Notice of Meeting:

I hereby give notice that an ordinary Meeting of the Council will be held on:

Date:	**Thursday 21 September 2017**
Time:	**9.30am**
Meeting Room:	**Council Chamber**
Venue:	**Municipal Building, Garden Place, Hamilton**

Richard Briggs
Chief Executive

Council
OPEN SUPPLEMENTARY AGENDA

Membership	
Chairperson	Mayor A King
Deputy Chairperson	Deputy Mayor M Gallagher
Members	Cr M Bunting
	Cr J R Casson
	Cr S Henry
	Cr D Macpherson
	Cr G Mallett
	Cr A O'Leary
	Cr R Pascoe
	Cr P Southgate
	Cr G Taylor
	Cr L Tooman
	Cr P Yeung
Leave of Absence	Cr P Y Yeung
Quorum:	**A majority of members (including vacancies)**
Meeting Frequency:	**Monthly – or as required**

Lee-Ann Jordan
Governance Manager

18 September 2017

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Council Report

Committee: Council **Date:** 21 September 2017

Author: Blair Bowcott **Authoriser:** Blair Bowcott

Position: Executive Director Special Projects **Position:** Executive Director Special Projects

Report Name: Waters Study (Water, Wastewater and Stormwater - Sub-regional Collaboration)

Report Status	*Open*

Purpose

1. To inform the Council on discussions about a Shared Waters Management Company (SWMC).
2. To seek approval for Hamilton City Council to collaborate with Waipa District Council and publicly consult on a SWMC prior to the end of this calendar year.
3. To seek Council approval for the Hamilton City Council Waters Governance Group members to authorise consultation materials and a consultation process.

Staff Recommendation

4. That the Council:
   a) receives the report; and
   b) approves:
      i. public consultation on the proposal to form a Shared Waters Management Company is undertaken; and
      ii. public consultation is undertaken in collaboration with Waipa District Council; and
      iii. that the Hamilton City Council Waters Governance Group is delegated authority to liaise with Waipa District Council and approve consultation materials and a process for public engagement, with public engagement to occur prior to the end of 2017.

Executive Summary

5. On 4 May 2017 Hamilton City Council approved a shared service, non-asset-owning waters management company as its preferred model for collaborating with other local councils to best manage water.
6. That decision authorised Council's Water Governance Group members (His Worship the Mayor, Crs Macpherson and Mallett) to restart discussions with Waipa and Waikato Councils about a joint management approach, and after reaching mutual agreement with those councils, to jointly prepare public consultation materials for approval.

7. On 30 May 2017, Waipa District Council also agreed a non-asset owning, Council Controlled Organisation (a Shared Waters Management Company) was its preferred model. Waikato District Council has not yet reached this decision and continues to investigate other options. However Waikato District Council have previously resolved to support an asset owning CCO, and that position has not changed.

8. The essential elements of a Shared Waters Management Company are:

   - The company would be a CCO (a Council Controlled Organisation). It would employ staff who would manage water, waste water and storm water assets on behalf of the shareholding councils.
   - The company would be a not-for-profit entity. (By law, Councils cannot make money out of water. They can only cover the costs to supply, treat and dispose of water).
   - The company would not own any major water assets. Those assets would remain 100 per cent owned by each council. (The company might own some minor assets like cars and computers).
   - All major decisions would continue to be made by shareholding councils. The water company, as a 'specialist waters company' would provide advice to each Council on where and when to invest.
   - The water company would be responsible for maintenance of the waters networks.
   - Each shareholding council would continue to set the cost for water services (to be recovered through general rates, targeted rates, water meters, trade waste fees etc) – just as they do now.
   - The water company could not force Hamilton City to install residential water meters. Nor could the water company force any other shareholding Council to change the way it charges for water.
   - The water company would be jointly controlled by the shareholding councils through a Shareholders Forum.
   - The water company would be accountable to shareholding councils who would ensure it operated openly and transparently.
   - The water company would offer operational, environmental and financial benefits that could not be achieved by councils operating on their own.

9. Since the May 2017 meetings of both Councils, an independent report has been prepared by a consortium of Mott MacDonald and Scottish Water International to ensure the formation of a Shared Waters Management Company would be advantageous to ratepayers. The report (Attachment 1) concludes that:

   > *"In summary, it is found that over the long-term, a SWMC will provide financial and non-financial benefits to the three councils and their ratepayers. An SWMC is a better model, both financially and non-financially, than the status quo (where each Council manages water, wastewater and stormwater activities independently)."*

10. The Waters Governance Groups of both Councils are now recommending both Councils publicly consult on the proposal to form a SWMC prior to the end of 2017. Doing so now would allow both Councils to gauge public opinion and make a final decision before finalising draft 2018-28 10-Year Plans.

11. Staff consider the matters in this report have low significance and that the recommendations comply with the Council's legal requirements.

Background

12. On 4 May 2017 Hamilton City Council agreed to form a shared service, non-asset owning waters management company (Shared Waters Management Company) as its preferred model for collaborating with local councils to best manage water services. The decision authorised the Council's Water Governance Group to restart discussions with Waipa and Waikato Councils about a joint management approach and to jointly prepare a public consultation document for approval. The formal resolution was:

    a) That council receives this report.
    b) That Council:
        (i) receives the information on the Enhanced Shared Services, Shared Waters Management Company and Asset Owning Company as contained in Attachment 2: Waters Study – Overview of Governance Structure Options;
        (ii) agrees to the Shared Waters Management Company as the preferred model for Hamilton City Council to continue discussions on waters sub-regional collaboration;
        (iii) authorises the Hamilton City Council Waters Governance Group members to reconvene discussions with Waikato and Waipa District Councils on a mutually preferred waters sub-regional collaboration model; and
        (iv) authorises the Hamilton City Council Waters Governance Group members, upon reaching mutual agreement with Waipa and Waikato District Councils to obtain information necessary for public consultation and prepare the Consultation Document for Hamilton City Council approval.

13. On 30 May 2017, Waipa District Council also agreed that a non-asset owning CCO (a Shared Waters Management Company) was its preferred model.

14. In a media release dated 12 June 2017 Waikato District Council advised it was considering further options for managing water services (including a closer association with Waikato-Tainui and Auckland Council's waters CCO, (Watercare Services Ltd) but that the "Hamilton, Waipa, Waikato CCO option is still very much on the table". Waikato District Council advise these investigations are ongoing and a decision, also pending public consultation, is expected close to Christmas.

15. There is an open dialogue between the three Councils. Waikato District continues to participate in the Waters Project Group and through that forum is aware of the positions reached by both Waipa District and Hamilton City.

16. Following decisions by Hamilton City and Waipa District Councils, a high level review of the SWMC has been undertaken to ensure any transition from the status quo to a SWMC will be advantageous to ratepayers.

17. Mott MacDonald was commissioned to undertake the review due to their familiarity with the Cranleigh business case (they were a member of the Cranleigh consortium) and their knowledge of Wellington Water, an existing Shared Waters Management Company on which the Waikato SWMC is closely modelled

18. The executive summary in the Mott MacDonald report provides a good summary of the non-financial and financial benefits provided by a SWMC. The report also outlines the anticipated establishment costs for a SWMC.

Public Consultation

19. Hamilton's Water Governance Group met on 11 September 2017 to discuss a range of issues related to the Shared Waters Management Company. Governance Group members agreed

Hamilton City Council should join Waipa District Council in publicly consulting on the SWMC proposal before the end of the calendar year.

20. Doing so would help inform the Council's 2018-28 10-Year Plan and provide a greater level of certainty to Hamilton City Council waters staff.

21. Any final decisions on establishing a SWMC, 2018-28 10-Year Plan budget implications and transition timeframes, the final terms of the Record of Agreement would be considered once public consultation and the consideration of submissions was completed.

22. Consultation will be based around Hamilton City and Waipa District being 'foundation' members of a Shared Waters Management Company. However, the door would be held open to other Councils, including Waikato District Council, joining the SWMC at a later date.

23. Consultation would make it clear a SWMC does not involve any transfer of either assets or debt. Decision-making, including all decisions around the cost of water and major capital investments in water and wastewater would continue to be made by elected members at shareholding Councils.

24. The consultation would meet the requirements of Section 56 of the Local Government Act which requires Councils to consult on the formation of any Council Controlled Organisation, irrespective of scale. Further details would be determined by elected members, following any decision to form a SWMC, should that decision be made.

25. It is not proposed that a Special Consultative Procedure (SCP) be followed; a SCP is not required for this issue. Nor, given the relatively benign nature of what is being proposed, does this issue trigger any requirements under Council's Significance and Engagement Policy.

26. Recognising the need for ongoing liaison between Waipa and Hamilton Councils, to ensure consistency between consultation processes and communications to the community, and the need for an efficient joint council decision making process, it is proposed that the sign-off on consultation materials, and the consultation process, be delegated to Governance Group members to finalise.

Financial Considerations

27. There is no specific budgetary provision for the proposed consultation process. The consultation costs are expected to be minimal apart from staff time, and any external costs will be met from the Executive Director Special Projects budget.

Legal and Policy Considerations

28. The creation of a Council Controlled Organisation requires public consultation (s.56 Local Government Act 2002) but does not require use of Special Consultative Procedures.

Cultural Considerations

29. The project team have maintained regular contact with local Iwi as the SWMC proposed has been developed. Iwi have shown significant interest in the SWMC proposal.

Risks

30. There are no significant risks associated with the decisions required for this matter, as primarily the recommended resolutions create an opportunity to test the SWMC with the public. Any decision to formally commit to a SWMC will occur subsequent to public consultation and the consideration of submissions.

Significance & Engagement Policy

Significance

31. Staff considered the following factors under the Significance and Engagement Policy:

    There's a legal requirement to engage with the community.

32. Based on this factor and the plan to undertake public consultation, staff have assessed that the recommendations in this report have low significance.

Attachments

Attachment 1 - Mott MacDonald - Shared Waters Discusison Report .

D-2487974

Shared Waters Management Study

Draft Discussion Report

4 September 2017

Waipa District Council

Item 24

Attachment 1

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Shared Waters Management Study

Draft Discussion Report

4 September 2017

Mott MacDonald New Zealand Limited
Registered in New Zealand no. 3338812

Waipa District Council

Item 24

Attachment 1

Issue and Revision Record

Revision	Date	Originator	Checker	Approver	Description
A	3 July 2017	E. Hammond E. Ptolomey K. Hutchison	S. Couper	S. Couper	Draft first issue
B	10 July 2017	E. Hammond	S. Couper	S. Couper	Revised draft for client comment
C	18 July 2017	E. Hammond	S. Couper	S. Couper	Further draft incorporating client comments
D	31 July 2017	E. Hammond	E. Ptolomey K. Hutchison (SWI)	S. Couper	Final draft
E	21 August 2017	E. Hammond	S. Couper	S. Couper	Final draft with client comments incorporated
F	4 September 2017	E. Hammond	S. Couper	S. Couper	Final draft

Document reference: 387084 | 01 | F

Information class: Standard

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Executive summary

Hamilton City Council and Waipa District Council have both formally agreed to support the creation of a Shared Waters Management Company (a non-asset owning council controlled organisation (CCO)), subject to community consultation. Waikato District Council has yet to formally consider this model. This report, at a reasonably high level, further quantifies the benefits, or not, of a Shared Waters Management Company (SWMC) across the sub-region in comparison to the status quo and an asset-owning CCO.

In summary, it is found that over the long-term, a SWMC will provide financial and non-financial benefits to the three councils and their ratepayers. An SWMC is a better model, both financially and non-financially, than the status quo (where each Council manages water, wastewater and stormwater activities independently).

While an SWMC offers significant advantages over the status quo, it does not achieve the quantum of efficiencies that could be achieved via the formation of an asset-owning CCO as recommended in the *Business Case for Water Services* (Cranleigh, May 2015).

Non-financial Benefits

The non-financial benefits to the three Councils in forming a SWMC would be significant. These benefits would not only improve the effectiveness of the service; they would also help put in place critical components to help deliver efficiencies in future years and build momentum on the maturity curve of 'best practice' water companies. This report finds that a SWMC would offer:

- A more targeted focus on the delivery of high-quality water and wastewater services
- An enhanced ability to address capacity issues and meet the significant growth challenges being faced across the sub-region
- Independent expertise at Board of Directors level, not necessarily available with existing Council structures
- The potential for the creation of a regional waters Centre of Excellence, with potential wider benefits across the region
- Improved environmental and drinking water compliance, resulting in enhanced levels of service
- The ability to better respond to increasing regulatory demands and higher quality standards in relation to the delivery of water and wastewater. This is particularly important given the upcoming report on Havelock North
- An enhanced ability to manage risk (including public health risk)
- A more resilient water and wastewater network across the sub-region and potentially beyond
- A standardised and therefore more efficient approach to asset management
- A more attractive environment offering greater development, training and other peer support which is more likely to attract and retain specialist waters staff.

Financial Benefits

While a SWMC would not deliver the financial benefits expected from an asset-owning CCO (Cranleigh, May 2015) it could be expected to deliver a range of opex and capex efficiencies across planned investment programmes with potential for greater efficiencies over time.

- **Capex** - it has been estimated that capital efficiencies would range from **3 to 9%** across the capital programme. These efficiencies would depend on the adoption of a robust procurement strategy which would allow Councils to take advantage of economies of scale, drive best practice on processes and procedures and adopt a more progressive approach to engaging the supply chain. Capex efficiencies are estimated at between **$73M** and **$244M** over a 28 year period.
- **Opex -** further efficiencies could be realised through rationalising plant and network operations and, over time, associated staff. This would provide efficiencies over the longer term of between **1.5** and **5%**. Opex efficiencies are estimated at between **$43M** and **$144M** over a 28 year period.

Combined, estimated capex and opex financial efficiencies would equate to between **$116M** and **$388M** across three Councils over a 28 year period, as tabulated below. Within the first 12 to 18 months, only marginal financial efficiencies are likely to be realised.

Model	Total Cost ($M)	Total Efficiencies ($M)
Status quo	5,653.6	0.0
SWMC – lower limit	5,537.3	116.3
SWMC – upper limit	5,265.3	388.3

Note: Lower limit -includes $10M establishment costs as capex and low range capex (3%) and opex (1.5%) efficiencies.
Upper limit -includes $5M establishment costs as capex and high range capex (9%) and opex (5%) efficiencies.

Challenges and Limitations

In order to achieve the non-financial and financial benefits offered by a SWMC, the following limitations must be addressed:

- Non-standard working processes and systems across the three councils
- Restrictions associated with delivering programmes of work (where and when you can spend monies)
- Funding restrictions limited to an annual basis from each individual council
- Different asset management IT systems and working procedures
- Differences in levels of services among the three council customers
- Differences in reporting requirements for each of the councils
- The three councils' objectives are not fully aligned in one plan
- Understanding of cross function support functions.

The SWMC Model

The 2015 *Engineering Assessment and Evaluation Report* (Mott MacDonald, May 2015) which formed an appendix to the *Business Case for Water Services* (Cranleigh, May 2015) supported the recommendation to form an asset-owning CCO based on the findings of key evidence. The same set of findings have been challenged against a SWMC. This report concludes the SWMC would:

- Help facilitate the ability to more effectively manage and deliver an investment programme for the next 30 years through,
  - One long-term plan for water
  - Unifying the levels of service across all three councils.
- Enable the realisation of cost efficiencies in capex and opex expenditure

- Facilitate greater resilience of the waters network (if bulk funding and a common approach to operation of assets to benefit two or all three councils is agreed). Contractual arrangements will be needed to provide the supply and services around assets which supply multiple councils (given asset ownership remains with the individual councils).
- Provide a solid foundation to address future growth and economic development challenges through a joined-up approach to long-term planning
- Provide more opportunity to strategically manage assets where there are interdependencies through a common asset management approach and a move towards a common level of service
- Provide the platform to deliver a high level of service through a centre of excellence
- Offer key personnel roles in what has the potential to be a nationally-significant water entity.

Conclusion

A high-level comparison of the three models is tabulated below.

Model	Governance & Organisation	Asset Management	Levels of Service	Customers & Stakeholders	Efficiency	Ease of Implementation
Status quo	✓	✓	✓	✓	Baseline	Baseline
SWMC	✓✓	✓✓	✓✓	✓✓	✓✓	✓✓✓
Asset Owning CCO	✓✓✓	✓✓✓	✓✓	✓✓	✓✓✓	✓

Note:
✓ Acceptable ✓✓ Improvement ✓✓✓ Significant Improvement

Whilst an asset-owning CCO provides greater benefits overall, the ease of implementation and the delivery of improvements means a SWMC would offer significant benefits to the councils and their communities. An SWMC would clearly provide financial and non-financial benefits over the status quo.

Transitioning to a SWMC model alone, will not be enough to achieve potential efficiencies or realise potential advantages. There are a number of key enablers to achieving the aforementioned efficiencies, including; one common asset management plan, aligned levels of service, investing for greater efficiency and smarter procurement.

Finally, the quantification of benefits outlined assume the changes will be implemented within the first three years of operation. Delays and parochial behaviours will result in a reduction in these benefits and efficiencies.

Acknowledgements

The study team would like to acknowledge the support and time provided by several Wellington Water staff through the provision of lessons learnt and views from their recent experience around the formation and sustainable operation of Wellington Water as a management Council Controlled Organisation (CCO).

In particular, the support provided by; Colin Crampton, Rob Blakemore, Gary O'Meara, Jetesh Bhula, Jo Brown and Audrey Scheurich is acknowledged.

1 Introduction

1.1 Background and Previous Work

In 2015 Hamilton City, Waipa District and Waikato District Councils co-funded engineering investigations and a business case study to evaluate three different options for the management and delivery of the three waters services across the Waikato sub-region.

These options comprised:

- Retaining the Status Quo with each Council continuing to run its own operation
- Boosting the council's existing shared services into an enhanced shared services model (ESS)
- Considering forming a council-owned, asset owning Council Controlled Organisation to run water services on behalf of all three Councils (CCO).

The above work was completed off the back of a strategic review in 2012 that led to an evaluation of options for sub regional shared services and future delivery options studies completed between 2012 and 2014. The outcome from the 2015 engineering assessment and business case study was presented to all three Councils in May 2015 and recommended the CCO option on the basis that it provided the greatest financial savings, a lower risk rating and the best ranking across a Multi Criteria Analysis which identified a range of benefits.

The work identified that the provision of three waters services (3 waters) consisting of water, wastewater and stormwater could be governed and delivered in a different way that provided qualitative and financial benefits to the Waikato Customers. The work presented the evaluation through an engineering and asset management assessment completed by Mott MacDonald[1] and a better business case assessment conducted by Cranleigh[2], using the New Zealand Treasury's Better Business Case (BBC) format.

Strategic Context and Case for Change

As noted in the 2015 business case study there is central government interest around ensuring infrastructure is sufficiently funded to support growth and for Local Authorities to better plan for the longer term and improve management of infrastructure and capital needs. This has been recently highlighted in the public arena through the National Infrastructure Units assessment of the water sector's poor performance, the Three Waters Study / assessment by Local Government NZ, the Havelock North inquiry around the causes for the water borne infection in the water supply in Hastings District and the associated recent cabinet papers identifying the need for a review of the three waters services.

The business case assessment noted a number of aspects driving a strategic case for change including:

- **Growth** – substantial population growth projections especially in the north.
- **Environmental and regulatory compliance** – the Councils in the Waikato are facing compliance issues and rectifying this is an important focus of the current long-term plans

[1] Mott MacDonald, 2015. Business Case Analysis for Water Services – Engineering Assessment and Evaluation.
[2] Cranleigh, 2015. Business Case for Water Services – Delivery Options (Part A) Summary Report and Detailed Report (Part B).

(LTPs). This aspect is especially relevant with respect to risk management given the recent public health issues associated with the water supply at Havelock North in Hawkes Bay.

- **Capital Investment** – all three Councils are planning substantial capital investment over the next 10 to 30 years.

1.2 Further Developments Following the 2015 Study

Additional Investment Required for the Status Quo

The 2015 study identified some challenges with meeting the current levels of service obligations and noted that irrespective of the option selected, additional funding (in accordance with that set out in the 2015 LTP) would be required to cater for the planned growth, and to ensure that in the future each Council could meet the minimum level of service required i.e. its statutory obligations. This is likely to mean that the costs for the delivery of water services will continue to rise but will not rise as fast as they would under the status quo.

Full Asset Transfer not Tenable

Since the completion of the 2015 study, each of the councils have discussed and evaluated the findings and what they mean for the individual organisations and while the potential for the savings and other benefits to be realised is acknowledged, the formal transfer of all water assets into a shared business has not to date been a tenable arrangement for Hamilton City or Waipa District Councils.

Evaluation of the Wellington Water Model

Recently Waipa District and Hamilton City Councils approached Mott MacDonald New Zealand Limited and Scottish Water International to undertake a further evaluation using the data from the above study, but to consider a management CCO, similar (in ownership structure and operations) to the Wellington Water Limited model, hereafter referred to as a Shared Waters Management Company (SWMC).

Under this model, the full suite of operational, planning, asset management and other associated services would be provided by a newly formed organisation, co-owned and funded by the three Councils but with no assets transferred into the organisation. This arrangement is currently operating in Wellington and incorporates provision of the 3 water services for four Councils (Wellington City, Hutt City, Upper Hutt City and Porirua City) along with the bulk water operations of the Greater Wellington Regional Council.

We note that this model is different to the Wellington Water predecessor – Capacity Infrastructure Services – which was essentially a management company set up and owned by two of the original partners (Wellington City and Hutt City) to assist with delivering the capital works program and the network operations. Wellington Water is still transitioning to the optimal operations model.

1.3 Scope of this Study

Essentially this further study provides an evaluation of a SWMC that would sit between the ESS and CCO options that were developed in the 2015 study. This study is based on the data (in particular for the capital works programme) set out in the proposed 2015 LTPs and essentially provides an assessment of this new option, using the Wellington Water business model, against the same data and assumptions developed for the 2015 study.

Where possible, the work presents a (high level) quantitative evaluation of potential capex and opex efficiencies, with the remainder of the evaluation being qualitative, identifying benefits,

limitations and challenges as part of the assessment and identified through our discussions with the Wellington Water Executive team. We have also drawn on the case studies presented as part of the previous work to assist with further verifying the benefits that can be gained.

This report should be read in conjunction with the previous 2015 Cranleigh and Mott MacDonald studies.

2 Governance and Organisation

Key Findings:

A Shared Waters Management Company will:

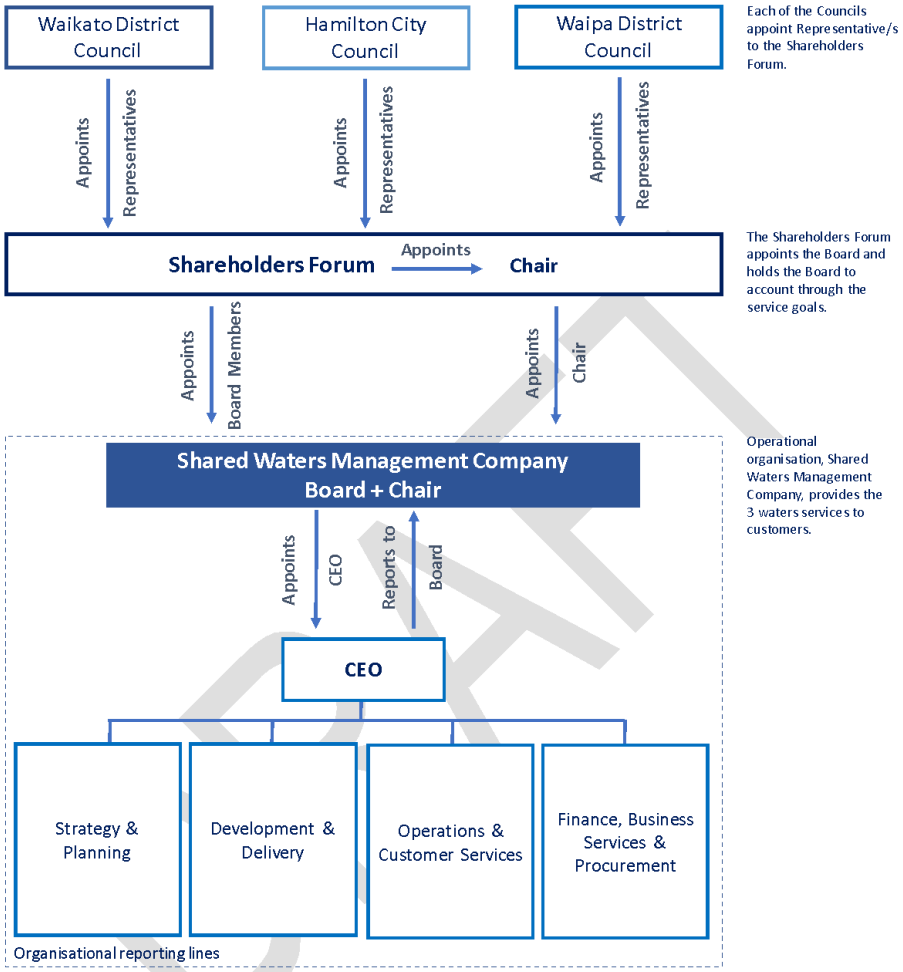
- Provide ownership arrangements that are far simpler than they would be for a full CCO, in that there will not be any requirement for asset valuation and differing contributions to the new entity's asset base.
- Offer the potential to create an entity that is focused on the delivery of water infrastructure services across the Waikato sub-region that will over time become a "centre of excellence" attracting good quality people leading to improved career development and opportunities along with assuming a "trusted advisor" status.
- At the organisation's core, the key working principle will be that all activity is focused on delivering the agreed service goals, prioritised in collaboration and consultation with the company owners, and other key stakeholders.
- Provide integration of stormwater services and would facilitate a comprehensive and integrated 3 waters service.
- Through engagement with the supply chain, allow the development and implementation of best practice, which will see efficiencies based on a tried and tested industry approach.
- Benefit from a joined-up procurement model providing a more standardised approach and better value for money to the councils and ultimately the rate payers.

2.1 Governance and Ownership Arrangements

The Wellington Water model is adopted here as the basis for structuring the ownership and proposed arrangements for a SWMC. Given that no physical assets will be transferred into the new entity, the ownership arrangements are far simpler in that there will not be any requirement for asset valuation and differing contributions to the new entity's asset base.

Figure 1 presents a possible ownership and governance arrangement for the SWMC through the three contributing Councils.

Figure 1: Shared Waters Management Company Ownership and Governance Structure



This arrangement provides the following:

- An equal or equitable shareholding (and voting rights) to each of the three Councils through a Shareholders Forum.
- Each Council nominates councillor appointees to the governing Shareholders Forum (this could also be used as the establishment committee) and these representatives appoint a chair.
- The Shareholders Forum is responsible for nominating and appointing an independent Board of directors and a chair (appointments are based on merit) to govern and oversee the strategy for the SWMC. All the directors are independent of the Council organisations (i.e. a councillor (or employee) from one of the shareholder councils cannot be appointed).

- The Board of directors is charged with providing the governance and oversight to the operational SWMC. Including the appointment of and support to a Chief Executive Officer (CEO).
- The CEO provides the operational management, develops and implements the company strategy and reports to the Board.
- Both the Shareholders Forum members and the Board of directors are rotated / re-appointed on a periodic basis (such as three yearly).
- An operational and/or service delivery mandate is developed and agreed through the Shareholders Forum for the SWMC and endorsed by each council owner.

In addition to the above formal arrangement, the week-on-week planning and operational interaction between the SWMC and its Council owners can be facilitated through a Council / SWMC representative group working at the tier 2 and 3 executive level. This arrangement has been in place for Wellington Water and provides effective communication between the relevant Council officers and their Utility counterparts to ensure a "no surprises" environment and good alignment through an ongoing collaborative working arrangement. This group could be established at the outset to ensure an effective working relationship.

Key features of the structure include:

- Each Council retains ownership of their own water assets, collects associated revenues and raises and repays any necessary debt.
- A new entity would be established and the staff for the SWMC would be employed by this new entity.
- The revenue stream would mature over time but is probably best to be allocated in proportion to the customer base.
- Capital works and renewals programmes will be agreed via each Council's Asset Management Plan (AMP) and LTP and incorporated into the SWMC service plan and funding requirements.
- Annual funding (it is essential that this is ring-fenced for each Council's capital works and renewals programmes) will be provided for the SWMC to allocate to the renewal and capital projects in accordance with the LTPs.
- Arm's length governance from each Council to minimise conflict with the business operations, agree the strategy at the governance level through service goal setting and providing a stronger long-term focus on water infrastructure planning.
- Potential for a technical advisory reporting line which oversees the technical excellence of the entity and the solutions it puts forward (as championed by Wellington Water in their model).

The SWMC offers the potential to create an entity that is focused on the delivery of water infrastructure services across the Waikato sub-region that will over time become a "centre of excellence" and assume a "trusted advisor" status. The proposed structure and governance arrangements should assist with ensuring independence from individual council politics and ensure that water services are delivered to customers effectively and efficiently.

Limitations around asset ownership and varying levels of service provision across the three Councils will need to be addressed through the development of a service plan. This challenge will require strong leadership across the SWMC executive team and the board. Effective communication and cooperation between SWMC and the Council owners through the Shareholders Forum will be fundamental to building the role of "trusted advisor" and good will over time.

The business will have powers to contract with suppliers separately to assist with its service delivery across the three Councils and there are a number of aspects around funding and the organisational working principles that will need to be agreed across all three Councils, as discussed in Section 2.4.

The ownership of business activities would need to be established at the outset and we understand that the three Councils have already developed a record of agreement that highlights the activities to be undertaken by the new entity, where they would be shared and collective responsibilities would lie.

2.2 Reporting Requirements

In order to facilitate timely contributions of the SWMC to the ongoing reporting requirements of the three Councils, the SWMC would need to adopt a transparent engagement mode from which to report.

Under a SWMC model, the reporting requirements are likely to include the following:

Mandatory Reporting

The same mandatory reporting to central government and the public would remain in place for each of the Council owners, including any newly implemented national policies such as the National Policy Statement on Freshwater Management (NPS-FM). In some cases, the SWMC may provide the reporting around the delivery of water services for each Council on their behalf.

Reporting to Councils

The SWMC would need a number of other reporting requirements to provide the monitoring and review of their performance on behalf of each Council, and to also assist each Council with their mandatory reporting requirements where this is related to water services under management or operation by the SWMC. As with the allocation of responsibility around the business activities, a clear understanding and allocation around the reporting requirements for the SWMC will need to be established at the outset and the ability to review and develop this further as the organisation and arrangement matures.

We have set out below a range of likely reporting requirements for the SWMC:

- Service Level Agreements and reporting on the status of service goals – every three months - on operational performance. Reporting of the service goals will be an important aspect for the Council owners as it will provide the required transparency around the value added (or not) by the SWMC.
- Activity Review Reports - every three years – on operational performance.
- Regional Service Plan – 10-year plan, every three years – AMP providing levels of service to feed into each LTP for each of the 3 waters services i.e. water, wastewater, stormwater.
- Ministry of Health (MoH) reporting on drinking water quality on behalf of each council – as per the MoH obligations.
- Compliance reporting for wastewater networks and treatment / disposal systems – as per the regulatory requirements.
- Service Delivery Plan – delivering value for money.
- Infrastructure strategy plan – 30-year plan.
- Regional initiatives – resilience, catchment management, urban growth and climate change - as required / agreed with Council owners.
- Company reporting obligations as per the companies act and good governance practice e.g.

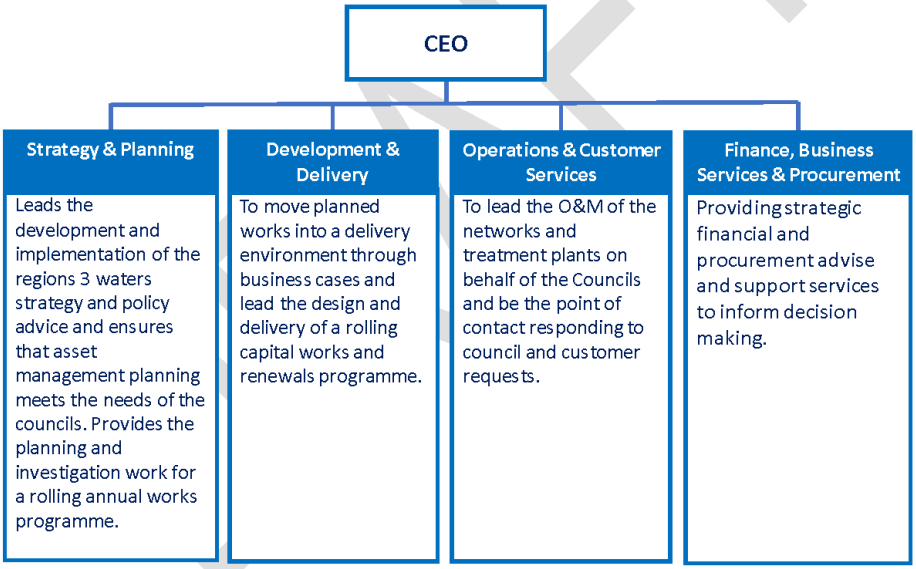
- Financial reporting (including monthly management accounts, annual financial report)
- Company annual report
- Strategic plan and annual business plans.

Once the SWMC has been established, and sufficient trust has been gained from each Council, the opportunity to streamline reporting may be possible. This would essentially mean that the Regional Service Plan would align and provide a conduit for all of the three Councils' 3 waters service LTP requirements, into one single LTP for water services. Wellington Water is in the process of implementing this plan to cover this reporting year onwards.

2.3 Organisational Structure

Figure 2 illustrates a proposed organisational structure for the SWMC. This structure has been based on discussions with Wellington Water but with consideration of the organisational structures developed for a CCO structure in consultation with Council staff as part of the 2015 study. Both organisational structures show similar grouping of roles, responsibilities and activities and therefore seems appropriate for use as a starting point.

Figure 2: Shared Waters Management Company Organisational Structure



The business lines for the new organisation are split into four key areas to cover the asset lifecycle process, including:

- **Strategy and planning** - This work will need strong engagement with the Councils' Planning, Asset Management and development engineering teams to ensure that the agreed service delivery plan is aligned to each councils AMP. The SWMC will need to work towards agreeing the growth and associated water service delivery requirements with each of the individual Councils as well as managing any differences with the level of service each proposed to provide. This area of the business is critical in the management of the 'risk of failure' and how the three councils will collectively address the mitigation measures to ensure an acceptable level of compliance is maintained.

- **Development and delivery** – This area of the business will need to work closely with the supply chain to ensure the effective and efficient delivery of the plan. The SWMC would look to agree the renewals and capital works programme annually and across a longer (10 year+) term. Funding is likely to be targeted towards each Council's specific needs and where capital works are combined for the benefit of more than one Council. A limitation of this model is that there may be a requirement to have separate agreements around infrastructure sharing. The SWMC will need to ensure that funding is secured across a portfolio of projects for each Council in accordance with their AMPs. It would be a significant limitation if all capital works and renewals funding was project specific (as was the case under the Capacity model prior to the formation of Wellington Water), there should also be an allowance for business improvement initiatives, that may sit outside both general operational costs and the works programme, as part of the annual funding considerations. These could include initiatives such as development of consistent design standards for the sub-region, health and safety (H&S) culture enhancements, etc.
- **Operations and customer services** – The service and funding requirements for the operations can be reviewed and agreed on an annual basis. Based on the Wellington Water experience there are opportunities for savings around the network operation and maintenance (O&M) activities as a result of rationalising these services. Working alongside each of the Councils customer service and communications teams will be an important aspect of this work. There is likely to be the ability to reduce the total staff head count (and associated costs) over time for operations with it rationalised into a single entity. A key enabler of this rationalisation is a unified water AMP to ensure the prioritisation of tasks is fully aligned to the management of compliance.
- **Finance, business services and procurement** - These services will support the wider SWMC business but will also need to effectively engage with each of the Councils around funding and debt servicing. There will be opportunities to lever IT and potentially other services and activities that could be provided by any of the Councils. However, challenges will exist with ensuring consistency across the organisation and avoiding bias to one of the owners. Rationalising systems and the supporting software has been a significant challenge for Wellington Water. This will take some time and most likely initial costs to implement.

An example of potential business activity areas and their respective reporting lines is illustrated in Appendix A.

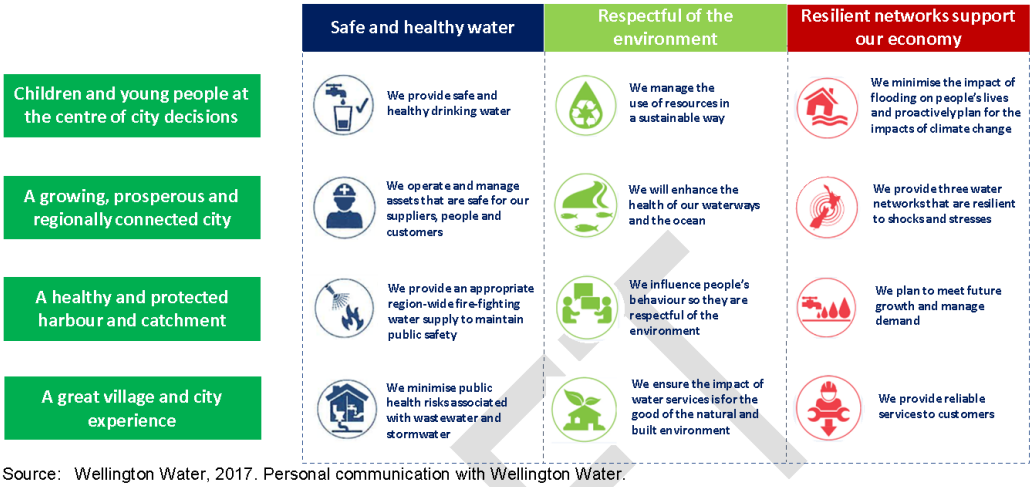
2.4 Organisational Working Principles

The working principles will be underpinned by key service goals that should be agreed through the organisational governance arrangements (the CEO, Board and Shareholders Forum) but "owned" by the SWMC executive team. This is fundamental to the success of the new organisation as it creates the "buy-in" through full alignment of objectives at the Board of directors and political level.

The service goals will drive the requirements and scope around the service plan which will be developed from the three Council AMPs and long term Infrastructure plans (with respect to the three waters) and the agreed service goals.

Figure 3 identifies Wellington Water's service goals "What customers experience" to provide some context, however, SWMC will, in collaboration with its owners, need to develop its own set of service goals to ensure they are directly relatable to customers in the sub-region.

Figure 3: Wellington Water Service Goals



Source: Wellington Water, 2017. Personal communication with Wellington Water.

At the organisation's core, the key working principle will be that all activity is focussed on delivering the agreed service goals, prioritised in collaboration and consultation with the company owners, and other key stakeholders. A planning and operational review cycle will be embodied into the SWMC that is parallel and synergistic to that required by each of the Council's to ensure that the operational and capital work streams are all working towards the service goals agreed.

Details around the core activities will need to be developed by the SWMC executive team in collaboration with each of the Council leadership teams as part of a start-up phase.

The integration of stormwater services with water supply and wastewater (3 waters) under a SWMC would be simpler when compared to an asset-owning CCO and would facilitate a comprehensive and integrated 3 waters service. This is because the funding for stormwater is secured through the Council rating base. Considering the management of 3 waters by a single entity would provide the focus and drivers for adopting holistic, catchment approaches to water management clarifying the responsibilities associated with addressing stormwater in wastewater infrastructure.

Centre of Excellence

Implementation of the above arrangement as a SWMC across the sub region will over time allow for a Centre of Excellence to be established. Areas where improved skill levels and competencies can be developed (with respect to water services) include:

- Project management and procurement
- Asset management
- Water education
- Treatment plant and network operations.
- Risk management.

This in turn will lead to improved career development and employment opportunities as has been noted across the case studies presented as part of the 2015 study. The Wellington Water experience has shown that as the organisation matures the brand develops over time which is an important aspect with ensuring a good working culture, attracting motivated employees and connecting with the community.

Health and Safety Leadership

In addition to the above, we would encourage (as Wellington Water has) an increased focus as a water utility on H&S across all organisational reporting lines including the supply chain. While we have shown H&S here as part of the business services reporting line – each of the reporting lines will have the opportunity to adopt an enhanced H&S awareness culture and systems that are focussed on the needs and requirements around the provision of three waters services. This will provide important benefits to the organisation, its staff and the wider community.

Appendix B presents a commentary from Wellington Water on their accomplishments to date.

2.5 Procurement Arrangements

The Business Case work from the 2015 study identified possible efficiencies of $42M within the first 10 years, with a projection of this reaching $151M after 28 years, based on an investment of $764M from their draft 2015 to 2025 LTPs (10 years). Hamilton City's capital investment programme accounted for 50% of the total forecast over the 10 years.

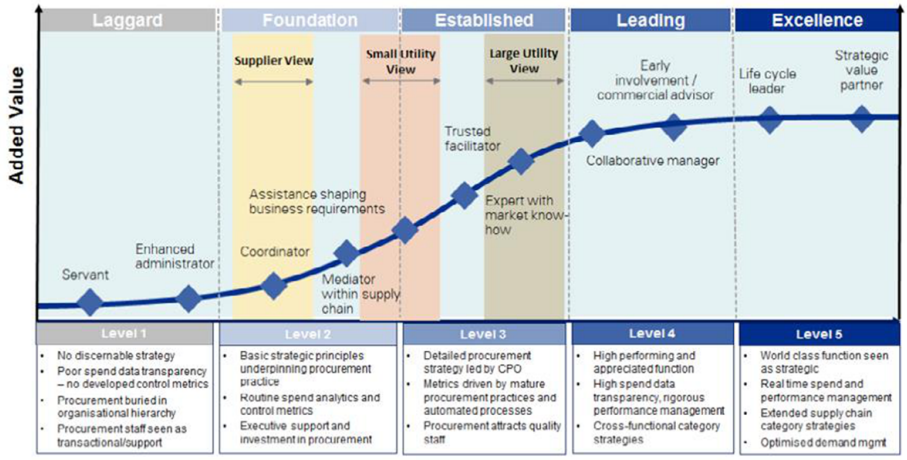
This study was based on and recommended a full asset owning CCO, however, it did also consider the option of an ESS (non-asset owning) arrangement. The model considered here allows for the operation and financial integration of the three Councils' water services to generate the benefits, which will need to take into account different initial network operational standards for integration and rationalisation over time.

The combined capital investment programmes for Hamilton City, Waikato and Waipa Districts over the 10-year LTP (2015 to 2025), is less than half of the Wellington Water 10-year plan over the same time period. Wellington Water has incorporated an annual saving of 1% (a total of $55M) from shared services and efficiencies of which they are trying to create headroom to enable them to deliver the programme within prudent limits.

In considering the Wellington Water Management Model, financial and non-financial benefits must be taken into account as the long-term gains associated with the maturity of such an organisation have been identified as key success factors from the existing five councils.

There is significant evidence within procurement of goods and services that proper engagement with the supply chain will yield efficiencies and deliver a more effective service, this is highlighted in Figure 4. In 2015, Wellington Water went out to the market for a consultancy design panel which was awarded on 1 July 2016. The objective of the panel was to bring a more consistent and effective approach to procuring services from the market. It was also a key enabler in standardisation of approach and a move towards more effective contract awards over the five council areas.

Figure 4: Procurement Maturity Curve



Source: Australian Water Association, 2017. Procurement Maturity in the Water Industry: Water Security for all Australians - Discussion Paper, Supported by KPMG.

The panel was to provide a window for Wellington Water to gain from the reach back and experience of the successful panellist to enable adaptation of best practice allowing the development and growth of a 'centre of excellence'. It was also a key enabler in unlocking future savings through the procurement of goods and services. Key result areas (KRA's) underpinned the tenderers response where the supply chain was asked to provide the methodology on how the panel would work and how success would be measured through the delivery of outcomes. They were also asked to put forward innovative ideas and typical processes and procedures of which the panel would work under using their worldwide knowledge in the water sector and other sectors.

The KRAs included the following:

- Value for money and innovation
- Knowledge management
- Health and safety
- Reliable delivery of quality
- Sustainable healthy market
- Collaboration, relationships and trust
- Customer focus.

This engagement with the supply chain is allowing the development and implementation of best practice. A similar approach from Waikato could see an efficiency of a minimum of 1.5% based on a tried and tested industry approach. This would also provide a solid platform for an asset owning CCO model, if this was to be considered in the future.

The following limitations may be associated with the non-asset owning model and could restrict the quantum of efficiencies achieved:

- No consolidated LTP for water

- No unified level of service associated with all the assets
- Restricted ability to cluster workload - or clustering would be ringfenced to each council
- Individual council annual investment requirements
- Different standardisation of designs and specifications – which could be integrated over time.

A key aspect of engaging the supply chain is to obtain aligned objectives. The most effective way of doing this is to have a long-term plan and 'Panels' or 'frameworks'. This is a key part of Wellington Water's ability to make the model work more effectively. Both the supplier and buyer benefit from the arrangement. Efficiencies can be identified and delivered through more effective working and economies of scale.

Key enablers to this process include:

- Removal of duplication and/or unnecessary paperwork/administration
- Volume of work over a known timescale
- Clearly identified scope
- Standardisation (minimising tailored working)
- Multi service suppliers (competition in market place).

Economies of scale refer to reductions in unit cost as an organisation's scale of output increases. The UK water sector has successfully driven down the unit cost of the organisation by this application.

The SWMC model would benefit from a joined-up procurement model which would provide services and materials using a more standardised approach. Regardless of how the final ownership model looks this will provide better value for money to the councils and ultimately the rate payers.

Wellington Water has taken on the responsibility of developing the Regional Service Plan, which integrates the long term, 3 waters infrastructure requirements for the five councils. This Plan is the result of applying a standard approach to asset management throughout the region. This is a key enabler to developing the procurement model to be aligned with the asset standards, the supply chain can be more aligned given the opportunity to rationalise the variety of suppliers and standardisation of maintenance (e.g. spares for pumps, standard sizes and fittings to address burst pipes, etc.). The Waikato ownership model can follow that of Wellington Water and more recently Watercare is putting in place a number of panels to set out this path of more aligned objectives with the supply chain to deliver better value.

Operational procurement benefits have been realised at Wellington Water through economies of scale and the rationalisation of services across the whole region. A good example is combining the network operation and maintenance contracts for Wellington City, Hutt City and Upper Hutt City Council which saved in excess of 10% on the total network opex annually. The ability to standardise supply requirements and procure O&M services across the whole sub-region will provide a financial benefit.

Develop Bulk Funding and Increased Resilience

There are a number of questions to be considered around bulk funding and providing more resilience, these include:

- What are the areas of the economies of scale identified through a comparison of capital programme and assets?

- What are the challenges or the common risks between the councils? Are they the same? Is the timing associated with fixing them the same?
- Could we still rationalise assets if they remain in the ownership of each council?

Most of these questions have been addressed through the Wellington Water model and a recent example of the benefits around a single water utility service provided has been the successful capture of central government funding to provide infrastructure resilience across the region. A key limitation for a non-asset owning entity being the difficulty to bulk fund across the whole region – it is likely (as is the case at Wellington Water) that bulk funding of the capital works programme will be ringfenced around each of the council's catchments.

Non-Financial Benefits

- Centre of Excellence- reach back into suppliers for adopting best practice
- Asset management strategy e.g. spares, standard products, etc.
- Attract good quality people and develop recognised experts in the industry.

Prior to the introduction of the panel arrangement at Wellington Water there was very little evidence of adopting a more collaborative approach between all the councils for their water services. This is not the case with Waikato as a shared services agreement has been in place for approximately three years. At the time of writing the Business Case for Water Services the feedback was that the current shared services arrangements were very limited. Evidence has shown that a visual commitment to an organisation is key and that moving towards a physical presence such as Wellington Water or its predecessor Capacity is key to building momentum and delivering results. It should be noted that water companies throughout the world have the same assets, supply chain and procurement needs, the only differences are in management approaches used to govern them.

2.6 Funding Arrangements

The 2015 Cranleigh study identified that significant savings could be realised from the Status Quo (as Waikato, Waipa and Hamilton City already operated a partial shared services arrangement), through the adoption of an ESS or CCO model. Therefore, a SWMC would also expect to achieve efficiencies.

Funding remains a challenge to overcome in the implementation of this model, and with revenue for water services handled through the respective Councils, agreements would need to be in place to facilitate the funding of the SWMC from Councils for the establishment and operation of the entity, through the charging of customers (e.g. through Council Rates, pan or volumetric charges, etc).

Establishment Costs

In the 2015 Cranleigh study, establishment costs of between $1M and $10.3M were estimated for an ESS and CCO, respectively. Our financial assessment has considered these to be the best and worst case, although some sensitivity can be applied to further rationalise the potential range, as described in Section 5.4.

Although not directly comparable, Wellington Water reported a significant cost reduction for it's network operations between 2013/14 and 2014/15 financial years, during its establishment from Capacity Infrastructure Ltd. This included the final stage of consolidation of the two delivery entities through change management, and does not account for staff redundancies, property relocation or other costs/savings associated with an 11-year change programme from district councils to a management CCO. The Wellington Water case does, however, show that there was insufficient funding allocated in the beginning for establishing the entity. Several

subsequent capital funding requests were made to facilitate the transition to a management CCO.

Operating Model

A SWMC would align the investment requirements of the three Councils' water services capital works and renewals needs, as outlined through the 3-year LTPs, to secure a single budget across the 3-year period from which to prioritise investment in line with the priorities outlined in the Regional Service Plan (as is the case with Wellington Water). Through this process, each Council will expect to see how their investment is apportioned appropriately to the customers in their jurisdiction, for example, that funding from the Waipa District water supply budget was spent on pipeline renewals within the district boundary.

The funding arrangement may mature over time but the logical starting point would be to consider the following requirements, with the funding derived from each of the three Council owners – probably in proportion to their customer base:

- **Organisation establishment funding** – as noted above this could be substantial and will only be recovered in later years once the new organisation is up and running and providing the range of other benefits and efficiencies identified.
- **Opex funding** – this can be allocated annually against a budget to manage and provide the complete O&M for all of the networks, plants and associated activities. Budgets and funding requirements will most likely be reported monthly with any adjustments agreed.
- **Strategy, planning and capex funding** – this can also be allocated against an annual budget and ringfenced for each individual Council with the exception where there is a joint capex initiative. Under this SWMC arrangement individual agreements are likely to be required in these circumstances. An allocation should also be provided for strategy, planning the future capex programme and to coordinate and work alongside each of the Council owners planning teams. In addition, a budget for business improvement / efficiency initiatives such as rationalisation of standards and development of consistency across the region is required, as was identified by Wellington Water as a funding stream that was missing at the start.
- **Corporate funding** – this would be targeted at the company corporate activities set out in the structure diagram and is likely to include items such as IT, HR, Board costs, etc.

In the case of Wellington Water, the billing of 3 waters services is not managed in-house, this is undertaken by each of the five Councils it provides services to, which reduces the exposure Wellington Water has to its customers and reduces the ability to highlight the value of their services. Scottish Water also adopts this arrangement although it increases it brand awareness through media campaigns.

A SWMC could operate with a greater level of transparency between the flow of revenue from Council Rates to the services received by the Customer, simply through providing a breakdown of water services in the General Rate charged annually by Councils.

The common theme from our discussions with Wellington Water is that the funding arrangements (and what is funded) need to mature over time as the new model beds in. This is because it is difficult at the outset to identify all of the funding requirements for the new organisation and what is best covered by the Council owners. This would imply that there needs to be some flexibility around how the funding is implemented with an ability to adjust this over time.

3 Asset Management Plans and Level of Service Alignment

Key Findings:

A Shared Waters Management Company will:

- Deliver an integrated AMP rationalisation that is likely to yield efficiencies through better planning of future infrastructure and non-infrastructure management and investment to meet key Council drivers, such as growth, compliance, security of supply and resilience.
- Drive greater collaboration with the potential for capital works savings through efficiencies around asset sharing and resilience through a more strategic approach to 3 waters services.
- Realise operational savings through a reduction in FTEs, along with improved efficiencies and economies of scale around outsourced contracts.
- Enable a potential capital works saving of between $42M and $253M, over the 30-year LTP horizon based on the programme set out in 2015.
- Enable through a wider asset base, greater purchasing power from the supply chain providing some financial alongside operational benefits.
- Facilitate greater efficiencies through an aligned renewal philosophy, standardised equipment contracts and specifications across a wider service area, generating greater economies of scale, associated savings and other benefits such as an improved risk profile and greater resilience.
- Provide dedicated staff resources engaging with relevant Council and stakeholder groups to understand and develop cohesive growth plans. The SWMC is better placed to deliver this across the sub-region than the status quo.
- Enable improvement around compliance (with both drinking water supply and wastewater discharge compliance) as a result of rationalising the management of water services assets into a larger water utility focused organisation.
- Ensure efficient and competent delivery of the capital works programme by building a centre of excellence of project and programme management skills and a team capable of understanding speciality areas and complex projects.
- Be less likely to be influenced by the day-to-day conflicts around trade-offs of affordability, public misperception of risk versus the ongoing investment required to achieve compliance
- Provide a greater focus and specialist resource base to address environmental and regulatory compliance providing an improved (but appropriate) level of service for customers.
- Potentially improve the sustainability of the 3 waters service through an integrated and holistic view and monitoring of water supply, wastewater and stormwater services.

3.1 Asset Management Plan Evaluation

Asset management plan (AMP) rationalisation is likely to yield efficiencies through better planning of future infrastructure and non-infrastructure management and investment to meet key Council drivers, such as growth, compliance, security of supply and resilience. A combined LTP for the sub-region that is aligned to each of the council AMPs (SWMC - regional service plan) will be required to, over time, provide transparency and realise maximum benefit.

Wellington Water has modelled its asset management approach on ISO 55000 and is in the process of trialling the implementation of its first Regional AMP, referred to as the Regional Service Plan which covers a 30-year planning horizon and consolidates the AMPs for each of the 3 water services from the four district council service areas and that of the bulk water supply from the GWRC. Essentially streamlining 14 AMPs into one. This overarching plan prioritises investment according to the 12 service goals and will feed the development of future LTPs. Wellington Water in their Statement of Intent[3], notes that the development of the Regional Service Plan will evolve in stages over the next few years in order to fully integrate and streamline each of the Councils' AMPs into one.

Efficiencies around the capital delivery programme may be more difficult to realise in the first (three years) planning cycle. However, as part of the SWMC establishment there should, as is the case at Wellington Water, be a plan to align the Council LTPs with a long term regional water infrastructure plan identifying potential to share capital investment across the region so that efficiencies can be realised in the medium to long term.

3.1.1 Capital Works Programme

The previous study identified that under both the ESS and CCO model, a number of financial and non-financial benefits are likely to be realised. The financial benefits are illustrated in Table 1 while the non-financial benefits are discussed in this section.

Table 1: Potential Capex Efficiencies

	Status Quo	ESS	CCO		
Capex Area			Max Spend	Base Spend	Min Spend
Total 3 Water Services 30 year Budget	$2,765.7M	$2,724.2M	$2,676.1M	$2,601.4M	$2,513.1M
Total 3 Water Services 30 year Savings	$0.0K	$41.5M	$89.5M	$164.3M	$252.6M
Total 3 Water Services 30 year % Savings	0.0%	1.5%	3.2%	5.9%	9.1%

Source: Mott MacDonald, 2015. Business Case Analysis for Water Services - Engineering Assessment and Evaluation.

In the *Business Case Analysis for Water Services* (Mott MacDonald, May 2015), the ESS model assessment identified that a number of project synergies were unlikely to be realised due to the high transaction costs of unstructured shared service arrangements. However, under a model similar to Wellington Water, where there is a sub-regional integrated services plan aligned to the AMPs it may be possible to realise more than the 1.5% identified for the ESS arrangement.

One of the benefits around building a centre of excellence will be the development of appropriate project and program management skills for capital works program. The new SWMC should have improved scale to build a team capable of understanding speciality areas and complex projects, to ensure efficient and competent delivery of the capital works program and the associated projects. There will be the ability to share programme and project management skills across all three capital works programmes providing a sub-regional strategic direction based on the AMP's and Water service plan with a view to improving resilience, operational flexibility while still delivering the projects at an affordable cost.

Project Synergies

Capital works efficiencies or project synergies were identified as less likely under an ESS model, and there have been minimal gains to date around capital works efficiencies for

[3] Wellington Water Limited. 2016. Statement of Intent 2016-19. Available at http://2016.wellingtonwater.co.nz/soi/assets/Wellington-Water-Statement-of-Intent-2016-2019.pdf [Accessed on 29/06/2017].

Wellington Water. However, this may be related to the geographical nature of the catchments and the fact that a number of these synergies are already in place including:

- Bulk water supply from GWRC to the entire region
- Sharing of the Porirua WWTP by both PCC and WCC over the past three decades.

It should be noted that these shared schemes were possible prior to the formation of both Capacity and Wellington Water and as such should be possible for a SWMC where there is a clear benefit (financial or otherwise) to more than one of the owners. We also note that Wellington Water is at the beginning of the maturity curve in terms of their journey to integrate their AMPs through their overarching Regional Service Plan. Over time improved integration should drive greater collaboration with the potential for capital works savings through efficiencies around asset sharing.

Project synergies are therefore likely to be realised under the Shared Waters model through investing together over time (as the organisation and arrangement matures) on the basis that there is strong leadership, pro-active collaboration and a streamlined mechanism for the parties to enter into an inter-council agreement to facilitate capital delivery. Obviously, such arrangements would be easier and simpler under an asset owning CCO model. A good example identified as part of the 2015 engineering work was the ability to remove the requirement for additional reservoirs in the Waikato district on the basis that the supply in these zones could come from the already planned expansion to the Hamilton City system, providing both a capital and operational saving.

Based on the 2015 business case analysis, it is likely that capital works efficiencies in the range of between $42M and $253M could be realised over the 30-year LTP horizon. Our business case financial assessment has identified a higher worst case efficiency than this under a scenario where project synergies are maximised, as described in Section 5.4.

3.1.2 Operations and Maintenance (O&M)

The Status Quo at the three councils has already realised savings through an existing shared services arrangement for chemicals and power supply, two of the three key contributors to O&M costs. The remaining significant facet to O&M costs is labour, which is difficult to rationalise further under the current model but could be readily achieved through the formation of a SWMC. Efficiencies could be realised through a reduction in full time equivalents (FTEs), along with improved efficiencies and economies of scale around outsourced contracts. The rationalisation of the network O&M contracts for Wellington Water provided a saving in excess of 10% per annum over the first few years of implementation.

If the current working arrangement is in house however it may take some time under a SWMC model to realise these savings as employees will need to be rationalised. The Cranleigh (2015) business case evaluation provided an assessment of the potential FTE savings that could be realised through the formation of an asset owning CCO and based on what we have seen at Wellington Water we suggest that there would also be a saving in the Waikato case but that it is difficult to quantify in the absence of further detailed organisational analysis. However, in addition to financial benefits we suggest that there will be other non-financial benefits through such a rationalisation of staff associated with developing a strong water focused customer support and operations team that builds a greater level of expertise than would be available in a Council environment, along with the associated supporting management structure.

In addition to the above, a wider asset base would enable greater purchasing power from the supply chain providing some financial alongside operational benefits, for example the

standardisation and holding of spares for replacement / renewals as part of ongoing O&M programme.

Aligning and managing the performance metrics through the Levels of Service (LOS) targeted and achieved under the SWMC model would need to be addressed to provide continuity across the wider service area, which from the 2015 study were identified as being different between each of the Waikato Councils. This is discussed further in Section 3.2.

The previous business case (Cranleigh, 2015) identified combined annual operational expenditure of circa $48M per annum for the 3 waters. This study identified how opex savings could be delivered through both an ESS and CCO model. Our view, based on what we have seen as part of the Wellington Water journey to date and what was set out previously is that there could be savings across the following aspects:

- Rationalisation and reprioritisation of routine tasks across all three councils
- Asset management of inventory and rationalisation of data collection and reporting
- Consolidation of common services
- Potentially some deferment of investment through strategic solutions
- Some deferment and improved economies of scale for maintenance activities.

The case studies presented in the 2015 business case provide further insight and evidence as to where operational savings can be made and the magnitude of the benefits that have been achieved elsewhere.

3.1.3 Renewals

Under the status quo, asset renewals are managed by each of the three councils, independently.

Under the ESS model it was identified that a more joined up approach would present opportunities to improve the efficiencies around a renewals program and provide some consistency across the three councils. It is important to understand and agree the risk profiles associated with managing assets between the Councils to define an agreed renewals philosophy (which is likely to differ across the sub-region) for maintenance, replacement and refurbishment going forward.

Under a SWMC model the development and agreement of the sub-regional service plan will assist with aligning the renewals philosophy across the three councils and overtime should assist with also driving efficiencies around a renewals program and improving the overall risk profile around water service provision to the community.

A rationalised SWMC, would facilitate greater efficiencies through standardising equipment, contracts, standards across a wider service area, generating greater economies of scale, associated efficiencies and other benefits such as an improved risk profile and greater resilience.

One of the key challenges for a SWMC model will be seeking to align the renewals philosophy over time with the associated risk profiles with the outcome being that all customers can enjoy a similar level of service (for example a safe and continuous water supply). Given the current varying arrangements this is likely to require strong leadership, a period of time and a willingness to collaborate and build the trusted advisor concept.

3.1.4 Network Asset and Growth Planning

Dedicated staff resources engaging with relevant Council and stakeholder groups to understand and develop cohesive growth plans (for the water infrastructure) to facilitate significant growth within the sub-region is likely to be better under a SWMC than the status quo. Fundamental to facilitating growth will be the ability of SWMC to assume the role of trusted advisor through its centre of excellence and the asset management team working in close collaboration (through the service agreement) with colleagues in the council organisations.

There are likely to be challenges to accommodate each council's growth aspirations and ensure that water services are aligned and delivered efficiently across all council's customers. Our view is that a SWMC is, however, better placed to deliver this across the sub-region than the status quo. This arrangement should allow the councils to focus on economic growth with the knowledge that the water services will be available and well planned across the region through the services agreement for the agreed areas and planning horizon.

3.1.5 Compliance

The work in 2015 identified a range of conditions and performance across the various water assets across the three councils. Compliance with the NZ drinking water standards and compliance with wastewater consent requirements was varied and more problematic across the rural schemes. Both water and wastewater treatment plant performance across the sub region is highly varied. Details around the compliance and associated performance measures are presented in the 2015 engineering assessment.

What has been clear as part of the case study analysis presented in the 2015 study, has been the improvement around compliance (with both drinking water supply and wastewater discharge compliance) as a result of rationalising the management of water services assets into a larger water utility focused organisation. Both Watercare and Scottish Water are good examples of how over time the rationalisation, focus and building a centre of excellence provides for a better platform for delivering these services (both plant and network performance) through a clearer focus and need to deliver to customers' expectations.

Constraints of expenditure by individual councils to keep rates at affordable levels and encourage growth by limiting development levels will be challenges for the SWMC to ensure that both an affordable but safer (lower risk) water supply and wastewater service can be provided. However, a SWMC model providing an arm's length objective view and a focus on delivering long term water infrastructure services is less likely to be influenced by the day-to-day conflicts around the trade-offs of affordability, public misperception of risk versus the ongoing investment required to achieve compliance. An example of this is the recent drinking water inquiry at Havelock North which identified a range of systemic management failures leading to contamination of groundwater for the purposes of drinking water supply, including amongst others, the receipt of public complaints on the taste of chlorinated water, resulting in disinfection processes no longer being implemented by the water service provider[4]. A focused SWMC on water services would provide greater transparency to customers and have the ability to prioritise investment to meet their statutory obligations.

Our view is that a SWMC will provide a greater focus and specialist resource base to address environmental and regulatory compliance providing an improved level of service for the Waikato sub-region customers.

[4] New Zealand Government, 2017. Report of the Havelock North Drinking Water Inquiry: Stage 1. Government Inquiry into Havelock North Drinking Water, Department of Internal Affairs. May 2017.

3.1.6 Resilience

The business case identified an improvement to resilience under an ESS model, and this would be further enhanced through adopting a SWMC arrangement where one organisation is responsible for delivery of the water services across the sub-region.

Overall resilience around, the physical assets, the organisation and the associated teams delivering the services would be enhanced through a more cohesive and integrated strategic approach. The development of improved systems focussed from a water utility perspective along with a disciplined workforce of water professionals working under a utility model with effective risk management plans is likely to improve resilience around the services provided when compared to the status quo.

Some good examples of improved resilience around the physical assets were identified as part of the 2015 study such as the ability to build combined larger and more reliable treatment plants over time, and the ability to better feed the different water supply networks and rationalise storage reservoirs. Some of these initiatives could show both financial benefits along with resilience improvements to the infrastructure if considered across the sub-region. The same level of resilience is arguably more difficult and costly to achieve for each of the individual councils. Risk profiles across the three Council's service areas would be comparable as they would be assessed the same way under a SWMC model, as the asset base would be treated as one under a single service area with unified levels of service metrics.

As noted in the 2015 study the status quo can only enhance resilience within each council existing boundary and the limitations identified in their LTPs.

3.2 Level of Service Assessment and Alignment

Since July 2014, councils have been reporting on mandatory performance measures which were set by the regulator. This national level requirement has already achieved a degree of alignment in service level reporting across the three councils and across New Zealand and should help facilitate the councils moving to common level of service metrics.

In 2014, the three councils put into place performance measures as part of adopting their respective 2015–2025 LTP, and these were reported against in their respective 2015/16 annual reports:

- **Hamilton City –** achieved 8 out of 8 of their sewerage and stormwater measures, and 8 out of 9 of their water supply measures.
- **Waikato District –** achieved 4 out of 5 of their stormwater measures, 6 out of 6 for wastewater, 11 out of 18 for water supply
- **Waipa District –** achieved 8 out of 8 for stormwater, 8 out of 8 for wastewater, and 22 out of 29 for water supply.

In summary, there were no common failures of targets in the reporting period across the three Councils, however, two out of three experienced technical and actual non-compliances of drinking water quality standards (Waikato and Waipa Districts). The number of dry weather flow wastewater overflows per 1,000 connected properties ranged between 0.1 and 2.9 overflows per 1,000 connections in that reporting year.

The mandatory performance measures and level of performance targets for 2015 for each Council were summarised in the 2015 engineering assessment as part of the business case assessment. In addition to the performance measures defined by the regulator as important, other parameters are monitored by each council to assess performance across the three waters services. Gaps in the targeted and actual measures are to be addressed in each Council's LTP.

The challenge for a new SWMC will be to both achieve alignment (where appropriate) for the level of service provided and then ensure the actual level of service is being achieved through the performance measures with the varied funding and different political environments and risk profiles across the council owners.

The SWMC model has been framed upon the Wellington Water model which has adopted overarching service goals, agreed upon in stakeholder workshops, to align the interests of each Council where ever possible. Section 2.4 presents the service goals developed by Wellington Water providing the focus for their overarching strategy, the Statement of Intent. A similar approach could be applied to the SWMC to essentially integrate the water-related levels of service for the three councils and provide common goals from which to prioritise investment, benchmark service and report from going forward. The time, effort and cost required by the SWMC to achieve this alignment should not be underestimated.

Where possible it would be sensible to align the water levels of service across the sub-region and the best way to achieve this will be through an agreed set of service goals as part of the SWMC mandate through the companies' board and the Shareholders Forum which provides the link back to each of the council owners. It would also be useful to obtain alignment from all critical stakeholder groups (e.g. regulators, Iwi, community groups etc.) to ensure that there are an agreed set of common service goals that are affordable to the community. Where there is a difference in the level of service this can be managed if it is clearly defined and agreed by the council and stakeholders as still being an appropriate level of service. This process of identifying and debating differences around service provision across the three owners will over time most likely work towards providing alignment as the arrangement and organisation's approach matures and trust over the new entity is built.

Under this model, there is great potential to improve the sustainability of the 3 waters service through the holistic view and monitoring of water supply, wastewater and stormwater services. For example, water conservation measures are likely to improve through the reduction of infiltration and inflow in the wastewater network and leakage reductions in the water supply network. Improved implementation of demand management measures by customers could also be enhanced through a unified approach to water education from one entity through the provision of holistic advisory services for 3 waters management.

Successful implementation of this model, is hinged upon strong leadership and effective stakeholder engagement, therefore a suitable management team would need to be in place to provide strong strategic direction and focussed delivery of the services under an effective governance team (the Board of directors) and their accountability to the Shareholders Forum and ultimately the owners of SWMC. Such a focus to align inevitability leads to an overall performance improvement as each council will look to share the set of common goals and provide their customers with services levels aligned to that of the whole sub region.

Under the above arrangement, the SWMC would look to harmonise over time the level of service delivery across the sub-region and provide regular and transparent assessment to customers. However, this will take time.

As noted above there is currently variable compliance with both the water supply (plants and networks) along with meeting wastewater consent compliance across the sub-region. There is substantial work to do to prioritise where the focus will need to go in the short, medium and long term to maximise the benefits to the SWMC customers and this will be part of the exciting improvement journey led by the SWMC executive and governance teams.

4 Customers and Stakeholders

Key Findings:

A Shared Waters Management Company will:

- Provide the ability to control and set consistent levels of customer service for water services across the three council regions.
- Allow the company to move towards an optimal customer intervention to achieve consistent levels of service through call quality and response times of dedicated water service call centre staff.
- Consolidate the customer centre for water services under one roof, as well as offering the opportunity to fully control the customer experience at the first point of contact.
- Offer the opportunity to rationalise offices, depots, administration, IT, finance and other common services.
- Increase the need to manage interfaces with council operated services.

The 2015 study identified numerous compelling reasons for change from the Status Quo including the abilities of the Councils to efficiently and effectively tackle issues such as:

- Growth
- Environmental and Regulatory Compliance
- Capital Investment.

There is also the opportunity to improve customer service.

In this section, consideration is given to the benefits and dis-benefits of delivering customer service through the Status Quo, SWMC and asset owning CCO ownership models. Some lessons learned from Scottish Water International have also been included to understand the benefits that can truly be realised from a single publicly owned utility which has full ownership of its assets and has transformed the customer experience.

4.1 Customer Relationship Model

The key question to be answered is "who owns the customer" in each of the models and establish "what will be the difference in the experience for the customer under each model". Another aspect for consideration is "what is the customer's role in deciding what is important in terms of levels of service" and their "willingness to pay for services".

Who "Owns the Customer"

All models in some way or another own the customer. Council employees in general have a good approach to providing good customer service as a 'public service', it is in their DNA.

In general, the customer will only experience the water service at a small number of touch points, including the following:

- Billing
- Call centre contact associated with (i) an issue with their service, or (ii) a request for information
- Contact through construction disruption.

These touch points have the ability to shape a customer's perception of the water service and its provider and are each discussed in the subsequent sections.

4.1.1 Billing

One of the biggest issues with customer billing arrangements under the Status Quo, or individual council billing by Hamilton City, Waikato District and Waipa District, is that the investment made on three waters is not tied in any way to the rates customers pay for water through the application of a general rate. This makes it difficult to manage a sustainable model or engage customers in discussions over their willingness to pay for the services, in other words, they get what they pay for.

Under Wellington Water's model, the same currently applies, as the "who owns the customer" question is made less clear in this model. Wellington Water is examining how this could change to allow further customer engagement in determining the cost to serve.

An asset owning CCO model would allow access to full operation and maintenance and depreciation costs to inform the setting of rates.

Scottish Water, as an entity originally formed from Councils, has retained the collection of water service charges through the Councils. There is a separate bill item outlining the cost to be paid, so the customer can relate the service to what is being charged. This was reviewed by Scottish Water through an assessment of the cost of collection, high collection rates and cost to change e.g. IT systems, data transfer, etc. against a more direct relationship, which resulted in this service being retained within the councils. In an attempt to re-establish "who owns the customer", Scottish Water includes a leaflet with the Council Bill which outlines the cost breakdown and improvements in service made that year and increased brand awareness through media campaigns.

4.1.2 Customer Call Centre

The status quo for water services in Hamilton City, Waikato and Waipa District Councils is for customers to report an issue or seek information through a third-party service provider.

A shift to either of the managed service models could allow the formation of a single SWMC centralised customer contact centre with a dedicated number, similar to that used by Scottish Water and other such service providers globally.

This has the potential to realise some opex efficiencies, through the rationalisation of three to one consolidated customer centre, as well as offering the opportunity to fully control the customer experience at the first point of contact. Customer information can be retained to ensure call handlers have access to the whole customer history allowing empathy to be shown, the correct operational response to be tailored and escalation if issues are recurring. This provides a more direct link between asset management, service risk and capital interventions, especially in a CCO model.

In addition, a managed service provides the opportunity to establish a central platform to link the whole customer contact to resolution through IT linkage with field staff. The customer's journey could be mapped to ensure all touch points are well managed and the customer is informed of progress enhancing the customer experience.

4.1.3 Construction Works

Currently, the undertaking of necessary construction works is branded and delivered by each Council with limited transparency as to which service is being affected.

Managed service models will allow the SWMC to develop its own brand and differentiate itself from other entities that dig up roads causing public disturbance. For example, Scottish Water's market research has shown that a utility's reputation can be enhanced if they carry out construction works well by involving, engaging and informing customers of why it is required. The shift to one entity can implement best practice from each of the three Councils and other organisations to establish a SWMC approach to carrying out works. When linked to a single call centre, this approach can ensure customers have the best experience through a period of necessary disruption.

4.1.4 Managing Customer Expectations

Currently, Levels of Service (LOS) between the three Councils are different, enabling the prioritisation of investment for water services to be assigned differently by each Council which results in differing levels of customer experience between the respective Council service areas. This also means that risk profiles are different between the different Council areas.

One of the biggest advantages presented by a shift to one managed service is the ability to control and set consistent levels of service across the three council regions. The LOS could also be aligned to customer priorities and agreed through a customer representative body, such as Wellington Water's customer panel which is being established along the lines of the Scottish Water model of a Customer Forum[5].

Managed services allows the company to develop the optimal intervention to achieve this level of service through operational or capital activities, allowing the company to truly consider the current and future risk to service profile and shift its thinking from managing asset risk to managing service risk. This could be further aligned to the customers' needs by sharing these decisions with a customer panel such as Wellington Water's which is currently under development. The panel can assist in setting the future investment plans and balancing service risk, water and environmental quality improvements and customers' willingness to pay.

4.1.5 Water Education

The current status quo is a centralised education service across the three councils, however there is the opportunity to enhance this via a SWMC model. The interface management between the councils and service provider (SWMC), will have challenges but has shown in the Wellington Water case to improve through the customer responsibilities being shared by both the water utility and each of the councils. Through effective information sharing systems, good collaboration and customer communications there is the potential to improve on the status quo.

4.2 Council Support

Combining three councils' water services into one does offer the opportunity to rationalise offices, depots, administration, customer relationship management, IT, finance and employee relations. One of the key benefits of the Wellington Water model is that it has provided a focus on water services and pooled together a 'critical mass' of key personnel to look after the three waters into the future.

4.3 Stakeholder Engagement

Segregation from the three Councils creates the need to manage new interfaces. This, again, can be managed through the creation of a critical mass of specialists such as planners, land

[5] Scottish Water's Customer Forum is tasked with bringing the customers' voice to the table in determining future service levels, investment priorities and how much customers should pay for water and wastewater services. More information on this can be found at the following website www.customerforum.org.uk.

managers, utilities and road openings management who will establish key relationships with Council counterparts.

The management approach for other key stakeholders is best to be agreed and established in stakeholder workshops with the Councils, to establish points of contact and associated roles and responsibilities for stakeholder management.

5 Business Case Assessment

Key Findings:

A Shared Waters Management Company will:

- Provide a focused water services organisation that addresses the sub-regional growth challenge.
- With the right agreements in place between the respective councils can realise substantial project synergies and capital efficiencies over a 28 year horizon
- Realise substantial operational efficiencies.
- Require an initial investment in the range between $5M and $10M
- Enable improvements in drinking water and wastewater discharge compliance across the board for each council as these are likely to be high up on the service goals which would be agreed by the Shareholders Forum.
- With the trusted advisor and centre of excellence established provide a strategic view and fresh thinking on issues and prioritisation of funding to minimise reputational damage and a more transparent approach to risk management.
- Through a greater degree of collaboration will increase resilience, through adopting a broader strategic approach to regional issues and releasing a greater potential to leverage central government and regional council support through joined-up thinking.
- Through the main role and responsibility of the Shareholders Forum, expedite the delivery of the strategic direction of the overall plan and ensure higher level decision making is carried out to facilitate more efficient delivery of the SWMC's service goals.
- Require strong leadership at CEO and Board level to drive the delivery of the service goals, build trust and meet the expectations of all 3 waters stakeholders including the Councils, the environmental regulator and the customers.

In line with the BBC approach adopted in the 2015 Cranleigh report, this section evaluates the benefits and dis-benefits of a SWMC option against the Status quo and asset owning CCO options using the previous quantitative analysis undertaken in 2015.

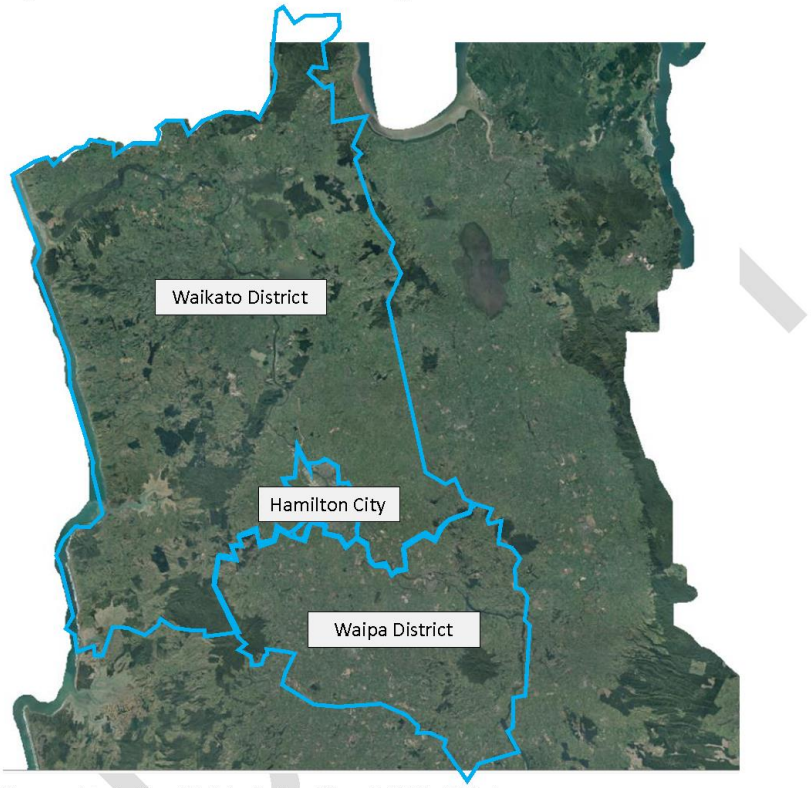
5.1 Strategic Case

The strategic case for change from the Status Quo was agreed at a joint governance group workshop and presented in the 2015 Cranleigh report. The key overarching themes and strategic direction for water services included the following:

- **Effectiveness** – improving customer service, outcomes and promoting the sustainable use of water.
- **Efficiency** – improvement through integrated, long term planning, development and management.
- **Lower LTP costs** – deliver financial efficiencies across the LTP horizon.
- **Alignment** – achieving regulatory compliance, maximising environmental and regulatory outcomes as well as meeting customer expectations.
- **Risk reduction** – driving resilience and improved compliance through organisational leadership and investment.
- **Community focus** – providing appropriate governance to facilitate community involvement.

In addition to identifying alignment between the Councils over key themes, regulatory drivers exist to encourage collaboration between local Councils through the 2014 amendment to the Local Government Act. The close geographic proximity of the three councils' service areas and in particular for water supply purposes, and the distribution of natural resources, means that there is a strong strategic case for cooperation between the Councils, as illustrated in Figure 5.

Figure 5: Three Waters Service Coverage Areas



Source: Adapted from Waikato Regional Council, 2017 – Waikato maps.
Available at https://waikatomaps.waikatoregion.govt.nz/Viewer/?map=57b2b09738a84292acf9b7d09f02ec7e
[Accessed on 1/08/2017].

The status quo presents a high level of transparency to stakeholders of where investment in assets is made.

Under a SWMC model, asset ownership is retained by the three respective councils, therefore efficiencies as a result of project synergies are likely to be more challenging especially in the short term. Sufficient effort will need to be invested at the beginning to agree how responsibilities are to be split between the three councils. This would facilitate the integration of separate AMPs and LTPs into one consolidated regional AMP (or service delivery plan) to aid implementation towards a common goal.

The Cranleigh report (2015), identified that the asset owning CCO model would have the potential to realise the highest level of efficiencies given the streamlining of the service offering

under this model. However, with the right agreements in place between the respective councils, capital efficiencies and project synergies can still be realised through the SWMC, in the region of between $90M and $253M off of the capital programme, over a 30-year LTP horizon (Mott MacDonald, 2015).

5.2 Economic Case

The status quo has the three councils already adopting a limited shared service arrangement to provide shared laboratory analysis, trade waste and water education services, provided by Hamilton City Council on an agreed cost sharing basis.

The SWMC model would require the consolidation of more than just the three existing shared services to provide further efficiencies. These services would be extended to include strategic and asset management planning, project delivery and O&M, with the respective councils retaining statutory planning responsibilities such as consenting, customer services and stakeholder management as well as some corporate service functions.

Organisation and Governance

The governance structure proposed in Section 2.1 shows the SWMC to be reportable to its Board and a Shareholders Forum, rather than the direct arrangement of these services being supplied through the Council directly (existing shared services aside).

It is likely that some efficiencies on FTEs in the management structure are realised from the status quo, through the SWMC model, estimated in Cranleigh (2015) to be approximately 10 FTEs equating to some $850k per year.

The establishment costs required to set-up the new entity were estimated in the Cranleigh report (2015) to be between $1M and $10.3M for ESS and CCO, respectively. Based on discussions with Wellington Water and experience with organisational establishment, under capitalisation of an entity in the early stages is a risk. Underfunding at the start will limit the organisation's ability to reach its full potential and drive the change necessary to provide benefits. It is therefore more likely that the SWMC, which needs to establish a new office, IT, branding, HR, Governance and associated legal fees, is likely to require initial funding in the range of between $5M and $10M for establishment costs.

Environmental and Compliance

There are likely to be improvements in drinking water and wastewater discharge compliance across the board for each council as these are likely to be high up on the service goals which would be agreed by the Shareholders Forum. These metrics are currently regularly reported on, however, with the trusted advisor and centre of excellence established through the SWMC, it is likely that a strategic view will provide fresh thinking on issues and prioritisation of funding to minimise reputational damage and a more transparent approach to risk management.

Resilience

A greater degree of collaboration will ensure stronger resilience, through adopting a broader strategic approach to regional issues and releasing a greater potential to leverage central government and regional council support through joined-up thinking. Wellington Water was able to unlock central government funding using this approach, to help future-proof assets against earthquakes.

5.3 Commercial Case

Transactions for operation of the SWMC would be agreed and controlled by the three councils in accordance with agreed long term plans, as they would maintain their role of billing

customers, and transferring an agreed regular amount over to the new entity to feed its establishment and ongoing operations.

The assets will be retained by the respective Councils, with agreements put in place to manage any assets of infrastructure which benefit more than one council. The total amount each council would contribute to assets would be proportioned accordingly with agreements in place to manage ongoing operations.

Agreement on the infrastructure priorities over a longer term, say 10 years which is reviewed more regularly, say every three years, enables longer term investment across the region to be made more efficiently. Wellington Water is currently trialling this approach to agree long term funding to service all council areas, with funding from each council, averaged across the year to provide an equal monthly amount for the Wellington Water Committee to prioritise based on service performance.

5.4 Financial Case

The range of efficiencies identified in the 2015 studies, recent communications with Wellington Water and a recent procurement publication are summarised in Table 2.

Table 2: Benchmarking Summary of Efficiencies

Case Studies	Capex Efficiencies (%)		Opex Efficiencies (%)		Comments	Source
	Low	High	Low	High		
Previous Business Case Analysis for Hamilton City, Waipa and Waikato District Councils	1.5	9.1	1.5	5.0	Low ranges reflect the ESS option, whereas the high range reflects the minimum spend CCO option for 3 waters. Capex efficiencies are inclusive of project synergies based on LTPs.	Business Case Analysis for Water Services: Engineering Assessment and Evaluation, Mott MacDonald, 2015.
- English Water Company Bench-marking	1.0	3.0	0.0	3.0	Industry level savings per annum, some companies achieved up to 25% capex efficiencies in project delivery.	Presented in Business Case Analysis for Water Services: Engineering Assessment and Evaluation, Mott MacDonald, 2015.
- Scottish Water	21.5	25.0	20.0	25.0	Achieved within the first 4 years of establishment from a council to a national public utilities model.	
- TasWater	-	-	2.0	3.0	$5M or 2% opex savings achieved within the first year of establishment.	
- Watercare	20.0		2.0	4.0	Achieved between Nov 2010 and Jul 2012 following amalgamation of the local authorities.	
Wellington Water	-	-	10.0	20.0	Opex efficiencies through consolidating services across dispersed networks.	Capacity Infrastructure / Wellington Water experience.
Procurement in Australian water sector	-	-	1.7	4.7	Procurement savings per annum reflect the maturity of the model used, for the 'laggards' and 'Best-in-Class'.	Procurement Maturity in the Water Industry: Water Security for all Australians - Discussion Paper, AWA, 2017.

The benchmarking summary demonstrates that wide ranging capex efficiencies have been realised across the case study examples, typically between 1% and 25%. Scottish Water observed the high end of capital efficiencies, with some English water companies also achieving this degree of efficiency across capital delivery programmes. Opex efficiencies reflect annualised efficiencies, with substantially higher efficiencies realised by Scottish Water and Wellington Water as organisations that assumed the management of Council assets.

Plausible efficiencies for the SWMC, based on the most applicable ranges presented in Table 2, are summarised as low and high ranges as follows:

- **Capex efficiencies - 3% to 9%:**
  The findings from the engineering assessment of the three councils LTPs completed by Mott MacDonald (2015) for the Cranleigh Business Case (2015) has not changed, in that the same synergies could be achieved under a SWMC model assuming that the appropriate drivers are in place and there is strong leadership to align agendas. It is expected that the lower limit would be somewhat better than the ESS model, and the upper limit would be close to what could be achieved under an asset owning CCO at around 9%.
- **Opex efficiencies - 1.5% to 5%:**
  It is expected that the lower limit presented in the Cranleigh Business Case (2015) should at least emulate the ESS model. The asset owning CCO model showed 5% as an upper limit, however, recent indications from Wellington Water shows network savings in excess of 10% and Scottish water also shows opex savings in excess of 10%. Over time it is expected that 5% is a conservative upper limit for the SWMC.

The potential efficiencies which could be realised through an SWMC model are summarised in Table 3**Error! Reference source not found.**. The details behind this financial assessment are presented in Appendix C.

Table 3: Summary of Potential SWMC Costs and Efficiencies over 28 year period

Model	Total Capex Cost ($M)	Total Opex Cost ($M)	Total Cost ($M)	Capex Efficiencies ($M)	Opex Efficiencies ($M)	Total Efficiencies ($M)
Status quo	2,765.7	2,887.9	**5,653.6**	0.0	0.0	**0.0**
SWMC – lower limit	2,692.7	2,844.6	**5,537.3**	73.0	43.3	**116.3**
SWMC – upper limit	2,521.8	2,743.5	**5,265.3**	243.9	144.4	**388.3**

Note: Lower limit –includes $10M establishment costs as capex and low range capex (3%) and opex (1.5%) efficiencies.
Upper limit – includes $5M establishment costs as capex and high range capex (9%) and opex (5%) efficiencies.

Net Present Value (NPV) adjustment is excluded from the assessment. Debt optimisation has also been excluded as the SWMC will have minimal debt and will not own the assets, this is therefore retained by the three Council owners.

The efficiencies estimated in Table 3 are unlikely to be realised within the first two years of the SWMC's establishment owing to the costs associated with consolidating the 3 waters services under one roof. These efficiencies are more likely to be realised in the longer term and hence for a 30 year planning horizon, have been estimated for years 1 – 28 following the entity's establishment.

The benefits realised by each Council will vary, with capex efficiencies realised where project synergies have been identified resulting in savings to capital programmes. They are not distributed evenly across the three Councils. Opex efficiencies are likely to be returned on a per customer basis across all three shareholders.

5.5 Management Case

The outline management structure or organisation chart for the SWMC is presented in Section 2.1. The governance of the new entity should be clearly identified before the entity creation or establishment process commences, to ensure clear communication of roles and responsibilities and alignment of goals and milestones.

A representative for each Council would need to be appointed by Hamilton City, Waikato and Waipa Districts to form the Shareholders Forum, whereby each Council has equal voting rights, and the Forum meets regularly to drive the prioritisation of service performance in accordance with the Regional Service Plan. The main role and responsibility of the Shareholders Forum is to expedite the delivery of the strategic direction of the overall plan and ensure higher level decision making is carried out to facilitate more efficient delivery of the SWMC service goals. Lessons learnt from the Wellington Water case demonstrates that this committee is instrumental to the success of the new entity, through maintaining the required traction between the respective Councils and the new entity.

The SWMC will require strong leadership at CEO and Board level to drive the delivery of the service goals, build trust and meet the expectations of all 3 waters stakeholders including the Councils, the environmental regulator and the customers themselves. This approach appears to be working for Wellington Water as they build their brand as a trusted advisor for water services in the Wellington region. The process has been long, however, with an array of measures required to facilitate leadership, collaboration and engagement with the respective councils, significant efforts have been made towards the long-term service goals.

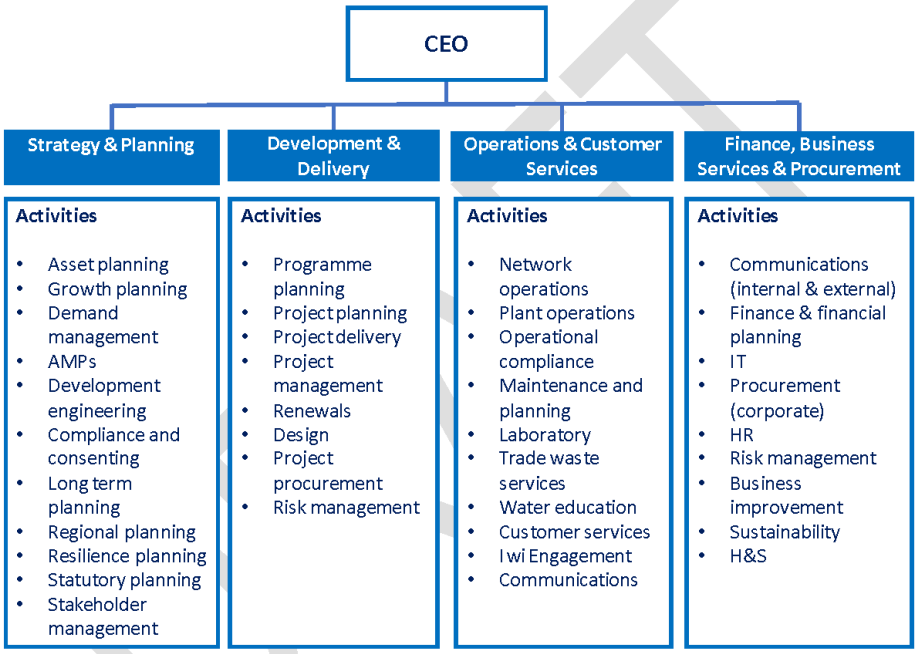
In summary, it is evident from our assessment that there are a number of key enablers to achieving the aforementioned efficiencies, including; one common asset management plan, aligned levels of service, investing where and when it brings the most efficiencies and smarter procurement. Transitioning to the SWMC model organisation alone, will not be enough to achieve these efficiencies.

Appendices

A. Shared Waters Management Company - Governance and Organisation Structure

Figure 6 presents the likely activities across the organisational reporting lines based on the Wellington Water experience and the 2015 workshops completed for the *Business Case for Water Services* (Cranleigh, May 2015).

Figure 6: Organisational Reporting Lines



B. Wellington Water's Value Story

A summary of Wellington Water's development, key business initiatives and accomplishments to date, provided by Wellington Water.

The Wellington Water Value Story

July 2017

Introduction

Wellington Water (WWL) is now almost 3 years old. It's time to take stock and look at the value the model has generated and what we have learnt along the way.

This story has been written to share with others considering a similar business model or just wanting to understand it better.

Description of WWL

Under the Local Government Act 2002, WWL is a Council Controlled Organisation (CCO). It is owned by the Hutt, Porirua, Upper Hutt and Wellington city councils and Greater Wellington Regional Council (GWRC).

WWL has an independent Board of Directors that oversee the company's performance. In addition each shareholding council is a member on the Wellington Water Committee that oversees the company's three waters service performance.

The five client councils fund WWL to manage the council-owned three waters networks (water supply, wastewater and stormwater). WWL also provides investment advice about the future development of three water assets and services.

History

Capacity Infrastructure Services was formed in 2003, between the Wellington City Council and the Hutt City Council. In November 2013, the Upper Hutt City Council and the Porirua City Council became shareholders.

WWL was then formed in September 2014 which comprised the Capacity Infrastructure Services functions along with the bulk water functions and staff from Greater Wellington Regional Council. On 17 October 2014, final staff from Wellington City Council transferred to the new entity. Soon after this, in March 2015 the WWL brand and logo was launched

Prior to joining Capacity Infrastructure Services and WWL, each shareholding Council organised themselves differently in their provision of water services. For example, there were differing arrangements for reporting 3 waters performance to Councils, different ways of managing the works and different ways of performing the work. Some Council were fully outsourced while others performed a number of functions in-house.

Three Stages of Development

Wellington Water has evolved through three stages of development as follows:

Stage 1: formation of the new company
Stage 2: establishing the company as a going concern
Stage 3: starting the process of delivering value.

Stage 1: Formation of the New Company

This period occurred between September 2014 and June 2015. The major work undertaken during this period was to create a new organisational structure which would allow Wellington Water to perform as an efficient regional structure. A full change programme was organised and affected. The new structure went live on 4 March 2015 and was reasonably well imbedded by June 2015. Three major issues were encountered through this phase.

The first was the allocation of management staff and overheads. When a new company like Wellington Water is formed it is important to ensure it can operate as a going concern. If there is a strong environment of "cost control" during this phase then the allocation of management time and overheads from the owners to the company will be less, leaving the company with difficulty setting up its own company structure.

The second issue is that it costs money to effect a change programme. Wellington Water received funding for the cost of change but it would have been easier for everybody if it had been provided from the beginning rather than becoming a series of discussions after the change was completed and budgets were then agreed.

The third issue was the transfer of functions without sufficient money to do them. The best examples were functions which might have been poorly carried out in the past. However, when transferred to the new company a high expectation was created. This can be managed so long as there is a basis to pay for the changes that need to be made.

The result of this phase was the creation of an operating model which required WWL to save before it could reallocate resources to operate as a 'going concern.' While this is a good incentive on any company, there was little opportunity to make savings because initially the company was made up of predominantly personnel costs. This therefore meant the company had to restructure to find efficiencies to move forward. This model creates some good incentives but is restrictive on how fast the company can move.

Stage 2: Establishing the Company as a Going Concern

The period between June 2015 and June 2017 was used to stabilise the company so it was set up well to deliver value for money. The key elements of this are as follows:

- Establishing a **reputation** which positions the company well within the region. An important element of any infrastructure company is that it has the **critical mass of expertise** to carry out the work. Initially the company struggled to recruit the right people but as at June 2017 we are comfortable with our skill sets;

- It has taken a lot of time to establish the **trusted advisor model** and remove any duplication between the company and its shareholders. Establishing trust has been critical to building the business model to avoid duplication between us and councils. During 2017, we transferred the final staffing across from the Porirua City Council to Wellington Water. We also made final arrangements with all councils on how to fund capital within the company for replacements of IT infrastructure, cars, etc. There are however, some remnant functions in councils and so our trust discussions are ongoing.

- Set up the key **systems and processes** to ensure we could perform comfortably. The main system we needed was the programming, development and delivery of

capital projects. We are now trying to extract further value through the consultancy panel and proposed contractor panel;

- Introducing the concept of **One Budget**. If we agree on infrastructure work that is needed over a 10 year period, then we can agree more specifically on 3 years of activity and then 1 year of activity. Annually we now receive the sum of all opex and capex for the year and complete the work. This will allow significant efficiencies (ie, single budgeting, one invoice system and one purchase order system, instead of 5). It allows the company to make its own resource adjustments between the company and the work programme to achieve best value;

- Agreeing with councils how we would discuss and agree on **long term planning**. Initially we would characterise discussions with councils as being about projects and short term budgets rather than services. We have migrated to a new model where we only talk about services that allow councils and the company to take a long term view and always choose the right projects at the right time under a constrained budget scenario.

Stage 3: Starting the Process of Delivering Value

We consider we are now on the cusp of delivering considerable value for our shareholders. That is not to say we haven't delivered value to date but it has been mostly at the operational level. Good examples are:

- reduction in overflows at the PCC wastewater treatment plant
- increasing the thickness of sludge to landfill which in turn reduces odour for locals
- safer and quicker projects being delivered after implementing WW fencing policy
- better, quicker and more reliable DNA results on lake water quality been received at 1/3 of the previous cost by using Benthic sample grab.

The key value for money initiatives going forward are:

- Delivering our first optimised 10 year **regional service plans** and 30 year **infrastructure plans**. It has taken the company nearly 2 years to fully introduce its service goals against which councils can direct investment and capture sufficient data to establish its assets are performing. We are now well advanced with this work and are on track to deliver these documents by October 2017. These documents articulate the highest order value for money as they show how we are doing the right projects at the right time in line with the council priorities.

- We have approved our **Service Delivery Plan** which lays out how we expect to deliver value for money through the provision of services throughout our supply chain. We have implemented a consultancy panel which has significantly improved the reliability and consistency of the delivery of our capex projects. We still have three more models to introduce by June 2019 (ie. an alliance for maintenance and operations, a regional model for waste water treatment and optimising programme/project management). Once completed we will be delivering services across the region in the most efficient way possible;

- We continue to deliver our services day to day in the most efficient way we can. We operate a **value for money register** which captures all our ideas and records any value we achieve. Attachment A contains our value dashboard at June 2017.

Significant learnings

- **Trusted advisor approach** - To get the most out of the model the shared service agency needs to be seen as a peer. When this happens there is no duplication between the host and the shared service entity resulting in much better productivity. This requires trust on both sides.

- **Customer** - future challenges are to improve customer service and experience and to get a stronger linkage between water rates revenue (that our councils collect) and water spend. We can't operate an effective business without fully understanding the customer

- **Collaboration** – although GWRC are one of our shareholders they also set the regularity scene for a lot of our 3 waters work. We have made a shift from a pure compliance relationship to a collaborative one that respects GWRC regulatory requirements but seeks to work better together to resolve issues and plan better long term in a way that balances environmental and economic benefits

- **Agility** - our business model comes under significant pressure in emergencies (ie. flooding, earthquakes, water quality E.coli incidents) which restricts our flexibility in both a financial and resourcing sense. Our model needs a degree of agility built into it to be able to respond to such events, which may increase in frequency with climate change and growing populations

- **Collaboration between central and local government** – we have recently achieved a co-funded approach with central government to strengthen resilience in the Wellington region, which would probably not have happened without a regional case being presented to central government

- **Increasing external factors** – we are increasingly being required to meet new and additional standards and regulations (ie. Natural Resources Plan, Whaitua process which has catchments across council boundaries) and the policy landscape is becoming more complex with new National Policy Statements (urban capacity development, freshwater management) that require increased time and effort

- **Contributions outside the region** – because we are building our expertise we want to share it with others outside the region and we put time into influencing the water sector for the greater good (ie. our input to Havelock North stage 2 review). However this sharing comes at a cost to the company.

- **Assets** – we already provide advice as though we own the assets – we manage asset risk like we own the assets but we do not hold this liability. In other words we don't need to own the assets to provide good quality service/advice to councils and achieve our company outcomes.

Attachment B contains a summary of learnings.

Conclusion

Any new model takes time to settle. This is as much to do with culture as it is to do with the operating model set. In our case, we have been asked to implement a complex model which means you have to be patient to get all the elements right before it can really perform.

Attachment A: Value Dashboard June 2017

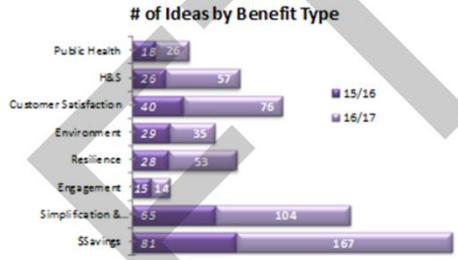
Wellington Water

Value for Money Dashboard
June 2017

Total number of ideas: 291

of Ideas Recorded by Month

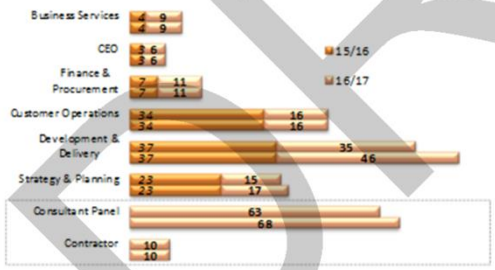
of Ideas by Benefit Type



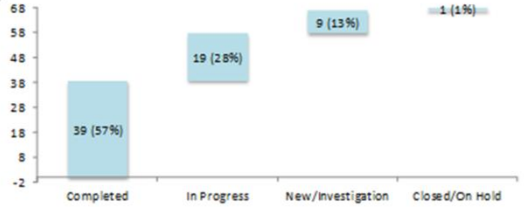
Wellington Water Progress Update

of Ideas Logged by Group

YTD May17 vs YTD Jun17



Consultant Panel Progress Update



Attachment B – Learnings from the Wellington Water Model

C. Shared Waters Management Company - Financial Summary

The 2015 study undertook an assessment of the three councils' proposed LTPs to estimate a range of possible capex and opex efficiencies and how these would compare against the status quo (the existing 2015 LTP). This assessment was reviewed again in this study to rationalise the potential range of efficiencies for the SWMC model, which essentially falls between the ESS and asset owning CCO model options presented in the 2015 study.

The total costs over a 28 year LTP period, are based on the proposed 2015 LTP with establishment costs for the new entity, capex and opex efficiency estimated in the cumulative expenditure profiles summarised in Table 4 and outlined in Figures 7, 8 and 9. The actual horizon for estimating costs and realising efficiencies, however, is more likely to be achieved following the establishment period where set-up costs are incurred and efficiencies are less likely, hence two years have been removed from the 30 year infrastructure planning period i.e. 28 years.

It should be noted that the estimates for the first ten years, which are largely based on the LTPs, are more reliable than those projected beyond year 11 to year 28. The estimates made to year 28 should therefore be viewed as a possible outcome based on Councils' current estimates, including drivers such as the rates of population growth and longer term capex requirements.

The potential upper and lower limits for the SWMC are based on the status quo with the following adjustments made year-on-year:

- **Establishment costs for the SWMC** - ranging between $5M (lower) and $10M (upper) and incorporated into the capex component.
- **Capex efficiencies** – 3% (lower) to 9% (upper) year-on-year efficiencies
- **Opex efficiencies** – 1.5% (lower) to 5.0% (upper) year-on-year efficiencies.

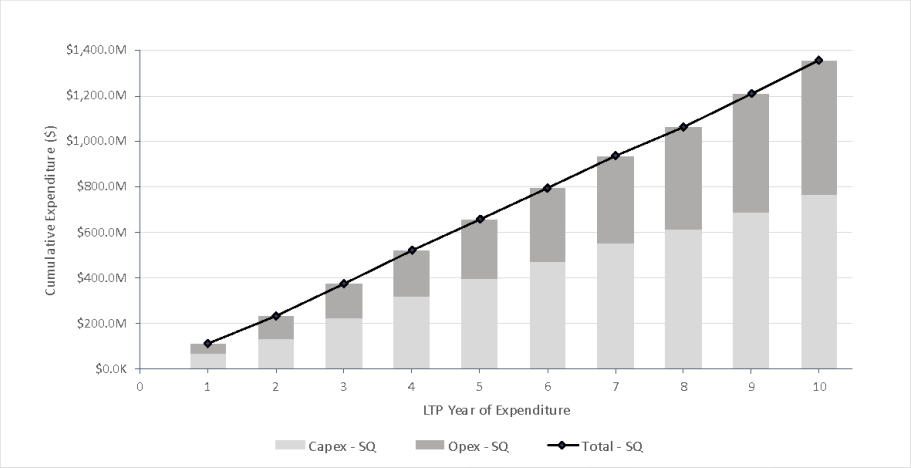
The assessment does not include Net Present Value (NPV) adjustments or debt optimisation.

Table 4: Comparison of Potential SWMC Costs

Model	Total Cost Year 1 – 10 ($M)	Total Cost Year 1 – 28 ($M)	Efficiencies Year 1 – 10 ($M)	Efficiencies Year 1 – 28 ($M)
Status quo	**1,354.7**	**5,653.6**	**0.0**	**0.0**
- Capex	763.8	2,765.7	0.0	0.0
- Opex	590.9	2,887.9	0.0	0.0
SWMC – lower limit	**1,332.9**	**5,537.3**	**21.8**	**116.3**
- Capex	750.9	2,692.7	12.9	73.0
- Opex	582.0	2,844.6	8.9	43.3
SWMC – upper limit	**1,261.4**	**5,265.3**	**93.3**	**388.3**
- Capex	700.1	2,521.8	63.7	243.9
- Opex	561.4	2,743.5	29.5	144.4

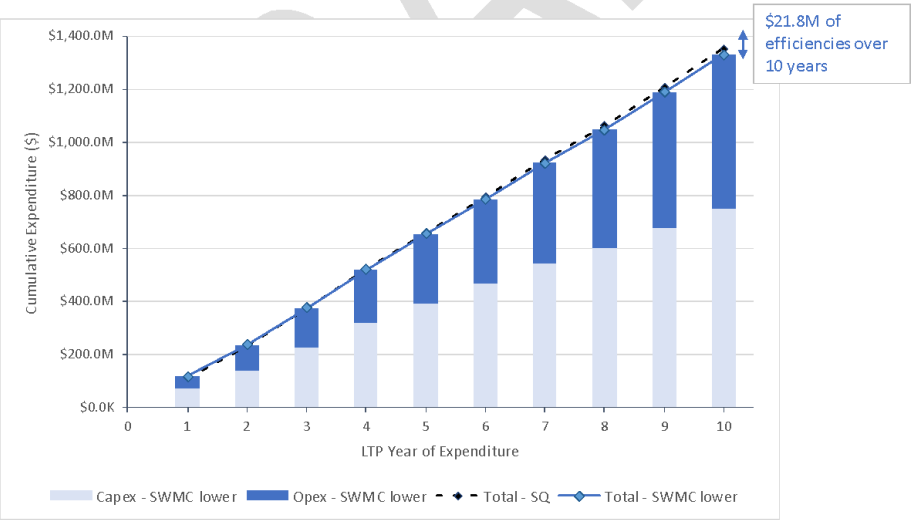
Note: Lower limit –includes $10M establishment costs in capex and low range capex (3%) and opex (1.5%) efficiencies.
Upper limit – includes $5M establishment costs in capex and high range capex (9%) and opex (5%) efficiencies.

Figure 7: Status Quo



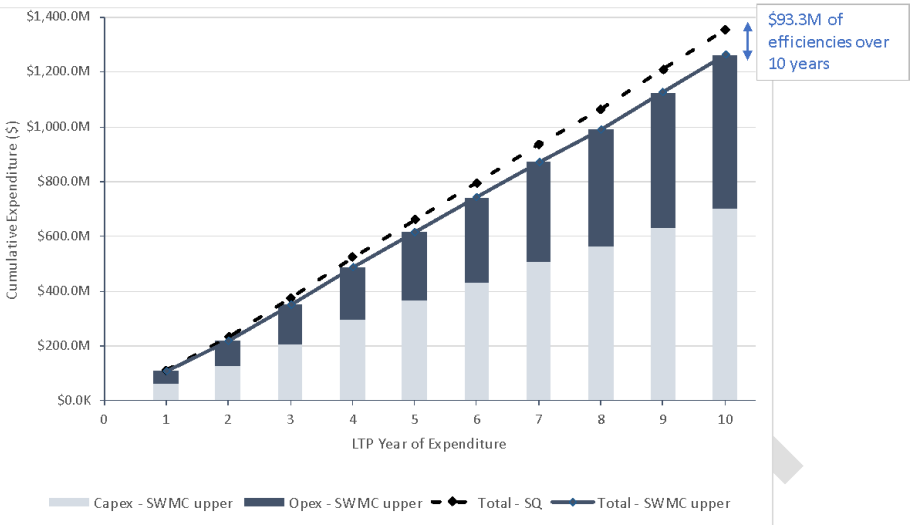
Source: Mott MacDonald, 2017.

Figure 8: Shared Waters Management Company – lower limit



Source: Mott MacDonald, 2017.

Figure 9: Shared Waters Management Company – upper limit



Source: Mott MacDonald, 2017.