all matters going to the WGG.

Each member will report back to their respective council as appropriate.

Relationship with Waters Governance Group

The WPG will report to the Waters Governance Group on a regular basis.

Managing Confidentiality & Conflicts of Interest

Because of the decision-making role of this group, confidentiality of information and potential conflicts of interest will be actively managed by the Project Manager.
