
UPDATE: DISCUSSIONS ON ADDITIONAL SHAREHOLDER FOR CAPACITY INFRASTRUCTURE SERVICES LTD

1. Purpose of Report

This report requests the Council provide decisions on three specific issues as part of progressing discussions over the structure of a proposed arrangement for Greater Wellington Regional Council (GWRC) to join Capacity Infrastructure Services Limited (Capacity or the company) as a shareholder and customer.

2. Executive Summary

Officers recommend that Wellington City Council agree on three specific questions in order to provide clarity on the final shape of a proposal to be considered by GWRC in relation to joining Capacity. These are: the establishment of a joint oversight committee (noting that the final terms of reference for the committee will be agreed by each shareholder council); the board composition to be jointly appointed, independent directors; and the re-naming of the company to “Wellington Public Water Services Ltd” or the equivalent.

It should be noted that the final details on Class B shareholdings, delegations and the terms of reference of the Water Committee will be included in a report to the Council requesting a final decision once GWRC has agreed in principle to this proposal.

3. Recommendations

Officers recommend that the Governance, Finance and Planning Committee:

- 1. Receive the information.*
- 2. Agree that Wellington City Council supports the proposal that, should Greater Wellington Regional Council join Capacity, a joint committee will be established to ensure public accountability and to monitor the company's performance.*

3. *Agree that this joint committee will be comprised of one elected member representing each shareholder council.*
4. *Note that the final terms of reference for the joint committee will be agreed by each shareholder council and will be based on the responsibilities set out in Appendix 1 of this report.*
5. *Agree that Wellington City Council supports the proposal that, should Greater Wellington Regional Council join Capacity, the company will be re-named “Wellington Public Water Services Ltd” or the equivalent to clearly reflect its core purpose and public ownership, noting that no additional funding will be provided for re-branding and this may be a gradual implementation.*
6. *Agree that Wellington City Council supports the proposal that, should Greater Wellington Regional Council join Capacity and the joint oversight committee be agreed, the board of Capacity will be made up of jointly appointed independent directors. This board will include a range of skill-sets including, among others, engineering and asset management experience, and an appreciation of public accountability and the local government context.*
7. *Note that a report requesting a final decision on Wellington City Council agreement to the proposal that Greater Wellington Regional Council becomes a shareholder in Capacity will follow the resolution of the issues discussed in this report and an in principle decision by Greater Wellington Regional Council.*
8. *Note that the shareholder councils will continue to retain ownership of their three-waters network assets, and the funding and policy decisions relating to their network, under the proposal as outlined in this report.*

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 Hutt customers of and, with effect 1 November 2013, shareholders in the company.

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

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

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

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

GWRC has now consulted on its Statement of Proposal. It will consider the submissions and make an in principle decision in June. A decision on the three specific issues covered in this report's recommendations will provide GWRC with greater visibility on the proposed structure it should consider. The other shareholder councils are also in the process of considering the issues covered in this report.

5. Discussion

The February 2014 report discussed the implications for Wellington City Council of the recommended option in the GWRC proposal in considerable detail. As a result, this report only discusses the three specific issues where further discussion has taken place and collective recommendations to the five councils have been agreed.

The three areas of substantive progress based on the collective discussions between the councils are:

- Whether a joint oversight committee should be established as a committee of GWRC or as a joint committee;
- Whether the Company's name should be changed, as proposed by GWRC; and
- Whether the board should be comprised of jointly appointed independent directors, if a joint oversight committee is established.

It should be noted that the final details on Class B shareholdings, delegations and the terms of reference of the proposed Water Committee will be included in a report to the Council requesting a final decision if GWRC agrees in principle to this proposal. The terms of reference of the Water Committee will be based on the responsibilities set out in Appendix 1 of this report.

It should also be noted that, in the event of structural changes (e.g. a merger of some or all of the shareholder councils), the shareholder councils could review at that point whether to retain a company structure for Capacity, restructure the proposed joint committee arrangement or return to an in-house model.

5.1 Water Committee

Under the original recommended option in the GWRC proposal, the Water Committee would have been a committee of GWRC, with an elected member representative from each shareholder council. Further discussions between the councils have suggested that, if GWRC and the shareholder councils agree to GWRC joining Capacity, it would be preferable to have the Water Committee formally set up as a joint committee of the five councils, rather than as a committee of GWRC.

This would still provide a mechanism for transparent political oversight and a forum to coordinate shareholder monitoring of the company and council responses across matters from the company's Statement of Intent (SoI) to community feedback to recommendations on board appointments.

While the final terms of reference for the Water Committee have yet to be agreed by the councils, it would be comprised of five elected members, one from each shareholder council. Each representative would have certain delegated powers from their council. The Chair would be appointed by the Committee and would not have a casting vote. The detail on items such as media protocols, quorum and delegations will be included in the Committee's final terms of reference.

As discussed in the February report, the 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 shareholder councils via the Water Committee.

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, and participant in, all Water Committee meetings, which are likely to be held four or five times a year to ensure timely discussion of issues.

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 related discussions).

From an accountability perspective, the company will continue to produce an annual SoI. It is anticipated that the draft terms of reference (still to be agreed, as noted earlier) will reflect that Capacity board appointments and approval of the final SOIs will continue to be made by shareholder councils. The Water Committee will have the responsibility to provide regular monitoring of the company's performance, agree the Letter of Expectation, provide feedback on the draft SoI and recommend board candidates to the shareholder councils, amongst other responsibilities. As noted previously, any WCC funding decisions would continue to be part of the Long Term Plan and Annual Plan process.

A matrix setting out decision making responsibilities under the proposed structure is included in Appendix 1.

5.2 Composition of the Board

Presently each shareholder council appoints one director in its own right (currently an elected member for WCC) and four directors jointly with the other shareholder councils.

Under the proposal reached through collective discussion, the board will shift to all jointly appointed, independent directors. It is likely to be a board of six directors. This largely reflects the new role for elected member representatives on the Water Committee discussed above.

A second consideration is the niche combination of skillsets that is likely to be required by the board in order to achieve the maximum benefit from regional co-ordination. The board will need to include a range of skill-sets including, among others, engineering and asset management experience, and an appreciation of public accountability and the local government context.

Thirdly, the current structure (split between sole appointments and joint appointments) is very likely to become unworkable with five shareholder councils. It is unlikely that one or two councils would be happy not having a solely appointed representative, if other councils do.

One point that will need to be agreed on is whether current elected members will be eligible to express an interest in being considered as a joint appointment (and, if so, whether this eligibility should be limited to elected members who are not members of the joint oversight committee).

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

5.3 Company Name

The shareholder councils have discussed GWRC's suggestion to change the name of Capacity Infrastructure Services Ltd to "Wellington Public Water Services Ltd" or the equivalent. This more closely reflects the Company's original name of Wellington Water Management Ltd. The name change to Capacity was instigated a few years ago by the Company. Officers from the shareholder councils consider that the proposed name better reflects the Company's core purpose and public ownership. Note that the joint discussions indicate that no additional funding will be provided to the Company for re-branding and, therefore, this may be a gradual implementation.

5.4 Consultation and Engagement

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

5.5 Financial / Long-term plan considerations

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

5.6 Climate change impacts and considerations

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

6. Conclusion

Officers recommend that Wellington City Council agree on three specific questions in order to provide clarity on the final shape of a proposal to be considered by GWRC in relation to joining Capacity. These are: the establishment of a joint oversight committee (noting that the final terms of reference for the committee will be agreed by each shareholder council); the board composition to be jointly appointed, independent directors; and the re-

naming of the company to “Wellington Public Water Services Ltd” or the equivalent.

It should be noted that the final details on Class B shareholdings, delegations and the terms of reference of the Water Committee will be included in a report to the Council requesting a final decision once GWRC has agreed in principle to this proposal.

Contact Officer: *Anthony Wilson, Chief Asset Officer*

SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

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

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

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

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

3) Treaty of Waitangi considerations

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

4) Decision-making

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

5) Consultation

a) General consultation

There is no requirement for WCC to consult separately on this matter. Regional Council has run a consultation process on this proposal.

b) Consultation with Maori

N/A

6) Legal implications

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

7) Consistency with existing policy

This report recommends measures that are consistent with Council policy.

