

## **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:

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**GENERAL MANAGER ASSET MANAGEMENT AND OPERATIONS**

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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 27<sup>th</sup> 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<sup>1</sup> 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.

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<sup>1</sup> 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