
CAPACITY

1. Purpose of Report

To review the governance and delivery model options available for the future management of water services. Assess the model that is most likely to allow comprehensive regional water services integration based on whole of network management and make a recommendation on the preferred model.

2. Executive Summary

In the late 1990's the regional Territorial Local Authority's (TLAs) started reviewing the delivery of water services. There was a growing perception that the service delivery framework was fragmented and therefore potentially inefficient. That, some kind of reform was required to optimise the available resources.

During the community consultation period that ensued, the Greater Wellington Regional Council (GWRC), the Porirua City Council (PCC) and the Upper Hutt City Council (UHCC) opted not to participate in the formation of a new entity tasked to deliver the vision of an integrated regional water service management. However, the Wellington and Hutt Councils decided to demonstrate regional leadership and continued to pursue the integration.

A Council Controlled Organisation (CCO) was established in 2003 as a joint initiative between the Wellington and Hutt City Councils.

Five years from the establishment of the CCO, the Council has to consider whether the pursuit of a regional approach for the delivery of water services or a retreat into its territorial boundaries is the desired vision. Council must assess which delivery model is the most likely vehicle to facilitate full regional integration in the management of water services.

On the basis that a regional approach remains the Council's objective, a model similar to the current CCO model is the better vehicle to deliver the regional services vision.

With the current Auckland amalgamation and transformation into a "super city", and the review of governance options in the Wellington region, the regional provision of services appears even more compelling than in the past.

3. Recommendations

Officers recommend that the Committee:

1. *Receive the information.*
2. *Agree that the provision of water services through a Council Controlled Organisation model is the vehicle that is most likely to deliver the vision and associated potential benefits of an integrated water management system for the region.*
3. *Request officers continue working with the Council Controlled Organisation to achieve improvements in its performance in line with its establishment objectives.*
4. *Request officers to continue to explore with other, currently non Council Controlled Organisation participating Territorial Local Authorities, mechanisms to achieve a comprehensive regional model for the management of water services.*

4. Background

Water services for Wellington City were managed through an in-house business unit until 2003/04.

In the late 1990's the regional TLAs commenced a process of reviewing the delivery of water services as there was the growing perception that the then framework was fragmented and therefore potentially inefficient and that some kind of reform was required to optimise the available resources.

The potential integration of water services was investigated between 1997 and 2002. Extensive and rigorous analysis of options was carried out by Wellington City Council (WCC), Hutt City Council (HCC), Wellington Regional Council (now Greater Wellington Regional Council, GWRC), Upper Hutt City Council (UHCC), Porirua City Council (PCC) and other stakeholders, including the local Iwi.

The participating Councils sought to identify an optimal "integrated water services model" and were assisted in this endeavour by external consultants.

The identified models were analysed and assessed against a set of criteria including the requirements:

- That all water infrastructure assets remain publically owned through direct Council ownership.
- That the quality and security of the regional water service be maintained and enhanced through any change.
- That real potential short and long term cost savings were identified.

- That any water service delivery model was flexible in its design and service delivery.
- That any service delivery model was holistic in design and involved water supply, wastewater and stormwater services.
- That the tangata whenua was a key contributor and stakeholder in the design of any proposed service delivery model.
- That direct accountability, policy control and the setting of water funding and pricing was retained and managed by elected members of the Councils.
- That the public always retained access to all information associated with the development and operation of any proposed water service delivery model.
- That any water service delivery model supported environmentally sustainable practices.
- That any water service delivery model was practical in its design and straightforward in its implementation.

At the end of that process, considered to be the most rigorous of its type ever undertaken in New Zealand, the model currently used was considered to meet or exceed the criteria listed above.

The possibility of setting up a Trust entity was considered by the participating Councils in 2001. It was envisaged that the Councils' assets would be vested to the Trust. However community consultation at the time indicated that this was unacceptable to the public, who were concerned about the potential divestment of Council ownership and control over these critical assets. As a result, a compromise solution was sought, which would meet the above criteria and recognise the community's concerns.

During the consultation period GWRC, PCC and UHCC decided not to join the new entity, but Hutt and Wellington Councils decided to show regional leadership and pursue the integration.

Following this process, a Council Controlled Organisation (CCO) was established in 2003 as a joint initiative between the Wellington and Hutt City Councils. Staff transferred from the Councils' Drainage and Water Business Units to the new CCO.

The CCO commenced operations in July 2004 from premises situated at Petone. A Board of Directors was appointed, initially comprising two Councillors from each Council and two independent members. The Board appointed a CEO and the entity began operations under the trading name "Capacity".

Capacity's initial (5 year) objectives were:

- To achieve financial savings in comparison to the base year of 2003/04 (of \$2.5 million for the first 5 years and on-going annual savings thereafter of \$0.96 million) through the rationalisation of resources, contract economies of scale, the centralisation of technical expertise and skills, and the optimisation of long term network design.
- That each Council received services that met or exceeded the standard of services provided by its in-house unit prior to the establishment of the

CCO. That on-going improvement of those standards and the quality of services provided to the Councils and communities was attained.

- To provide a “centre of excellence” for the region where water network management standards would be harmonised, with the resultant synergies helping to increase network management efficiencies and reduce both operational and capital costs.
- To improve and harmonise the long term regional strategic planning for the water services and assets and lead to the eventual full integration of water services for the region.

Upper Hutt, while opting out of the initial arrangement, has recently (2008/09) engaged Capacity to manage its water services. This TLA found it difficult to attract and maintain a critical mass of expert water services staff due to its size. This outcome is consistent with the predictions made in the early 2000 and validates the rationale for regional services integration.

PCC and GWRC (bulk water) are at this stage still not participating in the CCO. However, both Councils have recently commissioned an external consultant (PwC) to reassess their options and provide advice as to the merits of joining an arrangement for the regional provision of water services.

The PwC report concluded that there are benefits in integrating the management and operation of the regional water networks and activities. To that end, GWRC’s Regional Sustainability Committee received and considered a report, on the 17 March 2010, which recommended the following next steps:

Continue to advance the issue on two fronts.

Firstly, consider the economic benefits arising from;

- The development of common water services standards for new land development.
- Commonality in telemetry systems.
- Standardisation of pumping stations design.
- The capture and storage of asset data in a common form and using common software systems.
- Development of common water asset bylaws.
- Development of common District Plan provisions.

Secondly, consider the issue of the regionalisation of water services within the context of the review of governance for the Wellington Region.

The PwC conclusion is that the critical issue is for the water services entity to be able to make decisions about the efficient deployment and utilisation of assets over and between networks, irrespective of Council territorial boundaries. The report notes that, while it might be beneficial, the common ownership of water networks is not necessarily a prerequisite for a regional water services approach.

5. Discussion

At this point in time, Council has to consider whether the pursuit of a regional approach for the delivery of water services or a retreat into its territorial boundaries is the desired vision. Council must assess which delivery model is the most likely vehicle to facilitate full regional integration in the management of water services.

Looking ahead and on the basis that a regional approach remains the objective, a model similar to the current CCO model is the better vehicle to deliver the regional services vision.

An integrated regional services model provides a platform for the provision of water services. From the sourcing of raw water supplies, to treatment, transmission to city centres, local distribution and eventual discharge.

Such model encourages, through the application of standards, the harmonisation of materials used, common network management techniques and the deployment of regional specifications. A regional model is better placed to allow the development and application of supply and demand management policies for optimum water sustainability purposes.

It allows the creation of a regional centre of excellence that would attract and be able to retain high quality human resources to manage the region's water services.

A regional entity has a better potential to attain critical mass and scope of activity in order to attract high quality, experienced Board members with relevant expertise. Such entity provides the most compelling business case from which to drive improved efficiency, manage costs and improved service levels for the whole community.

This model allows each Council to continue to specify its strategic expectations and hold the entity accountable for its outcomes through the appropriate governance control systems and performance accountability mechanisms the Council may wish to apply.

Finally, the model is consistent with the Government's approach towards local governance and the concept of shared services which it is being embraced in the region's strategies.

The alternative option of bringing the service back in-house and re-establishing a Business Unit would be detrimental to the goal of achieving a true regional service. Each TLA would pursue its own agenda, thus failing to benefit the whole region through an efficient and effective system of water services.

In terms of practicalities, there are few original WCC staff remaining in the CCO. Re-allocating the existing CCO staff back to its constituent TLAs would be difficult and will destroy the potential for a centre of excellence in water services. In addition, the Council will re-incur transitional costs.

Capacity's performance to date

Water based services play a critical role in the health and prosperity of a community. The tolerance for catastrophic failure of these services is zero.

With that criticality of service in mind Council officers have applied a close proximity supervision on the CCO's operations. That level of scrutiny will continue to apply until total confidence is attained that the CCO, or its successor, can deliver reliable and consistent services.

The next 5 year objective is to guide the CCO towards better performance, more effective accountability and by extension more autonomy to deliver its assigned objectives.

Council officers continue to work with Capacity management to pursue improvements in service performance and financial efficiency. In addition, the Council is in the process of commissioning an external review on the performance and structure of Capacity to ascertain potential areas where improvements can be made to enhance performance, increase accountability and assure that value for money outcomes can be achieved.

6. Conclusion

The establishment of the CCO was prompted by the idea that the provision of water services on a regional basis must accrue synergies and economies of scale beneficial to all the participating communities.

With the current Auckland amalgamation and transformation into a "super city", and the review of governance options in the Wellington region, the regional provision of services appears even more compelling than in the past.

Therefore, and provided that the Council continues to adhere to the vision of regional cooperation as a means for resource optimisation, the best model to manage water services is the CCO model or similar.

Due to the rigorous work carried out previously, with no material change in the water services market in the last 10 years, the concept of a CCO is still the most preferable option. The Council retains the ability to define strategic objectives and exercise performance monitoring through an appropriate system of Service Level Agreements (SLAs) and Statements of Intent (SOIs) with such an entity.

While some of Capacity's founding objectives have not been fully achieved to date, the concept of shared services on the basis of a CCO model should not be discarded as a result. With appropriate governance and company management to strengthen the weaknesses identified in the first 5 years of Capacity's operation, the CCO model can be built on to further develop regional water solutions.

It is important to recognise that the provision of shared water services on a regional basis is a valid and effective concept. Accordingly, Council officers

recommend against bringing water services back in-house at this stage. With scarcity of resources and the increasing importance of a regional approach in the pursuit of growth, prosperity and affordability, the shared services model, supported by effective performance monitoring, is the best vehicle to achieve multiple Council objectives.

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Supporting Information

1) Strategic Fit / Strategic Outcome

This report supports Council's overall vision of Creative Wellington – Innovation Capital. The report supports the regional aspirations to develop shared services and provides a platform for this to be progressed.

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

No impact.

3) Treaty of Waitangi considerations

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

4) Decision-Making

This is a significant decision but is in alignment with Council policies and intentions. It also is in alignment with regional aspirations.

5) Consultation

a) General Consultation

N/A

b) Consultation with Maori

N/A

6) Legal Implications

Council's General Counsel has been consulted during the development of this report. Should the officer recommendations not be accepted, any proposal to disestablish the CCO and bring the services back within the Council would need to be consulted on under Section 88 of the LGA 2002.

7) Consistency with existing policy

This report recommends measures that are consistent with WCC policy.