

**ADDITIONAL SHAREHOLDER: CAPACITY INFRASTRUCTURE
SERVICES LTD**

1. Purpose of report

This report requests the Council provide an in principle decision on the question of whether Wellington City Council supports the proposal of Greater Wellington Regional Council (GWRC) to join Capacity Infrastructure Services Limited (Capacity or the company) as a shareholder and customer, and consequential changes to governance arrangements in relation to the company.

2. Executive summary

Officers recommend that Wellington City Council agree in principle to the proposal that the Greater Wellington Regional Council become a customer and shareholder of Capacity, and consequential changes to governance arrangements in relation to the company, with final details to be agreed at a later date.

3. Recommendations

Officers recommend that the Governance, Finance and Planning Committee:

- 1. Receive the information.*
- 2. Agree in principle to Greater Wellington Regional Council becoming a customer of, and shareholder in, Capacity Infrastructure Services Limited.*
- 3. Agree in principle that this will result in changes to the board composition and the monitoring arrangements of this Council relating to Capacity Infrastructure Services Limited.*
- 4. Delegate the responsibility to negotiate the terms of Regional Council joining Capacity Infrastructure Services Ltd as a customer and shareholder, insofar as they impact Wellington City Council, to the Chief Executive and Chair of the Governance, Finance and Planning Committee, on behalf of Wellington City Council, subject to recommendation five.*
- 5. Note that any final Wellington City Council agreement to Greater Wellington Regional Council becoming a shareholder in Capacity and any consequential changes to the governance of the company will be made by the Council.*

6. *Note that the Council will retain ownership of its three-waters network assets, and the funding and policy decisions relating to its network.*

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'.

To do so GWRC must meet statutory consultation obligations to invest in a CCTO, and are proposing to do so concurrently with their 2014/15 Annual Plan consultation. The existing shareholders do not need to consult as they are already shareholders in the company.

The proposal has a number of advantages:

- The importance of integrated, strategic management of assets and service delivery is likely to increase in line with the scarcity of water resources. As an example, integrated management is likely to reduce the cost and improve the reach of water conservation measures and campaigns.
- Population growth may require an increase in the region's water supply capacity within the foreseeable future. Climate change will also impact on water supply. Increasing the water supply capacity will require capital investment and a regionally coordinated approach to water services should optimise network planning and minimise this investment by councils.
- Many of the issues involved are complex and span administrative boundaries and electoral timeframes. Taking a strategic and long-term view on planning and decision making ensures optimal investment for current and future generations.
- Issues such as freshwater management, land management, biodiversity, regional economic development and transport are shared issues that cannot be resolved by the regional council or any of the cities in isolation. They require a collaborative approach with other key stakeholders, communities and agencies in local and central government. This is better managed by a single entity, rather than multiple entities.

- There are currently a number of areas of duplication and overlap. Service delivery, efficiency and effectiveness will improve, particularly with the increased ability of the company to build capability and should deliver cost efficiencies in the medium and long term.

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.

As outlined in the draft Statement of Proposal, the key points of the recommended option in the Greater Wellington Regional Council proposal are:

- GWRC joins as a customer and shareholder in Capacity.
- Capacity remains a CCTO, but with five shareholder councils instead of the current four.
- All shareholder councils retain ownership of their network assets.
- Capacity is re-named “Wellington Water” or the like, which is more in line with its original name and purpose.
- In terms of monitoring and public accountability, the Company reports to a new Water Committee. One option (the preferred option in GWRC’s proposal) is to have this committee managed within GWRC’s existing committee structure.
- The Water Committee is made up of five elected members, one from each shareholder council. Each representative has certain delegated powers from their council (terms of reference would need to be negotiated and agreed by all councils).
- The board composition changes to a board made up of all independent, jointly appointed directors.
- GWRC contracts Wellington Water (Capacity) to manage its water assets as a customer.

It is important to note that under this option 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 will still recover the cost of water services by rates using whatever formula it sees as appropriate. 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.

5. Discussion

This report discusses the implications for Wellington City Council (WCC) of the recommended option in the GWRC proposal under three categories: strategic asset management, governance, and public accountability and monitoring.

Strategic Asset Management / Regional Co-ordination of Water Services

Wellington City Council has been consistently supportive of improved regional co-ordination of water services and strategic management of the three-water assets. This was reflected in the original decision to establish Capacity (then named Wellington Water Management Ltd) with HCC and was re-iterated when WCC agreed to UHCC and PCC joining as shareholders in April 2012.

In regard to the three-waters in particular, as is noted in the GWRC statement of proposal, the challenges faced in relation to water supply will increasingly require a strategic and integrated approach to managing the network and future investment as a whole (e.g. climate change, population growth). While the councils in this region already work together, GWRC joining Capacity would significantly streamline the opportunity to co-ordinate across the region on shared issues such as freshwater management, resilience planning, biodiversity and the impact of economic development on water infrastructure.

It is important to note that there would be no change to the scope of services that Capacity currently provides to WCC. Policy and funding decisions and the approval of asset management plans relating to the Council's assets will continue to reside with the Council.

From a strategic asset management perspective, the main risk to WCC from the GWRC proposal is the risk that, if GWRC does become a customer, Capacity becomes stretched too far without adequate resources (personnel, systems etc.) in place. This risk will be largely mitigated by the transfer of existing GWRC personnel to Capacity. In practice, the skills and experience brought by GWRC staff into the company will significantly enhance the company's capability in this area and allow a 'step change' in capability.

Longer term, there should be service delivery and cost efficiencies should GWRC join Capacity. Another potential long term advantage for WCC is the creation of a forum (the Water Committee) to provide the shareholder councils with stronger input into planning to influence the future investment requirements, and therefore cost, of the bulk water supply (currently around \$14m to WCC each year).

Governance

Under the recommended option in the GWRC proposal, the shareholding percentages will change if GWRC becomes a shareholder in Capacity. The WCC percentage of voting shares will decline from 25% to 20%, reflecting the fact that shareholder councils will continue to have an equal percentage.

The income share percentages reflect the relative contribution of each shareholder council. As a result, if GWRC joins as a shareholder, the WCC percentage will decline from 50% to a lower percentage (still to be finalised). The calculation for the percentages will continue to represent a fair and reasonable split between the shareholders.

The structure of appointing directors will be impacted if GWRC joins as a shareholder and the councils agree to the GWRC proposal. At the moment, WCC appoints one director in its own right (currently an elected member) and four directors jointly with the other shareholder councils.

Under the GWRC proposal, the board will shift to all jointly appointed, independent directors. This largely reflects the new role for elected member representatives on the Water Committee. There is an argument that the current structure (split between sole appointments and joint appointments) is very likely to become unworkable with five shareholder councils.

The structure outlined by GWRC is close in concept to the long-term board structure agreed to by the Council in April 2012 (which was to have an eventual board of seven jointly appointed directors). This was superseded by a March 2013 WCC resolution on elected member representation on the board.

The current GWRC proposal suggests that Capacity board appointments should be made directly by the Water Committee, with each representative exercising the vote of that council. The details of this process are still subject to analysis, negotiation and agreement.

The GWRC proposal has the potential to strengthen political oversight and control as there should be greater opportunity for robust and co-ordinated shareholder discussion around the performance of the company at Water Committee meetings. The board will be accountable to the Water Committee.

Monitoring and Accountability

Under the recommended option in the GWRC proposal, the Water Committee would be a committee of GWRC with an elected member representative from each shareholder council. This suggested structure is similar to the existing arrangements for the Wellington Regional Strategy and Regional Transport Committees. It would provide a forum for transparent political oversight. It would also coordinate shareholder council responses across matters from the Statement of Intent to community feedback to board appointments.

In addition to the WCC representative, other interested WCC elected members and members of the public will be able to attend Water Committee meetings as they will be public meetings (except for board appointment discussions). The Committee will be subject to LGOIMA and open to public participation, as WCC meetings are.

The transparency of reporting should be enhanced. Currently, Capacity provides quarterly reports to its shareholders and typically presents directly to WCC once or twice a year. In comparison, Capacity is likely to be a direct contributor to all Water Committee meetings, which are likely to be held four or five times a year to ensure timely discussion of issues.

From an accountability perspective, the Company will continue to produce an annual Statement of Intent. Subject to the negotiation of the final terms of reference for the Committee, the Statement of Intent will need to be approved by either the Water Committee or the individual councils. Similarly, as noted above, the Company will continue to present regular reports and presentations to this Committee.

At the operational customer level, officers would continue to receive regular reports as required under the service level agreement, including reporting on WCC projects and how the Company is tracking against its agreed performance indicators. As noted above, any WCC funding decisions would continue to be part of the Long Term Plan and Annual Plan process.

5.1 Consultation and Engagement

GWRC will consult on this proposal as part of its Annual Plan consultation. As noted earlier, WCC does not need to consult on this proposal.

5.2 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 cost efficiencies.

5.3 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.

6. Conclusion

Officers recommend that Wellington City Council agree in principle to the proposal that Greater Wellington Regional Council become a customer and shareholder of Capacity, with final details to be agreed at a later date.

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 significant but is in alignment with Council policies and intentions. It also is in alignment with aspirations for regional co-operation on water services management.

5) Consultation

a) General consultation

There is no requirement for WCC to consult separately on this matter. Regional Council will 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.

7) Consistency with existing policy

This report recommends measures that are consistent with Council policy.