
AGENDA

THURSDAY 7 AUGUST 2014

2.00PM

Committee Room One
Ground Floor
Wakefield St
Wellington

MEMBERSHIP

Mayor Wade-Brown

Councillor Ahipene-Mercer
Councillor Coughlan
Councillor Eagle
Councillor Foster
Councillor Free
Councillor Lee
Councillor Lester

Councillor Marsh
Councillor Pannett
Councillor Peck
Councillor Ritchie
Councillor Sparrow
Councillor Woolf
Councillor Young

Have your say!

You can make a short presentation to the Councillors at this meeting. Please let us know by noon the working day before the meeting. You can do this either by phoning 803 8334, faxing 801 3020, e-mail: public.participation@wcc.govt.nz or writing to Democratic Services, Wellington City Council, PO Box 2199, Wellington, giving your name, phone number and the issue you would like to talk about.



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REPORT 1

**AGREEMENT ON GREATER WELLINGTON REGIONAL
COUNCIL JOINING CAPACITY INFRASTRUCTURE SERVICES
LTD AND RELATED TRANSFERS OF WELLINGTON CITY
COUNCIL TEAMS**

1. Purpose of report

This report requests that the Council provides final agreement on the proposed arrangement for Greater Wellington Regional Council (GWRC) to join Capacity Infrastructure Services Limited (Capacity or the company) as a shareholder and customer.

2. Executive summary

Officers recommend that Wellington City Council agree to Greater Wellington Regional Council joining Capacity Infrastructure Services Limited as a shareholder and customer. This was agreed in principle by Wellington City Council in February 2014. The basic framework of the proposed governance structure was then agreed by the Governance, Finance and Planning Committee at its meeting on 21 May 2014.

This report includes the final details on the proposed shareholdings and the terms of reference of the joint oversight Wellington Water Committee. It also seeks a Council decision on the transfer of the Wellington City Council public drainage, CCTV, trade waste, and water-related asset management planning teams to Capacity (under its new name) as part of this broader integration of regional water services.

3. Recommendations

Officers recommend that the Council:

1. *Receive the information.*
2. *Agree to Greater Wellington Regional Council becoming a shareholder in, and a customer of, Capacity Infrastructure Services Limited.*
3. *Note that this will result in Wellington City Council's voting share of the company changing from 25% to 20%.*
4. *Note that this will result in Wellington City Council's income share of the company changing from 50% to 42%.*

5. *Agree to delegate the responsibility to agree the final documentation, including resulting changes to the Company's Constitution and the Shareholders Agreement, relating to Greater Wellington Regional Council joining Capacity, to the Chief Executive, the Chair of the Governance, Finance and Planning Committee, and the Chair of the Environment Committee.*
6. *Agree to delegate the responsibility to sign the final documentation relating to Greater Wellington Regional Council joining Capacity to the Chief Executive.*
7. *Note that the shareholder councils will continue to retain ownership of their three waters network assets, and the funding and policy decisions relating to their network.*
8. *Agree to establish the Wellington Water Committee as a joint committee of Wellington City Council, Wellington Regional Council, Hutt City Council, Porirua City Council and Upper Hutt City Council.*
9. *Agree the Wellington Water Committee Terms of Reference and the delegations outlined in the terms of reference, attachment 1 of this report.*
10. *Agree to appoint one elected member as the Wellington City Council appointee to the Wellington Water Committee, and an alternate.*
11. *Agree in accordance with clause 30(7) Schedule 7 of the Local Government Act that the Wellington Water Committee is not deemed to be discharged following each triennial election.*
12. *Agree the Wellington City Council appointee will report back to the Environment Committee, or its equivalent, regularly.*
13. *Note that at Council and Committee meetings on 4 April 2013 and 5 September 2013, officers noted that advice would be provided to the Council on CCTV, Public Drainage and other possible staff transfers.*
14. *Agree that, as part of this broader integration of water services, the current Wellington City Council public drainage, CCTV, trade waste, and water-related asset management planning teams will transfer to Capacity Infrastructure Services Limited.*

4. Background

Capacity Infrastructure Services Limited was established in 2003 after about a decade of debate about the best way in which integrated water services should be delivered for the greater Wellington metropolitan area. The original proposal envisaged a vertically integrated entity providing water services 'from source to tap', managing both the bulk water network of GWRC and the local reticulation systems of the four City Councils.

For a variety of reasons, initially only Wellington City Council (WCC) and Hutt City Council (HCC) progressed with the establishment of a joint Council-Controlled Trading Organisation (CCTO) to manage their water services. In recent years Upper Hutt City Council (UHCC) and Porirua City Council (PCC) have moved to become customers of and, with effect 1 November 2013, shareholders in the company.

GWRC are now proposing that the original vision of 2003 be realised by joining the company as both customer and shareholder and, in doing so, create a vertically integrated entity providing water services 'from source to tap'.

The Council considered this in February 2014 and agreed to this in principle. As discussed at that point, the proposal is consistent with central government's policy of, and the Wellington Regional Mayoral Forum's commitment to, encouraging more collaboration and shared services between local authorities.

On 21 May 2014, the Governance, Finance and Planning Committee agreed that if GWRC joins Capacity:

- a joint committee (comprised of one elected member from each shareholder council) will be established to ensure public accountability and to monitor the company's performance;
- the company will be re-named "Wellington Public Water Services Ltd" or the equivalent to clearly reflect its core purpose and public ownership; and
- the board of Capacity will be made up of jointly appointed independent directors. The board will include a range of skill-sets including, among others, engineering and asset management experience, a strong public service ethic and an appreciation of public accountability and the local government context.

The above points (or their equivalents) and the committee terms of reference have been considered and approved by Upper Hutt City Council and Porirua City Council. Hutt City Council has also considered and approved the proposal and the committee terms of reference, noting that it prefers the retention of the name 'Capacity Infrastructure Services Ltd' and the retention of elected members as directors of the company.

Accordingly, it is proposed that the Wellington Water Committee agrees the final name for the company.

GWRC has consulted on its Statement of Proposal and on 26 June 2014 approved the proposal to join Capacity and the terms of reference.

It is important to note that under this proposal the following will not change:

- WCC (and the other councils) will continue to own all their existing water assets and asset data.

- Each council will still consult with its community and determine matters of policy and levels of service for these services.
- Each council will continue to determine investment levels, priorities and the consequent cost of providing these services.
- Each council (except GWRC) will still recover the cost of water services by rates using whatever formula it sees as appropriate (i.e. pricing will not be set by the company). GWRC will still recover the cost of the bulk water network as determined by the Wellington Regional Water Board Act 1972.
- The company will remain a CCTO owned exclusively by the five Wellington local authorities. This will ensure continuing public ownership of this core service.

5. Discussion

This report includes the final details on the shareholdings and the terms of reference of the joint committee.

It should be noted that, in the event of structural changes (e.g. a merger of some or all of the shareholder councils), the shareholder councils could review at that point whether to retain a company structure for Capacity, restructure the proposed joint committee arrangement or return to an in-house model. Under the shareholders agreement, if the company structure was retained, a change in regional governance arrangements would prompt the need for the shareholders to agree that shareholding percentages remain reasonable.

5.1 Wellington Water Committee

The structure of the proposed Wellington Water Committee was discussed in detail in the February and May reports. The proposed terms of reference for this committee are attached as appendix one of this report.

It should be noted that the one material change from the indicative responsibilities set out in the report considered by the Governance, Finance and Planning Committee on 21 May 2014 is that the joint committee would have responsibility for appointing and removing directors of the board, rather than providing recommendations to the shareholder councils. This change reflects a desire for a simplified process, rather than requiring each recommendation to be considered by five separate councils at five separate council meetings.

5.2 Shareholdings

Under the proposal for Greater Wellington Regional Council to join Capacity as a shareholder, Capacity will continue to have a dual share structure (as it currently does). Voting rights will continue to be attached to 'Class A' shares, and each shareholder council would be allocated an equal number of voting shares. This reflects the importance of water services to each council, notwithstanding differences in size.

| Existing Structure | | Proposed Structure | |
|---------------------------|----------------------|---------------------------|----------------------|
| Council | Voting Share% | Council | Voting Share% |
| WCC | 25% | WCC | 20% |
| HCC | 25% | HCC | 20% |
| UHCC | 25% | UHCC | 20% |
| PCC | 25% | PCC | 20% |
| GWRC | - | GWRC | 20% |
| Total | 100% | Total | 100% |

Income rights (and therefore capital contributions or distributions) will be calculated with reference to 'Class B' shares and these will be allocated based on the relative 'size' of the shareholder.

The recommended split proposed by PwC (based on a combination of asset value and revenue) is:

| Existing Structure | | Proposed Structure | |
|---------------------------|----------------------|---------------------------|----------------------|
| Council | Income Share% | Council | Income Share% |
| WCC | 50.0% | WCC | 42.1% |
| HCC | 25.0% | HCC | 21.1% |
| UHCC | 10.0% | UHCC | 8.4% |
| PCC | 15.0% | PCC | 12.6% |
| GWRC | - | GWRC | 15.8% |
| Total | 100.0% | Total | 100.0% |

The view of officers is that this split appears broadly reasonable. The methodology utilised by PwC is consistent with the method utilised when Porirua City Council and Upper Hutt City Council joined as shareholders.

5.3 Other Matters

In terms of documentation, agreement to the proposals in this report will result in changes required to the company's constitution and the existing shareholders agreement in order to incorporate the inclusion of GWRC and the existence of the Wellington Water Committee. The key change to note is that the current co-ordinating role performed by officers of the four shareholder councils under the shareholders agreement will instead be undertaken by elected members through the Wellington Water Committee.

From a risk management perspective, for existing shareholders, the key risk involved in this proposal is integration risk relating to the GWRC bulk water operations, including differences in the nature of the operations. This should be well managed by the fact that Capacity will continue to have access to GWRC staff and their institutional knowledge and expertise. Similarly, the Company is planning to adopt many of the existing GWRC systems and processes. The fact that the GWRC bulk water team and Capacity have already worked together for many years is invaluable in this regard.

As a result, officers consider that the integration of the GWRC bulk water operations, should it be approved, is unlikely to result in a risk to service levels

for the existing customers. Indeed, longer term, it is expected that improved regional co-operation in this area should result in significant operating and planning benefits for the councils. Nonetheless, the integration will need to be carefully managed in the short to medium term. One additional point to note is that, given the material increase in the scale of Capacity's operations if this proposal proceeds, the shareholder councils may wish to consider reviewing its capital structure or potential opportunities for improved efficiencies, e.g. joint insurance arrangements or information technology services, at some point.

5.4 Timing

As discussed earlier, GWRC, PCC, HCC and UHCC have provided final approval of this proposal and the committee terms of reference, noting HCC's preference to retain the name 'Capacity Infrastructure Services Ltd' and elected members as directors of the company. The relatively rapid timing for the council meetings reflects a need for the appropriate processes to commence around the planning of the transition, particularly for staff involved.

If all councils agree, the plan is for the company to have finalised its internal resourcing, including staff transfers, and structure by the end of the year.

Again, if all councils agree, it is anticipated that a Wellington Water Committee meeting will be held as soon as practicable. The agenda for the first committee meeting is likely to be the appointment of the Chair and Deputy Chair for the committee, agreement on the company name, consideration of board re-appointments, and agreement on the process to consider new board appointments.

5.5 Transfer of WCC Staff

When the Council considered service delivery options at Council and committee meetings on 4 April 2013 and 5 September 2013, it was discussed that officers would provide advice on the transfer of the Council's CCTV and Public Drainage teams at the same time as consideration of an integrated water services proposal.

In alignment with this, as part of the current broader integration of regional water services, officers are also requesting a Council decision on the transfer of the Wellington City Council public drainage, CCTV, trade waste, and water-related asset management planning teams to Capacity Infrastructure Services Ltd (under its new name as agreed by the Wellington Water Committee).

These teams comprise:

- The CCTV pipe network investigation team; a team critical to an improved understanding of asset condition and performance, which should be transferred to Capacity. This team is currently employed in-house at the Council and is effectively operating as either a contractor for Capacity or, on occasions, as a subcontractor to CityCare. It is at risk of

becoming technically and professionally isolated from the centre of excellence being established within the expanded entity;

- The water-related staff members of the strategic asset management planning team, i.e. those working directly with Infonet, WCC's three waters asset management software. While this team already works closely with Capacity, having them work side-by-side with the rest of the company should provide better operational and planning efficiencies in relation to WCC's work programmes in this area. This is also consistent with the 'outcomes' based model agreed by the Council whereby the development of asset management plans is the responsibility of the company (for Council approval). This will also align with the relationship between the company and the other local authorities. It is proposed that the broader strategic asset management planning team remain employed in-house;
- The public drainage team's primary role is to protect the public drainage assets from development impact and damage, and to coordinate new connections to sewerage and stormwater systems. This role is already undertaken by the company for the water supply network and it is inconsistent to have water and drainage treated differently. As the model for Capacity transfers to a vertically integrated, outcomes based model, this transfer will provide a 'one stop shop' for all three waters activities. It is recognised that there is also a close interface required between this team and the building consent team, and provision will be made for them to spend part of their time co-located to ensure that this relationship remains strong; and
- The trade waste function is currently undertaken by multitasking officers as part of the environmental health team. The fully integrated Capacity will have the capability to move from the compliance of discharges to proactive engagement with discharging parties, in order to better drive 'cleaner production' and minimise discharges. This approach should improve returns for both the discharger and the Council (in reduced costs) and result in improved environmental outcomes. Again, this function would be better provided within the technically supportive environment of a three waters centre of excellence, rather than in isolation. The various councils will still determine trade waste bylaws and fees, although an objective is to aim for common standards across the region in recognition that there is a common receiving environment.

In combination, the above teams comprise up to twenty current WCC staff members. Subject to Council approval, WCC will still need to follow the appropriate human resources consultation and processes in relation to any transfers.

5.6 Consultation and Engagement

GWRC has consulted on this proposal as part of its Annual Plan consultation. WCC has been in discussions with GWRC, Capacity and the other shareholder councils.

5.7 Financial / Long-term plan considerations

There are no direct financial or Long Term Plan considerations from this report. Over the longer term, improved regional co-ordination (if GWRC becomes a customer of Capacity) should result in improved service and cost efficiencies.

5.8 Climate change impacts and considerations

There are no direct climate change considerations from this report. Over the longer term, if GWRC becomes a customer of Capacity, there should be improved regional co-ordination on issues such as climate change, water usage and demand management. One major advantage of the proposal is that a single entity will have visibility over both water supply and demand.

6. Conclusion

Officers recommend that Wellington City Council agree to Greater Wellington Regional Council joining Capacity Infrastructure Services Limited as a shareholder and customer. The basic framework of the proposed governance structure was agreed by the Governance, Finance and Planning Committee at its meeting on 21 May 2014, with the one change to the committee terms of reference as noted earlier.

This report includes the final details on proposed shareholdings, delegations and the terms of reference of the Water Committee. It also seeks a Council decision on the transfer of the Wellington City Council public drainage, CCTV, trade waste, and water-related asset management planning teams to Capacity (under its new name) as part of this broader integration of regional water services.

Contact Officer: Anthony Wilson, Chief Asset Officer

SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

This proposal supports the Council's original vision for Capacity upon establishment, namely regional co-ordination of water services management.

The proposal is consistent with central government's policy of, and the Wellington Regional Mayoral Forum's commitment to, encouraging more collaboration and shared services between local authorities.

2) LTP/Annual Plan reference and long term financial impact

There are no direct financial or Long Term Plan considerations from this report. Over the longer term, improved regional co-ordination (if Regional Council becomes a customer of Capacity) should result in cost efficiencies.

3) Treaty of Waitangi considerations

The Mana Whenua were a party to the original decision to set up a CCTO.

4) Decision-making

The decision is not a significant decision under the Council's significance policy. It is in alignment with Council objectives and with aspirations for regional co-operation on water services management.

5) Consultation

a) General consultation

There is no requirement for WCC to run a separate public consultation on this matter. Wellington Regional Council has run a consultation process on this proposal.

b) Consultation with Maori

N/A

6) Legal implications

Council's lawyers have not been consulted during the development of this report, but are being consulted as required during the review of any documentation to reflect these decisions.

7) Consistency with existing policy

This report recommends measures that are consistent with Council policy.

Wellington Water Committee

Purpose

The Wellington Water Committee ("the Committee") is established to:

- Provide governance oversight of the network infrastructure for the delivery of bulk water, water reticulation, wastewater and stormwater services in the areas of Lower Hutt City, Porirua City, Upper Hutt City and Wellington City ("the four cities");
- Provide governance oversight of Wellington Water Limited; and
- Provide a forum for the representatives of Wellington Water Limited's shareholders (being Wellington Regional Council and the local authorities for the four cities) ("the Shareholders") to meet, discuss and co-ordinate on relevant issues and, through their representatives, exercise their powers.

Status

The Committee is a joint committee of the Lower Hutt City Council, Porirua City Council, Upper Hutt City Council, Wellington City Council and Wellington Regional Council.

Specific responsibilities

The Committee's responsibilities are:

Governance oversight responsibilities

Governance oversight of Wellington Water Limited and of the network infrastructure for the delivery of bulk water, water reticulation, wastewater and stormwater services in the areas of the four cities, including by:

- Receiving and considering the half-yearly and annual reports of Wellington Water Limited;
- Receiving and considering such other information from Wellington Water Limited as the Committee may request on behalf of the Shareholders and/or receive from time to time;
- Undertaking performance and other monitoring of Wellington Water Limited;
- Considering and providing recommendations to the Shareholders on proposals from Wellington Water Limited;
- Providing co-ordinated feedback, and recommendations as needed, on any matters requested by Wellington Water Limited or any Shareholder;
- Providing recommendations to the Shareholders regarding the relevant network infrastructure owned by each Shareholder;
- Providing recommendations to the Shareholders regarding water conservation;

- Agreeing the annual Letter of Expectation to Wellington Water Limited;
- Receiving, considering and providing agreed feedback and recommendations to Wellington Water Limited on its draft statement of intent;
- Receiving, considering and providing recommendations to the Shareholders regarding Wellington Water Limited's final statement of intent.
- Agreeing when Shareholder meetings, or resolutions in lieu of Shareholder meetings, are required, without prejudice to Shareholder and board rights to call meetings under Wellington Water Limited's constitution;
- Seeking and interviewing candidates for Wellington Water Limited's board as needed and approving director appointments and/or removals;
- Approving the remuneration of directors of Wellington Water Limited;
- Monitoring the performance of the board of Wellington Water Limited; and
- Providing recommendations to the Shareholders regarding changes to these terms of reference, the Shareholders' Agreement and the constitution of Wellington Water Limited.

Shareholders' responsibilities

To the extent that each Shareholder delegates its relevant powers to the Committee member it appoints, the Committee will provide a forum for the Shareholders to meet and exercise their powers in relation to Wellington Water Limited.

Membership

The membership of the Committee will total five persons, as follows:

- One member appointed by Hutt City Council;
- One member appointed by Porirua City Council;
- One member appointed by Upper Hutt City Council;
- One member appointed by Wellington City Council; and
- One member appointed by Wellington Regional Council.

[Each appointee must be an elected member of the appointing Shareholder.]

Chairperson

The Chairperson and Deputy Chairperson will be elected by the Committee once all Committee members have been appointed.

Quorum

For a meeting of the Committee to have a quorum, three members, or their appointed alternates, must be present.

Where the Committee is providing a forum for the Shareholders to meet and exercise their powers in relation to Wellington Water Limited, the requirements of Wellington Water Limited's constitution will prevail.

Alternates

Each member appointed to the Committee must have an alternate appointed by the relevant Shareholder. The alternate may attend and vote at meetings of the Committee, but only in the event that the primary member is unable to do so.

Decision-making

The Committee will strive to make all decisions by consensus.

In the event that a consensus on a particular matter before the Committee is not able to be reached, each member of the Committee has a deliberative vote. In the situation where there is an equality of votes cast on a matter, the Chairperson does not have a casting vote and therefore the matter subject to the vote is defeated and the status quo is preserved.

Other than for those matters for which the Committee has effective decision-making capacity through these terms of reference, each Shareholder retains its full powers to make its own decisions on matters referred to it by the Committee.

Standing Orders

The Wellington Regional Council's Standing Orders apply, subject to the provisions for meeting quorum and decision making as set out in these terms of reference taking precedence.

Remuneration

Each Shareholder will be responsible for remunerating its representative on the Committee for any costs associated with that person's membership of the Committee.

Administration

Reports to be considered by the Committee may be submitted by any of the Shareholders or Wellington Water Limited.

Duration of the Committee

In accordance with clause 30(7) of Schedule 7 to the Local Government Act 2002, the Committee is not deemed to be discharged following each triennial election.

Appendix

Common delegations

Governance oversight responsibilities

- Each Shareholder will delegate to the Committee the responsibilities and powers necessary to participate in and carry out the Committee's governance oversight responsibilities.

Shareholders' responsibilities

- Each Shareholder will delegate to its appointed Committee member and, in accordance with these terms of reference, that person's alternate, all responsibilities and powers in relation to the agreement of:
 - when Shareholder meetings, or resolutions in lieu of Shareholder meetings, are required (without prejudice to Shareholder and Board rights to call meetings under Wellington Water Limited's constitution); and
 - the appointment, removal and remuneration of Wellington Water Limited's directors.