25 November 2011

PORIRUA
CITY COUNCIL

WASTEWATER TREATMENT PLANT AND LANDFILL JOINT COMMITTEE

A Joint Committee of the Porirua and Wellington City Councils

Notice is hereby given that, commencing at 3.30pm on WEDNESDAY 30 NOVEMBER 2011, a meeting of the WASTEWATER TREATMENT PLANT AND LANDFILL JOINT COMMITTEE will be held in the PORIRUA CITY COUNCIL CHAMBER, ADMINISTRATION BUILDING, HAGLEY STREET, PORIRUA CITY, to conduct the business set out as under.

TERMS OF REFERENCE

To provide governance for the joint services entered into by the Porirua and Wellington City Councils through the joint venture agreements for the Wastewater Treatment Plant and the Spicer Valley Landfill.

MEMBERSHIP

Porirua City Council:
Cr T M Sheppard (Chairperson)
Cr S M Dow
Cr B E Kropp

Wellington City Council:
Cr N Best (Deputy Chairperson)

Gary Simpson
CHIEF EXECUTIVE

SCOPE OF ACTIVITY

To consider and make recommendations to both Councils regarding:

- *overview, input and policy formulation in the areas of management of the Spicer Valley joint landfill operation, and the Wastewater Treatment Plant, as set out in the joint venture agreements, entered into by both Councils, including development of Trade Waste Bylaws.*
- *proposals for infrastructural development relating to the joint ventures*
- *new initiatives relating to the joint ventures*
- *the Spicer Forest partnership agreement between Greater Wellington Regional Council, Wellington City Council and Porirua City Council on land surrounding the Spicer Valley Landfill*
- *the budget for operation of the joint ventures for inclusion in the Councils' Annual Plans / Long Term Council Community Plans*
- *receipt of the Annual Report of the joint ventures for inclusion in the Councils' Annual Reports*
- *any proposed service changes*

POWER TO ACT

The powers of the Joint Standing Committee as described in the Deed Relating to Joint Works dated 22 December 1986 and the powers of the Joint Committee as described in the Agreement Relating to Joint Refuse Disposal Works dated 2 May 1983

Setting of fees and charges related to the operation of the Spicer Valley Landfill and recommending the basis for charging for trade wastes at the Wastewater Treatment Plant

Decisions on acceptance of wastes into the Spicer Valley Landfill and Wastewater Treatment Plant

ORDER OF BUSINESS

CHAIRPERSON'S RECOMMENDATION

That the Wastewater Treatment Plant and Landfill Joint Committee recommend:

1. *That Porirua City Council agree to open a holding account with the New Zealand Emission Unit Register for the Spicer Landfill obligation under the Emissions Trading Scheme.*
2. *That Wellington City Council agree to open a holding account with the New Zealand Emission Unit Register for the Spicer Landfill obligation under the Emissions Trading Scheme.*
3. *That Porirua City Council agree to assign the roles within Porirua City Council as required for operating the account, and as nominated by Porirua City Council Chief Executive.*
4. *That Wellington City Council agree to assign the roles within Porirua City Council as required for operating the account, and as nominated by the Porirua City Council Chief Executive.*

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3.2.	**JOINT WASTE MANAGEMENT INVESTIGATION – STAGE 1 OUTCOME**	13

Joint Report #721172 of the General Manager Assessment Management and Operations, Porirua City Council and the Director Infrastructure, Wellington City Council.

CHAIRPERSON'S RECOMMENDATION

That the Porirua City Council and the Wellington City Council:

1. *Agree that on the basis of both the Deloitte's and Stimpson's reports there is sufficient evidence that benefits can be accrued for both Councils from the formation of a Council Controlled Organisation or a Council Controlled Trading Organisation to jointly manage solid waste services.*

2. *Agree that the proposal to form such entity would necessitate consultation using the special consultative procedure; and that the most appropriate process would be to include a proposal in the 2012-2022 long-term plan process.*

3. *Agree that a joint high level proposal be prepared for inclusion in the 2012-2022 Long Term Plan.*

4. *Agree that further work is required to confirm the particular mechanics for the delivery of the identified benefits and the detailed transition to the new business case be carried out in parallel to the Long Term Plan consultation.*

WASTEWATER TREATMENT PLANT AND LANDFILL JOINT COMMITTEE

Minutes of Joint Committee meeting held in the Council Chambers, Administration Building, Hagley Street, Porirua on ***Monday 25 July 2011 at 3.30pm.***

PRESENT

Porirua City Council:	Cr	T M	Sheppard	*(Chairperson)*
	Cr	S M	Dow	
	Cr	B E	Kropp	
Wellington City Council:	Cr	N	Best	

IN ATTENDANCE Mayor N O Leggett

OFFICERS

Porirua City Council:	G	Simpson	Chief Executive
	J	Gibbs	Acting General Manager Asset Management and Operations
	P	Keller	Solid Waste Manager
	S	Mika	Committee Advisor
Wellington City Council:	S	Michael	Director Infrastructure
	M	Mendonca	Business Unit Manager, CitiOperations

14/11 CONFIRMATION OF MINUTES

Meeting held 21 March 2011.

RESOLVED (Sheppard / Best)

That the minutes be adopted as a true and correct record.

CARRIED

15/11 JOINT MANAGEMENT OF WASTE SERVICES BY WELLINGTON CITY COUNCIL AND PORIRUA CITY COUNCIL

Joint Report #687514 of the General Manager Asset Management and Operations, Porirua City Council and the Director, Infrastructure Wellington City Council dated 24 June 2011

RECOMMENDED (Sheppard / Dow)

That the Wastewater Treatment Plant and Landfill Joint Committee:

1. **Receive the information.**

2. **Note that the joint management and harmonisation of Wellington City and Porirua City Councils' waste-related services, policies and regulations could optimise environmental outcomes, and drive financial and operational efficiencies.**

3. **Agree to recommend to Wellington City Council and Porirua City Council (the Councils) that a Joint Waste Management Project, structured as in appendix one of this report, be initiated to investigate the potential benefits, costs and risks of Porirua City Council (PCC) and Wellington City Council (WCC) jointly managing waste services under a Council Controlled Trading Organisation (CCTO).**

4. **Agree that the first stage of the investigation be focused on a high-level comparison of the status quo with a jointly owned CCTO by weighing the benefits and costs, and evaluating the risks associated with a CCTO, and, dependent upon the outcome of the first stage and subject to the agreement of the project governance group, proceed to the second stage of the investigation, which would:**

- **propose an operating structure for the entity that will provide ongoing joint waste management services;**
- **make recommendations on the areas of activity that should or should not be managed and/or provided by the entity;**
- **propose a statement of intent for the entity;**
- **propose the assets to be held by the entity and the Councils' shareholding in the entity, as appropriate;**
- **propose a constitution, trust order, memorandum of understanding or other such document as may be relevant, for the entity, that includes such matters as governance arrangements, financial contributions, and distribution of surpluses, if any;**
- **make recommendations on the transition path to establish the entity, including timeframes, resource requirements, and operational implications; and**
- **make any other recommendations considered necessary to implement joint waste management.**

5. **Agree that the following waste-related activities be considered for joint management (noting that some of these services may be contracted to third parties for delivery):**

- **landfill operations, including emissions management**
- **transfer stations**
- **waste recovery operations (for example retailing, scrap metal recovery, energy recovery, composting, electronics recycling, etc)**
- **management of hazardous materials**
- **after care of closed waste facilities**
- **collection of refuse**
- **collection and processing of recycling**
- **street cleaning**
- **litter bin collection**
- **graffiti removal**
- **environmental monitoring and resource consenting**
- **waste minimisation education and related information services**
- **waste related regulation development and enforcement**
- **advice, in consultation with related council business units, on operational policy and financial matters, including proposed fees for services and opportunities for cost savings and efficiency gains.**

- **strategic policy advice and advocacy**

6. **Note that strategic policy advice and advocacy could remain the responsibility of each Council, in cooperation with any joint waste management entity, and that the recommendations on this and other activities to be jointly managed will be part of the work of the project.**

7. **Note that proposals and recommendations made by the Joint Waste Management Project would be referred to both Councils for decision and/or to initiate any public consultation on such proposals.**

8. **Note that any proposal to form a CCTO would need to be the subject of consultation using the special consultative procedure, and that, if so, the most appropriate process would be to include any such proposal in the 2012-2022 long-term plan process.**

9. **Agree that recommendations from the Joint Waste Management Project must be made to the Councils in time for any proposals to be included in the 2012-2022 long-term plan.**

10. **Agree to recommend to the Councils that that the draft Terms of Reference for the Joint Waste Management Project (attached as appendix two), which reflect the recommendations made above, will govern the work of the Project.**

CARRIED

16/11 PUBLIC EXCLUDED BUSINESS

RESOLVED (Sheppard / Kropp)

That the public be excluded from the following parts of the proceedings of this meeting, namely:

a) Confirmation of Minutes

That the general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Grounds under Section 48(1) for the passing of this resolution
a) Confirmation of Minutes: 21 March 2011 re: Contract 1467 Tangare Drive Wastewater Pump Station Upgrade – Tender Report	Section 7(2)(h)—Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities;	The public conduct of the relevant part of the proceedings would be likely to result in a disclosure of information for which good reason for withholding that information would exist, under Section 7 of the Local Government Official Information and Meetings Act 1987.

This resolution is made in reliance on Section 48(1) of the Local Government Official Information and Meetings Act 1987 and the particular interests protected by Section 6 or Section 7 of the Act which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public as specified above.

CARRIED

For item 17/11 refer to public excluded minutes.

The meeting closed at 4.14pm.

Approved and adopted as a true and correct record:

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CHAIRPERSON **DATE**

Strategy & Planning
14 October 2011

HOLDING ACCOUNT WITH NEW ZEALAND EMISSION UNIT REGISTER

PURPOSE

This report seeks a resolution by the Wastewater Treatment Plant and Landfill Joint Committee for opening a holding account with the New Zealand Emission Unit Register.

SIGNIFICANCE OF DECISION

The matters considered in this report do not trigger the significance policy of the Council.

RECOMMENDATIONS

That the Wastewater Treatment Plant and Landfill Joint Committee **recommend**:

1. That Porirua City Council agree to open a holding account with the New Zealand Emission Unit Register for the Spicer Landfill obligation under the Emissions Trading Scheme.

2. That Wellington City Council agree to open a holding account with the New Zealand Emission Unit Register for the Spicer Landfill obligation under the Emissions Trading Scheme.

3. That Porirua City Council agree to assign the roles within Porirua City Council as required for operating the account, and as nominated by Porirua City Council Chief Executive.

4. That Wellington City Council agree to assign the roles within Porirua City Council as required for operating the account, and as nominated by the Porirua City Council Chief Executive.

Report prepared by:
Piero Lavo
SUSTAINABILITY OFFICER
Approved for submission by:

Peter Bailey
GENERAL MANAGER ASSET MANAGEMENT AND OPERATIONS
PCC- #703796 v3

1 DISCUSSION

1.1 The requirement to open a holding account with the New Zealand Emission Unit Register is due to the mandatory inclusion of all municipal landfill facilities in the New Zealand Emission Trading Scheme under the Climate Change Response Act 2002 (amended 2009) (the Act).

1.2 The Act specifies that coverage of the New Zealand Emission Trading Scheme will be extended to waste disposal facility operators in three stages, so that they:

- may voluntarily report information about their methane emissions from 1 January 2011
- must collect and report this information from 1 January 2012
- must surrender New Zealand Units to match their emissions from 1 January 2013.

2 CONTRIBUTION TO COUNCIL'S STRATEGIES

Relationship to Council's Strategic Focus Areas

Investing in infrastructure for the future	Protecting our landscapes and harbour	A vibrant city centre for residents, business and visitors	Active and connected communities
✓	✓		

3 ASSOCIATED PORTFOLIOS

Relationship to Council's Portfolios of Responsibility

Sport, Leisure and Recreation	Community and Social Development	Infrastructure and Environment	Economy and Arts	Planning and Regulatory	Finance and Audit
		✓		✓	✓

Relationship to Project Portfolios

Emergency Management	Sister Cities	Village Planning	Harbour	City Centre	Community Empowerment

to surrender these units to the Government annually, while those who remove, rather than emit, greenhouse gases – for example those who plant and grow forests – can receive units.

4.3 Participants with obligations are required to acquire and surrender New Zealand Units to cover each tonne of their direct greenhouse gas emissions or the emissions associated with their products. The cost of covering emissions will depend on the market price of New Zealand Units.

4.4 The scheme is a key part of the New Zealand Government's overall climate change policy and involves all significant greenhouse gases and all sectors including forestry, agriculture, industry, energy, waste and liquid fossil fuels.

5 STATUTORY REQUIREMENT TO OPEN A HOLDING ACCOUNT WITH THE NZEUR

5.1 The Wastewater Treatment Plant and Landfill Joint Committee has a statutory obligation, under Schedule 3, part 6 of the Act, to participate in the New Zealand Emissions Trading Scheme due to operating the Spicer landfill. Discussions with Wellington City Council have affirmed the need to commence this process (Contact Officer: *Bryan Smith, Principal Advisor, Policy, Wellington City Council*).

5.2 All of the transactions of units for statutory purposes are transacted through the government's New Zealand Emission Unit Register. The New Zealand Emission Unit Register is akin to an online banking system. It contains multiple accounts (known as holding accounts) and allows the transfer of units between those New Zealand Emission Unit Register holding accounts and holding accounts in the registry systems of other Parties to the Kyoto Protocol, or between holding accounts in the New Zealand Emission Unit Register itself.

5.3 Therefore, due to the obligations imposed on Wastewater Treatment Plant and Landfill Joint Committee under the New Zealand Emissions Trading Scheme, there is a corresponding requirement to register with the New Zealand Emission Unit Register and open a holding account as preparation for participating in the scheme.

5.4 This will need to be done before 31st January 2012 for the Spicer landfill obligation.

[1] Business as usual levels means the levels of greenhouse gas emissions as if the Emissions Trading Scheme had not been enacted (Climate Change Response Act 2002)

6 REGISTER OPENING PROCESS AND MANAGEMENT

6.1 The process of opening the holding account with the New Zealand Emission Unit Register is as follows:

1) Porirua City Council nominates employees to register as users of the New Zealand Emission Unit Register
2) The Wastewater Treatment Plant and Landfill Joint Committee open a holding account with the New Zealand Emission Unit Register (completed by Porirua city Council employees).
3) Assign roles for the registered users (Porirua City Council employees) to manage the Holding Account.
4) Account holder declaration (signed by the Chief Executives of both Councils).
5) Register participation jointly for the landfill activity.
6) Notify the New Zealand Emission Unit Register Chief Executive of registration in the New Zealand Emission Trading Scheme for the landfill activity.

6.2 Up to five primary representatives from an organisation may be authorised to view the Holding Account.

6.3 There is the option of having Preparer, Approver and Authorised person roles for enabling any transaction.

7 OPERATIONAL IMPLICATIONS

7.1 The operational implications are the administration of the account by staff members across the organisation. It is expected that this can be delivered within existing programmes.

8 FINANCIAL IMPLICATIONS

8.1 There is no cost to opening an account with the New Zealand Emission Unit Register, other than the officer time involved. Existing landfill reporting requirements involve the collection of the base data required for calculating the obligation of surrendered units.

8.2 There will be minor duties required from several officers across the organisation with regard to the assessing, purchasing and processing of units required.

8.3 The cost of obtaining the units required is being assessed by Porirua City Councils Solid Waste Managers and will be reported to the committee for inclusion during the development of the 2012 Long Term Plan.

9 STATUTORY REQUIREMENTS

9.1 The following are the statutes under which this requirement has been enacted:

- Climate Change Response Act 2002 (amended 2009)
- Climate Change (Waste) Regulations 2010
- Climate Change (Unique Emissions Factors) Amendment Regulations 2010

10 CONCLUSION

10.1 The requirement to open the holding account for operators of waste disposal facilities has been mandated by Act of parliament. The joint venture nature of the operation at Spicer Landfill requires the holding account to be held by the Joint Venture committee.

APPENDIX 1

EXCERPT FROM THE EMISSION UNIT REGISTER'S "GUIDE TO REGISTERING AS A PARTICIPANT- OTHER SECTORS"

If you jointly carry out any of these activities with one or more other persons (including but not limited to in partnership, through a joint venture, or as the trustees of a trust), then you must together notify the Chief Executive. In this case, all the people jointly carrying out the activity are treated as a member of an "Unincorporated Body" and the Unincorporated Body is registered as the participant (see section 157 of the Act).

Each member of an Unincorporated Body is:

- jointly and severally liable for the obligations of the Unincorporated Body as a participant in respect of the activity; and
- jointly entitled to the benefits of the Unincorporated Body as a participant in respect of the activity.

If you carry out activities jointly then you must notify the Chief Executive by using the "Registration of Persons Jointly Carrying Out Activities" form.

http://www.eur.govt.nz/how-to/guides-hmtl/guide-to-registering-as-a-participant-waste
http://www.legislation.govt.nz/regulation/public/2008/0357/20.0/DLM1313027.html

APPENDIX 2

CLIMATE CHANGE RESPONSE ACT 2002 NO 40 (AS AT 08 DECEMBER 2009), PUBLIC ACT

Schedule 3
Activities with respect to which persons must be participants

Part 6

Waste

- (applies, subject to sections 218 and 219, on and after 1 January 2011)

Operating a disposal facility.

http://www.legislation.govt.nz/act/public/2002/0040/latest/DLM1662841.html?search=ts_act_climate+change+response+act_resel&p=1

- *4 Interpretation*
- (1) In this Act, unless the context otherwise requires,—

disposal facility means any facility, including a landfill,—
  - (a) at which waste is disposed; and
  - (b) at which the waste disposed includes waste from a household that is not entirely from construction, renovation, or demolition of a house; and
  - (c) that operates, at least in part, as a business to dispose of waste; but
  - (d) does not include a facility, or any part of a facility, at which waste is combusted for the purpose of generating electricity or industrial heat

http://www.legislation.govt.nz/act/public/2002/0040/latest/DLM158592.html

Asset Management & Operations
06 November 2011

JOINT WASTE MANAGEMENT INVESTIGATION - STAGE 1 OUTCOME

PURPOSE

To report on the outcome of investigative work, completed by Deloitte, on the joint management of Porirua City Council and Wellington City Council solid waste services.

SIGNIFICANCE OF DECISION

The matters considered in this report trigger the Porirua City Council's Significance Policy.

RECOMMENDATIONS

That the Porirua City Council and the Wellington City Council:

1. Agree that on the basis of both the Deloitte's and Stimpson's reports there is sufficient evidence that benefits can be accrued for both Councils from the formation of a Council Controlled Organisation or a Council Controlled Trading Organisation to jointly manage solid waste services.

2. Agree that the proposal to form such entity would necessitate consultation using the special consultative procedure; and that the most appropriate process would be to include a proposal in the 2012-2022 long-term plan process.

3. Agree that a joint high level proposal be prepared for inclusion in the 2012-2022 long-term plan.

4. Agree that further work and as required to confirm the particular mechanics for the delivery of the identified benefits and a more detailed transition business case be carried out in parallel to the LTP consultation.

Report prepared by:

Peter Bailey
GENERAL MANAGER ASSET MANAGEMENT AND OPERATIONS

Stavros Michael
DIRECTOR INFRASTRUCTURE, WELLINGTON CITY COUNCIL

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1 EXECUTIVE SUMMARY

1.1 Porirua City Council and Wellington City Council work collaboratively on waste-related issues and cooperate in the management of solid waste within the region. The Waste Management and Minimisation Plan indicated that a structural approach to joint management had the potential to capture benefits beyond what it is possible through cooperation alone.

1.2 The Wastewater Treatment Plant and Landfill Joint Committee considered this question of joint management and resolved to recommend to PCC and WCC that a project be established to investigate the potential benefits, costs and risks of PCC and WCC jointly managing waste services under a Council Controlled Trading Organisation.

1.3 Deloitte were commissioned to complete the first stage of the investigation to establish whether or not there are net benefits to both Councils in combining the management of their respective solid waste activities under a Council Controlled Trading Organisation or other, appropriate for this purpose, joint structure.

1.4 Deloitte assessment reached the conclusion that financial benefits arising from a joint management of solid waste activities include revenue optimisation through price and fee harmonisation and consistent with the aims of the two Councils' waste management and minimisation objectives. In addition to revenue optimisation cost savings through capital and operating expenditure efficiencies and economies of scale are achievable. In order to achieve these financial benefits, close cooperation via a single joint management entity is needed.

1.5 Stimpson & Co. were engaged by Porirua City Council and Wellington City Council to carry out an independent peer review of the Deloitte Stage 1 Final Draft Report. They concluded that the Deloitte baseline analysis accurately reflects the information provided by both Councils. They alert both Councils on the need to include a more integrated assessment of risk and benefits which would include, in addition to net financial considerations, issues such as potential "green" dividend.

1.6 The Stimpson & Co report reaches the same conclusion to Deloitte in that on balance a joint entity with a commercial focus is more likely to realise the full range of benefits identified and, in particular, to drive potential intangible benefits. That further work is required in phase 2 to validate a more integrated business case.

1.7 There is an opportunity to complete Phase 2 of the business case and for each of the management options for solid waste services as part of the 2012-2022 long-term plan consultation.

2 CONTRIBUTION TO COUNCIL'S STRATEGIES

Relationship to Council's Strategic Focus Areas

Investing in infrastructure for the future	Protecting our landscapes and harbour	A vibrant city centre for residents, business and visitors	Active and connected communities
✓	✓		

2.1 Wellington City Council and Porirua City Council working collaboratively on waste-related issues has potential benefits for environmental gains, improved efficiencies in operations, enhanced user satisfaction and the Council's demonstrating leadership. Such work is consistent with the recently agreed Regional Waste Management and Minimisation Plan and the broadly aligned goals of the two Councils.

3 ASSOCIATED PORTFOLIOS

Relationship to Council's Portfolios of Responsibility

Sport, Leisure and Recreation	Community and Social Development	Infrastructure and Environment	Economy and Arts	Planning and Regulatory	Finance and Audit
		✓			

Relationship to Project Portfolios

Emergency Management	Sister Cities	Village Planning	Harbour	City Centre	Community Empowerment

4 BACKGROUND

4.1 As a result of shared ownership of the Spicer Landfill, Porirua City Council and Wellington City Council have a working relationship in solid waste management. In addition to this management relationship, both Councils have worked together regarding strategic planning for waste management in the preparation of the Draft Regional Waste Management and Minimisation Plan, as required by the Waste Minimisation Act 2008.

An investigation into a closer working relationship was explored in the 2011 Stimpson and Co. report "A Common Approach to Porirua and Wellington City Councils to Solid Waste Management". The report identified potential benefits from a joint approach in policy, regulation and education. However, the report also concluded that there was a lack of clarity with regard to the benefits of joint refuse and recycling collection and that there was no immediate business case to move to a single landfill site.

4.2 The Wastewater Treatment Plant and Landfill Joint Committee considered this question of joint management at their 25 July 2011 meeting. The Committee resolved to recommend to Porirua City Council and Wellington City Council that a project be established to investigate the potential benefits, costs and risks of Porirua City Council and Wellington City Council jointly managing waste services under a Council Controlled Trading Organisation (CCTO) and, dependent on the initial outcome of the investigation, develop recommendations on the form and function of the joint entity, financial and governance matters and a transitional path. The reasoning behind this decision was that the joint management and harmonisation of Wellington City and Porirua City Councils' waste-related services, policies and regulations could optimise environmental outcomes, and drive financial and operational efficiencies.

It was agreed that the first stage of the investigation be focused on a high-level comparison of the status quo with a jointly owned Council Controlled Trading Organisation (CCTO) by weighing the benefits and costs, and evaluating the risks associated with a Council Controlled Trading Organisation.

4.3 Deloitte were commissioned to complete the Stage 1 Report to establish whether or not there are net benefits to both Councils in combining the management of their respective solid waste activities under a Council Controlled Trading Organisation or other joint structure (refer to Appendix A for the Executive Summary).

5 DETERMINING A CASE FOR JOINT MANAGEMENT OF SOLID WASTE SERVICES

5.1 On 27th October 2011, Deloitte completed their Stage 1 Final Draft Report, regarding an appropriate structure that maximises the likelihood of realised benefits and mitigated risks. They identified that joint management of solid waste activities would result in annual benefits of between \$1.2m and \$1.6m (or NPV improvements of between 16.7m and \$22.2m). These benefits were estimated on a specific set of initiatives that required both Councils to act through a coordinated and commercially oriented joint management vehicle.

5.2 In addition to financial benefits, Deloitte concluded that joint management offers a number of qualitative social/community/cultural, environmental, economic and strategic benefits. Deloitte summarised that they had adopted a conservative approach to identifying benefits[1] and that it was likely that a commercially focused joint waste team would be able to identify further synergy benefits and operational efficiencies.

5.3 The Stage 1 Final Draft Report concludes that substantial qualitative and quantitative benefits over the status quo could be delivered with specific solid waste joint management initiatives. However, a high degree of coordination between both Councils would be required to realise these benefits. Deloitte consider the Council Controlled Trading Organisation structure to be more likely to realise these benefits than under partnership or the status quo, and that the benefits are likely to outweigh the costs and risks of establishing a joint management entity.

6 DELOITTE REPORT – KEY ISSUES

6.1 Deloitte state that the financial benefits of joint management of solid waste activities include revenue enhancement through price alignment and cost savings through capital and operating cost efficiencies and economies of scale. Through the mechanism of coordinated pricing, the councils are able to manage waste diversion in support of their common region wide waste minimisation objectives. However to achieve this, close cooperation via a single joint management entity is needed to achieve many of these benefits over the long-term.

6.2 The three considered models for joint management are; separate councils (status quo), partnership (assets and operations are retained by each Council) and Council Controlled Trading Organisation (assets and operations are transferred into a jointly owned vehicle.

6.3 While the Council Controlled Trading Organisation option is more complex than a partnership or the status quo (and requires additional establishment and ongoing governance costs), Deloitte favour it because it provides for a high degree of coordination between councils – which is necessary to realise certain benefits.

6.4 There are risks associated with the establishment of a Council Controlled Trading Organisation to jointly manage Councils' waste management activities. However, the report considers that the risks are manageable and that there are numerous examples of successful Council Controlled Trading Organisation operating structures used by Councils to undertake joint management of infrastructure assets.

6.5 The Deloitte analysis assumes that the Council Controlled Trading Organisation will initially use the back-office infrastructure of the existing Councils to support its operations, meaning that systems costs (HR, IT and finance) are neutral relative to the status quo. The analysis also assumes that no additional infrastructure is required and accommodation through co-location at either Council or landfill site is possible. It should be noted that, the report recognises that over time commercially driven Council Controlled Trading Organisations often seek to establish control over its own IT, HR and finance infrastructure.

[1] Refer to page three of the Executive Summary for the list of benefits

6.6 Mothballing either of the landfill sites and consolidating activities at the other site were considered as possible initiatives. There is currently no business case to support either mothballing option, as it is likely that the additional transport and loading costs will outweigh the efficiency savings at current waste volumes.

7 STIMPSON'S REPORT – PEER REVIEW

7.1 Stimpson & Co. were engaged by Porirua City Council and Wellington City Council to peer review the Deloitte Stage 1 Final Draft Report. They concluded that the Deloitte baseline analysis accurately reflects the information provided by both Councils.

7.2 The Stimpson & Co. identifies the need to provide a conclusion on the viability of the business case in an integrated manner where financial benefits, risks and community leadership are considered together.

7.3 Stimpson & Co. note that approximately $1m of the revenue optimisation benefits identified is price driven and that such benefit component might be perceived as an overall cost increase to the community. However this needs to be tempered with the knowledge that price levers encourage the community to minimise waste creation. This is consistent with the Regional Waste Plan.

7.4 In order for the Council Controlled Trading Organisation to meet performance expectations Stimpson & Co. state that it is necessary for effective policy, strong governance, sound financial structure and good processes to be in place.

7.5 Stimpson & Co. also notes that to improve the business case around a Council Controlled Trading Organisation, both Councils would need to demonstrate that they could restructure and downsize back office functions and reduce other overhead costs all across waste management services. Such an approach is not inconsistent with the Council's participation in other regional initiatives which aim to achieve synergies of scale while reducing each Council's own cost footprint.

7.6 Stimpson & Co. agree with the Deloitte report, with regard to the critical factors that underpin the successful operation of Council Controlled Trading Organisations and Council Controlled Organisations (CCO) in that they are largely about ensuring effective governance.

8 DISCUSSION

8.1 After consideration of the Deloitte report and the Stimpson & Co. peer review, the key question is whether or not a Council Controlled Trading Organisation or other new joint structure is required to realise the identified benefits. The argument that the majority of financial gains could be attained without moving to a new joint structure does not consider some of the issues and risks attached to that approach (refer page five, # 21 Stimpson & Co. report).

8.2 Another issue is the identification of the potential intangible benefits from a joint entity with a commercial focus. Just what environmental or social gains are likely requires further analysis and should form part of the proposal in public consultation.

8.3 There is some merit in divorcing policy and strategic decision making from operational delivery decisions, which could be achieved in any management structure. This is because it allows policy makers to monitor outcomes and operations to focus their attention on efficient delivery of services.

8.4 It is important to note that both Porirua City Council and Wellington City Council have already made provision for price increases in relation to solid waste services within the current annual plans. Raising prices again may negatively affect lower income groups' ability and inclination to pay. However, the holistic aim of good waste minimisation strategies is to create the right incentive for the reduction of waste creation through demand management pricing and the offer of viable and sustainable alternatives such as recycling. The community will have options – create waste at a cost to them or recycle at no cost.

8.5 Given that both reports concur to the desirability of a joint entity to manage waste services for both Councils through a Council Controlled Organisation or a Council Controlled Trading Organisation, it would be advantageous to complete further work in this area in parallel with public consultation. It is noted that the second stage of the investigation has been agreed as subject to the agreement of the project governance group. Clarity around the business benefits of each governance option would greatly assist the final option preference to be consulted and promoted.

8.6 The types of business benefit that require consideration are things like, reduction in duplication of activity, optimisation of capital, opportunities for greater effectiveness and an ability to face future challenges in the waste sector, such as the likely trend of decreasing volumes of waste to landfill while demand for recycling and composting services increase.

8.7 There are a variety of options with regard to the way forward for evaluating the joint management of solid waste services:

(a) Status Quo – making a decision to cease any further investigation into change and continue with the current management frameworks. This is not recommended because of the lost opportunity for efficiency gain and changing environment.

(b) Joint Management Consultation – offer the concept of joint management of solid waste services in principle for the 2012 -2022 long-term plan. – With all relevant reports pointing towards the tangibility of benefits from a joint entity.

(c) Proceed to the second stage of the investigation (as outlined in the Joint Committee recommendations of 25 July 2011) subject to the agreement of the project governance group in parallel with (c).

9 OPERATIONAL IMPLICATIONS

9.1 The Southern Landfill has capacity to accommodate a merged solid waste management operation.

10 FINANCIAL IMPLICATIONS

10.1 The Deloitte report identifies financial benefits totalling $1.6m pa. The additional cost of operating a Council Controlled Trading Organisation is estimated at $250k pa for the remuneration and support of the Council Controlled Trading Organisation Board. To achieve optimum efficiency gains under a Council Controlled Trading Organisation, selective use of existing Council accommodation and back office support would be appropriate.

11 STATUTORY REQUIREMENTS

11.1 Proposed changes in service delivery of solid waste management triggers the Porirua City Council's Significance Policy.

12 CONSULTATION

12.1 If Porirua City Council and Wellington City Council agree to pursue joint management of solid waste activities, the proposal would be subject to a special consultative procedure. The most appropriate process is to include any such proposal in the 2012-2022 long-term plan process. This is because it would provide stakeholder groups, such as Mana Recovery, with an opportunity to discuss the options in a public forum.

13 CONCLUSION

13.1 Wellington City and Porirua City Councils have similar approaches to waste management and the services they provide. A structural approach to joint management of waste-related activities could capture benefits beyond what is possible through cooperation alone.

13.2 It is useful to consider that the Deloitte report shows that current operations are efficient. There are however challenges in the horizon for all Local Authorities. It is important to ensure that our structures and operations continue to evolve in a manner that would position the Councils to effectively address these emerging challenges. Simply put by working alone can no longer achieve that goal.

14 ATTACHMENTS:

- Executive Summary - Deloitte PCC/WCC Joint Management of Solid Waste Services, Stage 1 Final Draft Report.
- Stimpson & Co. Limited – High Level Peer Review of Deloitte Stage 1 Final Draft Report

ATTACHMENT 1

Executive Summary

Purpose of this Report

The purpose of this Stage 1 Report is to establish whether or not there are net benefits to both Councils in combining the management of their respective solid waste activities under a CCTO or other joint structure. It seeks to identify the potential benefits, costs, and risks of joint management and to recommend an appropriate structure that maximises the likelihood that the benefits can be realised and risks mitigated.

Benefits of joint management of solid waste activities

We have identified annual benefits available to be shared between both Councils of between $1.2m and $1.6m (or NPV improvements of between $16.7m and $22.2m) achievable through joint management. These financial benefits are estimated based on a specific set of initiatives. It would be expected that both Councils acting through a coordinated and commercially oriented joint management vehicle would identify further significant benefits through optimised operations, revenue and cost optimisation, and efficiencies of scale.

In addition to the financial benefits, joint management offers a number of qualitative social / community / cultural, environmental, economic and strategic benefits including:

- Introduction of new services (food composting) / improved service levels;
- Improved waste diversion (pricing, composting, recycling);
- Better recovery of value from waste (energy, compost);
- Better management of ETS obligations;
- Improved operating efficiency through managing a larger pool of assets in a co-ordinated manner;
- Elimination of hidden subsidies;
- Savings through joint procurement and economies of scale;
- Enhanced regional coordination and cooperation;
- More productive use of existing human and capital resources;
- Optimisation of assets and services independent of boundaries;
- Overall reduction in joint Council overheads;
- Fair and consistent region wide pricing for similar services; and
- Ability to react more effectively to future risks (eg. reduction in waste volumes to landfill, increased environmental standards, or alternative technologies).

Financial benefits include revenue enhancement through price alignment and cost savings through capital and operating cost efficiencies and economies of scale. Co-ordinated pricing provides the councils with a powerful mechanism to manage waste diversion in support of their common region wide waste minimisation objectives. Close cooperation via a single joint management entity is needed to achieve many of these benefits over the long term. This report adopts a conservative approach to identifying benefits and it is likely that a commercially focussed joint waste management team will identify further synergy benefits and operational efficiencies.

Non financial qualitative benefits form an important part of the business case for joint management. Potential exists for a 'green dividend' where the community enjoys the benefits from improvements in waste management across the region, waste minimisation cost savings, and higher environmental standards included in the entities governing and constitutional documents together with a combined capital and operating budget which allows spend to be targeted more effectively and better trade off decisions made.

Joint Management Structure

We have considered three different models for joint management:

- Separate Councils (status quo);
- Partnership (assets and operations are retained by each Council);
- CCTO (assets and operations transferred into jointly owned vehicle).

While a CCTO is more complex than a partnership or the status quo and requires additional establishment and ongoing governance costs, a CCTO provides for a high degree of coordination between Councils which is needed for certain benefits to be realised. These include benefits reliant on capital investment trade off / optimisation decisions; initiatives where costs and benefits accrue to different Councils, alignment of pricing and joint procurement of operational services. It is more likely that these types of benefits will be achieved under a CCTO structure, due to the appropriate governance structures being in place, commercial focus to be established and appropriate alignment of incentives.

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Executive Summary

Risks of joint management of solid waste activities

The establishment of a CCTO to jointly manage Councils' waste management activities creates commercial risk requiring mitigation strategies, both of which are discussed below:

- Loss of direct control over assets and access to distributions. Councils will need to retain the ability to set policy objectives, governance arrangements, and distribution policies within constitutional documents upon establishment of the CCTO;
- Expected benefits fail to be realised. Benefits are based on conservative assumptions and are largely under direct control of the Councils (e.g. levy setting). A 'confidence factor' assesses the likelihood that benefits can be realised. Other non financial benefits are assessed but these are difficult to quantify;
- CCTO costs outweigh benefits. Establishment costs and ongoing CCTO overheads vary but are likely to be limited to governance and some extra systems infrastructure.
- Implementation risk. This can be mitigated through appointment of commercially focussed directors and an experienced management team empowered to act in accordance with policy objectives set by council;
- Political and community opposition to increased landfill prices. Any changes in price levels are similar to existing annual price adjustments, are fair to residents with similar charges for similar services at both sites, and the Kate Valley experience shows that price increases may be acceptable in the context of improved service levels and better environmental compliance;
- CCTO structure is difficult to unwind. Need to ensure political and executive buy in at the outset, including a clear understanding and equitable treatment of control, distributions and risk management policies;
- Benefits may be delayed with key contracts still having several years to run. Most benefits are not dependent on rationalising existing contracts, although private sector contractors may contemplate renegotiation, especially if there is an opportunity to bid for a larger or longer term contract or to improve the customer relationship.

We believe that the risks of establishing a CCTO are manageable and there are numerous examples of successful CCTO operating structures used by Councils to undertake joint management of infrastructure assets.

Costs of joint management of solid waste activities

This analysis assumes that the CCTO will initially use the back-office infrastructure of the existing Councils to support its operations. This means that the systems costs (IT, HR and finance) are neutral relative to the status quo and no 'stranded overheads' are created. Our analysis also assumes that no additional infrastructure is required and that accommodation through co-location at either Council or landfill site is possible.

We recognise that over time, it is common for commercially driven CCTOs to seek to establish control over its own IT, HR and finance infrastructure. This should be permitted if a business case demonstrates that this will enable incremental benefits to be achieved or if the reduction in activity is sufficient to enable Council to reduce its own shared services overhead. If these overhead costs are not adequately managed any duplication may erode the level of identified financial benefits that are achievable.

Councils will need to take steps to actively reduce overhead costs once the CCTO is established in line with a significant transfer in activity. While there is a risk that these savings do not eventuate – this risk is ultimately within Council control.

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Executive Summary

Mothballing either Landfill site

Mothballing either landfill site and consolidating activities at the other site were considered as possible initiatives. There is currently no business case to support either mothballing option as it is likely that the additional transport and loading costs will outweigh the efficiency savings at current waste volumes. We note that the waste environment is uncertain and it may be appropriate to test this option periodically, especially prior to committing significant capital expenditure in the future at either site. It is likely that joint management would provide the ability to respond to the risk of falling waste volumes more effectively.

Conclusion

This Stage 1 Report identifies specific initiatives where joint management of solid waste activities could deliver clear and substantial qualitative and quantitative benefits over the status quo. A high degree of coordination between both Councils will be required to realise these benefits and we consider that a CCTO structure is more likely to enable these benefits to be realised than under a partnership or the status quo.

It is our view that the benefits are likely to outweigh the costs and risks of establishing a joint management entity. Reasonable mitigating strategies are available to the Councils to manage the risks which arise, and the Councils can choose to take action that are within its control to manage the establishment and operating costs of the joint entity relative to the status quo.

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ATTACHMENT 2

High Level Peer Review of Deloitte Stage 1 Final Draft Report, issued on Thursday 27 October 2011

Prepared by Stimpson & Co. Limited
4 November 2011

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Scope of our review and purpose of this document

1. Stimpson & Co. have been engaged by WCC and PCC to peer review work by Deloitte investigating the joint management of PCC/WCC solid waste services. The Stimpson and Co consulting team for the purpose of this assignment has included Alan Bickers and Ken Tremaine.

2. On 13 October 2011, we commented on a first version of the Deloitte report issued on 7 October. Following a project team discussion with Deloitte on 21 October, the current version of Deloitte's report was issued. This peer review replaces and updates our opinion of 13 October.

3. Our focus has been to consider the conclusions and confirm that these are supported by the analysis.

Baseline analysis and joint management gains

4. Stimpson & Co were involved in a detailed review of the baseline analysis prepared by Deloitte from the financial and operational information provided by each Council. We concluded that the Deloitte baseline analysis accurately reflects the information provided by both Councils.

Summary of benefits, costs and risks

5. One of our key concerns expressed to Deloitte at the meeting of 21 October was the need to provide a conclusion on the viability of the business case in light of the benefits, costs and risks considered together.

6. Our view is that when a risk adjusted view of the benefits and costs are taken together, an incontrovertible case for a CCTO is not clear based on only tangible net benefits across the total system (including the CCTO and both Councils):

7. The following table summarises our understanding of the benefits, costs and risks identified in the Deloitte report.

The Deloitte report identifies the following benefits costs and risks of moving to a joint trading structure (CCTO)

Benefits	Costs	Risks
$000 per annum **Highly achievable** ▫ Landfill gate price alignment 229 ▫ Landfill gate price increase – 5% 450 ▫ Spicer green waste composted at Southern 180 ▫ Joint refuse bag procurement 22 ▫ Standardised refuse bag pricing 361 **Moderately achievable** ▫ Optimised capex for plant & equipment 100 ▫ Combined street cleaning contracts 14 ▫ Waste minimisation education - ▫ PCC food waste collection (9) **Low achievability** ▫ Joint kerbside collection contracts 297 **Total financial benefits per annum** **$1,644** **Other financial benefit assumptions** "Further significant benefits through optimised operations, revenue and cost optimisation and efficiencies of scale" **Non financial benefits** ▫ "Green dividend" providing: – improvements in waste management across the region – higher environmental standards – waste minimisation cost savings	Cost assumptions include: ▫ CCTO will initially use the back office infrastructure of the existing Councils to support its operations ▫ Co-location of office space will mean no additional infrastructure will be required ▫ Systems costs (HR, IT & Finance) are neutral relative to the status quo ▫ No stranded overhead costs are created ▫ No additional costs to transfer, second or contract existing Council employees ▫ Councils will need to take steps to actively reduce overhead costs once the CCTO is established ▫ Additional costs will comprise: $000 – One off establishment costs 50 -100 – Ongoing governance 250 – Ongoing separate systems 150 400 ▫ Potential for increased employment costs where: – additional roles require a high degree of commercial or operational experience – existing Council roles span more than solid waste and transferred employees require backfilling	▫ Loss of direct Council control over assets and access to distributions ▫ Expected benefits not realised ▫ CCTO costs outweigh benefits ▫ CCTO not effectively implemented ▫ Failure to attract a high calibre board ▫ CCTO structure is difficult to unwind ▫ Solvency and tax minimisation issues ▫ Ratepayer perception of a monopoly ▫ Community / political opposition to price increases ▫ Benefits delayed until current contract run out These risks of establishing a CCTO are manageable with many successful CCTOs in operation.

Stimpson comment on benefits costs and risks

8. Stimpson & Co have reviewed the assumptions underpinning the estimated annual benefits from a combined operation. These benefits range from $1.2m - $1.6m in total for both Councils. The likelihood of each of these benefits being realised varies from high to medium to low. This range of financial benefits is a reasonable target.

9. Approximately $1m of the benefits identified are price driven, i.e. price alignment and price increases for landfill fees and refuse bag prices. The overall cost increase is borne directly by the community. This can have positive and negative affects. A higher price can encourage the community to minimise waste (and cost) by increasing re-use and recycling. It can also result in negative responses such as fly tipping. Anecdotal evidence suggests responses vary within communities depending on socio economic deciles. The overall risk of price increases ahead of inflation is complaint from the community leading to a political response to stop further increases. However, as Auckland and Christchurch landfill prices are considerably higher than those for Wellington and Porirua, we consider these risks are low.

10. The other consideration where the majority of benefits arise from price increases is that sustainable increases might be achieved directly by Councils without joint operation.

11. In our experience, costs of establishing a CCTO or other joint structure are often higher than expected. Establishment involves back office changes, establishment of contracts for services with Councils, legal costs of establishing constitutions and shareholder agreements, and changes to employee arrangements including roles, position descriptions and employment agreements.

12. Once operating, CCTO Boards and management often struggle to secure tailored and responsive back office services from Council systems, particularly financial reporting, that meet commercial requirements. Therefore, CCTO Boards often establish internal capability resulting in duplication of costs.

13. Effective CCTOs typically enjoy strong relationship management between the CCTO and Councils. This comes at the additional cost of formally allocating dedicated time from Council management and support staff.

14. Deloitte have identified overhead allocations to waste management activities of $3.45m across both Councils ($2.53m in WCC and $0.88m in PCC). While Councils have limited opportunity to reduce corporate overhead costs, e.g. costs of council buildings and senior management, there should be opportunity for that Council not supplying back office services to the CCTO to reduce overhead costs. There should also be an opportunity to reduce direct management costs in both Councils. In our experience, Councils only achieve overhead savings if they actively restructure and downsize.

15. Actual CCTO costs could be higher than set out in the Deloitte report. Our estimate of the additional costs comprises:

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Establishment	$000
▪ Legal	50 - 100
▪ HR / recruitment	50 - 100
▪ Rearrangement of premises	30 - 50
▪ Change management support	50 - 100
	180 - 350
Less Deloitte estimate	50 - 100
Additional establishment costs	**130 - 250**
Annual ongoing costs:	
Governance	200 - 250
▪ Systems – Financial and IT (Website, etc) (Duplication risk)	300 - 500
▪ Contract management, relationship management and liaison (part time x 2)	30 - 50
	530 - 750
Less Deloitte estimate	400 - 400
Additional ongoing costs	**130 - 350**

Risks

16. The risks identified by Deloitte (and listed in the table on page 2) are a reasonable and pragmatic assessment. The risks fall into two main categories:
    i. Risks that the benefits will not be realised
    ii. Risks relating to the operation of a waste management CCTO..

    The conclusion reached by Deloitte is that all of these risks can be mitigated. Effective management is the overriding key factor required to ensure benefits are realised.

17. There are several further risks that, in our experience, have led to joint entities, particularly CCTO's, performing below expectation. These further risks are:
    - Establishing a Board that includes current serving Councillors who might use the position to drive a political agenda. All Board members should be independent and selected on merit.
    - Councils not having an equal say. This can be overcome by ensuring Board has equal representation from each Council, with equal Board votes regardless of shareholding percentages, to ensure there are no "junior partners".
    - No formal relationship management structure between council executives and the CCTO's Board and management. Such a structure ensures effective communications and consistency between policy and service delivery.
    - Council and Councillors not understanding that direct control of services, and in many cases the related assets, no longer resides directly with Council but through the CCTO Board.
    - The underlying business is not established and structured on a sound financial footing and performance expectations are not realistic.

    In our experience these risks can be mitigated by ensuring effective policy, strong governance, sound financial structure and good process are in place.

Net ongoing total system benefits

18. The net ongoing total system tangible financial benefits are marginal.

Benefits	$1.2m - $1.6m
New costs (Deloitte estimate – governance and systems)	($0.4m)- ($0.4m)
	$0.8m - $1.2m
New costs (Stimpson estimate – additional systems & management costs)	$0.1m - $0.35m
Net gain	$0.7m - $0.85m

19. The overall net gain is a marginal business case based on the tangible financial benefits and the assessment of risks. By way of comparison, about 65% of the total financial benefits (or $1.06m) identified by Deloitte are price related with a high confidence of achievement and could be realised under the status quo without incurring the costs of a CCTO. The question is whether or not there are wider strategic benefits or a "green dividend" that might shift the business case balance in favour of a CCTO or other joint structure.

Is a CCTO needed to secure gains?

20. A key question is whether or not a CCTO, or other new joint structure, is required to realise the benefits identified. If so, does this warrant moving to Stage 2 - preparation of a detailed business case? Deloitte conclude that a CCTO is required in order to realise the full range of benefits identified.

21. We recognise the argument that the majority of the financial gains identified (refer to page 2) could largely be achieved without moving to a new joint structure. However, there are also issues and risks to gaining the benefits under the status quo including:
    - Community and political pressure to keep landfill prices down
    - Inability of Councils to sustain price increases over the longer term
    - To date, the Councils have not demonstrated the close harmonisation that would be required to achieve the benefits some of these benefits
    - An inability to jointly report and assess the extent of the benefits
    - The limited powers of the joint committee mean decisions such as pricing must be approved by each Council.

22. Because of these issues and risks with the status quo, a joint structure may be a better option for realising the benefits identified.

Consider a CCO given likely overall non-profit objectives

23. Combining the full range of waste management activities would require significant Council funding of a joint entity, i.e. it would not be financially self-sufficient. This is illustrated in the table below.

Cost summary	Normalised annual costs & revenues $ 000
PCC baseline rates funding requirement net of WCC share of landfill revenues, aftercare & overheads	(688)
WCC baseline rates funding requirement net of aftercare & overheads	(7,112)
CCTO gains identified by Deloitte	1,600
Governance costs	(250)
Surplus / (deficit)	(6,450)
Tax	Tax credit

24. A joint entity could be established with a non-profit making objective to deliver services to ratepayers without significant tax leakage. A non-profit entity may also be more readily accepted by ratepayers and users. For these reasons we believe that a Council Controlled Organisation (CCO) should be investigated as well as a CCTO in any Phase 2 analysis.

Tax issues

25. Depending on the balance of profit and loss making services in the joint entity, a tax liability could arise. Therefore the tax treatment of any combined entity should be explored further as it is currently unclear. If all solid waste and street cleaning activities are included in a joint entity, our summary in the table above indicates that no tax would be payable. This results from landfill surpluses being more than offset by other solid waste activities requiring rates support.

26. Suggestions have been made in workshop discussions to date that street cleaning activities should be excluded from any joint entity because it does not naturally fit with waste management activities. In this situation, the table below indicates that the entity could make a small profit and may pay a minor amount of tax.

Cost item	Normalised annual costs & revenues $ 000
Surplus / (deficit) for PCC and WCC combined activities including street cleaning	(6,450)
Less removal of PCC street cleaning from analysis	926
Less removal of WCC street cleaning from analysis	5,565
Surplus/(deficit)	41
Tax payable	Minor tax leakage

Fair allocation of benefits

27. The scenario where street cleaning is excluded also identifies the issue of fair allocation of benefits. In this scenario, PCC is cashflow positive from solid waste activities, (i.e. $688,000 net rates requirement less $926,000 street cleaning costs = $238,000 surplus). There is a risk that such a surplus would be absorbed by the new entity and largely lost to PCC. Therefore, further analysis would need to detail a fair allocation formula to ensure PCC receives a fair share of benefits under a CCTO / CCO option.

Non-financial benefits

28. The Deloitte report broadly notes a range of possible non-financial benefits. However, the business case needs to clearly identify specific activities or initiatives that would provide in-tangible benefits to the region. These might include activities that would support and show leadership with respect to the regional waste minimisation strategy. Re-use and recycling are areas where we expected to see such initiatives identified.

29. Bringing together qualitative benefits to demonstrate a "green dividend", accompanied by relevant performance indicators, could make a compelling case for a CCTO even where the financial case is marginal.

Conclusions

30. Based on a detailed review, the Deloitte baseline analysis accurately reflects the information provided by both Councils. The Deloitte assumptions underpinning the estimated annual benefits from a combined operation are also reasonable.

31. When a risk adjusted view of the benefits and costs are taken together, an incontrovertible case for a CCTO is marginal based on only tangible net benefits across the total system (including the CCTO and both Councils).

32. Almost two thirds of the benefits are achieved through price increases and could be achieved without a joint entity such as a CCTO. However, it is questionable under the status quo whether the Councils could sustain these benefits over the longer term. There are also risks around adverse community and political responses to price increases and the ability of Councils to harmonise services under a joint committee structure with limited delegated authority.

33. The Deloitte report identifies critical factors that underpin the successful operation of CCTOs and CCOs. These are largely about ensuring effective governance. Our experience supports these views.

34. To improve the business case around a CCTO:
    - both Councils would need to demonstrate that they could restructure and downsize back office functions and reduce the other overhead costs allocated across waste management services;
    - more emphasis is needed on the non-financial or qualitative benefits, i.e. specific initiatives that would clearly result in a "green dividend" for the wider community and region as a whole.

35. On balance, we conclude that a joint entity with a commercial focus is more likely to realise the full range of benefits identified by Deloitte and, in particular, to drive potential intangible benefits. However, further work is required in Phase 2 to confirm the overall business case.