

Forming a
**Shared Waters
Management Company**
What are your views?



Overview

Hamilton City Council, Waipa District Council and Waikato District Council have been working together to find a better way of providing water, wastewater and stormwater services to their respective communities.

A number of options have been considered.

Waikato District Council is still considering what option will be best for its own community.

However, both Hamilton City and Waipa District Councils have resolved that it is now timely to consult on forming a Shared Waters Management Company with their two councils as founding shareholders.

If Waikato District Council wants to join the Shared Waters Management Company at a later date, it would be welcome to do so.

This booklet outlines what a Shared Waters Management Company is and why Hamilton City and Waipa District Councils are considering forming one. You are invited to comment on this proposal by making a written or verbal submission.

No decisions to form a Shared Waters Management Company have been made. Final decisions will not be made until both Councils have considered community feedback.

Those decisions will be made independently, by each council, on behalf of their respective communities.



What is a 'Shared Waters Management Company'?

Currently, the councils independently provide their own water, wastewater and stormwater services to their own communities. There is only a very small degree of shared, cross-boundary services.

A Shared Waters Management Company would be a new way of providing these services. Instead of working independently, the councils involved would pool some resources and work together to get the best outcome for their communities.

More detail...

A Shared Waters Management Company would be 100 per cent council-owned.

It would NOT be a private company.

The company, if it was formed, would be **fully** owned by the councils involved, on behalf of ratepayers. There would be no other shareholders.

The finances of each council would, just as they are now, remain completely separate. Each council would only pay for the work undertaken by the Shared Waters Management Company in its own district. There would be no cross-subsidisation.

There may be efficiencies from sharing some facilities (e.g. an office) in the future. But under this proposal, each council would continue to fund its full share of any facilities.

The main purpose of the Shared Waters Management Company would be to deliver more cost-efficient services, more expertise and a stronger and more resilient waters network than the individual councils could deliver on their own.

A Shared Waters Management Company would NOT be set up to make a profit. That would not be the purpose of the company and neither is it permitted by law.

▶ The finances of each council would, just as they are now, remain completely separate. ◀

For background information on this issue, including copies of all independent reports, council reports and more, go to www.waterstudywaikato.org.nz

A Shared Waters Management Company WOULD...

1. Employ specialist staff to deliver water, wastewater and stormwater and rural drainage services. (Many staff are likely to already be working for the councils and would transfer into the Shared Waters Management Company.)
2. Be responsible, on behalf of the councils, for managing and maintaining the councils' water infrastructure (treatment plants, pumping stations, pipes and reservoirs etc).
3. Be controlled by the councils via a Shareholders' Forum (see diagram at right) and other mechanisms (like a Statement of Intent) which would limit what the Shared Waters Management Company could and could not do.
4. Be a specialist water, wastewater and stormwater 'advisor' to the councils. However, the company could not make major decisions on behalf of the councils. Major decisions would still be made by elected councillors, representing their own communities (see 9 below).
5. Be fully accountable to the councils. It would be up to councils to ensure the Shared Waters Management Company, if formed, operated openly and efficiently on behalf of ratepayers and residents.
6. Provide non-financial and financial benefits that could not be achieved by councils operating on their own (see pages 9 and 10).

A Shared Waters Management Company...

7. ...would NOT own any major water assets. Those assets would remain 100 per cent owned by each council on behalf of ratepayers. The Shared Waters Management Company would only own minor assets like cars and computers.
8. ...would NOT be able to make major decisions in regard to water, wastewater or stormwater investments. All major decisions would continue to be made by elected councillors, at each council, just as they are now.
9. ...would NOT be able to dictate how councils should recover the costs of water, stormwater and wastewater from ratepayers. Those decisions will continue to be made by elected councillors, at each council, just as they are now.
10. Could NOT force Hamilton City Council to install residential water meters. It would not have the authority to do that. (Hamilton City Council has decided that water meters are off the table).

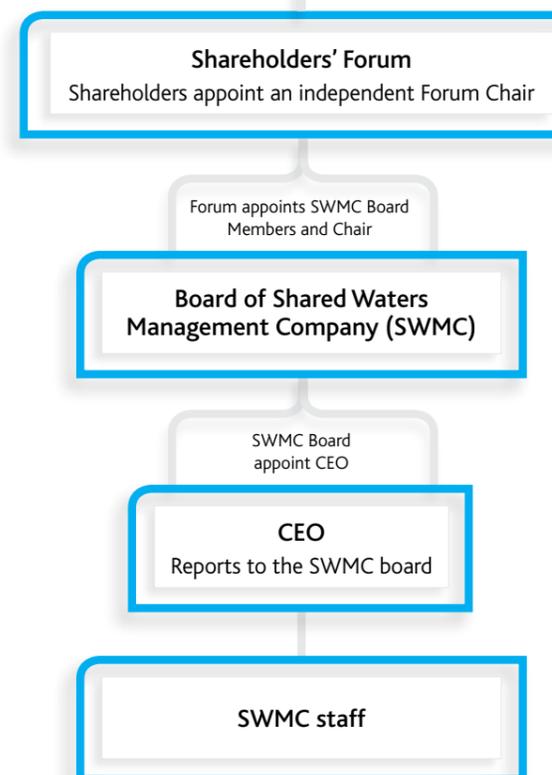
A possible structure



Hamilton City Council
Te kaunihera o Kirikiriroa



Each Council appoints representatives (elected Councillors) to the Shareholders' Forum



Waikato District Council has yet to make a decision on which option it believes is best for its own community.



Why change?

Water, wastewater and stormwater services are vital services for any community. More money goes into water, wastewater and stormwater than any other area of council business.

In Hamilton, nearly every business and household is connected to the council water and wastewater network. In Waipa, around 61 per cent of ratepayers are connected (the others use bores and septic tanks).

Over the next decade, Hamilton City Council and Waipa District Council alone must spend huge amounts of money – hundreds of millions – to provide the water, wastewater and stormwater services our fast-growing communities will need.

Many councils, nationwide, are struggling to provide the level of services needed, to the standards now required, at a cost ratepayers can afford.

Hamilton City and Waipa District are no different. Given the challenges ahead, it seems unlikely that 'going it alone' is the best option for our communities.

▶ Many councils, nationwide, are struggling to provide the level of services needed, to the standards now required, at a cost ratepayers can afford. ◀

The challenges councils and ratepayers face

By law, all councils must provide the most cost-effective and efficient water, wastewater and stormwater services possible. That task is becoming more difficult because:

• **Councils don't have enough skilled staff**
Our communities rely on water, wastewater and stormwater services to function. Specialist water staff are in demand nationwide and (like other councils) our councils don't have enough of them. Often we are reliant on external consultants – and they come at a cost.

Our existing specialist waters staff do not have the capacity to deliver what's needed. The situation is not sustainable and it puts our communities at risk if things go wrong.

• **We are facing huge growth**
Both Hamilton City and Waipa District are growing – and growing fast. That growth is already putting pressure on existing infrastructure and is forcing both councils to invest heavily in new water, wastewater and stormwater infrastructure. At the same time, both councils must continue to maintain the infrastructure they already have to higher and higher standards.

• **Standards are getting tougher**
Across the country, environmental standards for wastewater and stormwater are getting tougher as we all work to improve the quality of our waterways. As a result of the Havelock North incident, where 5,000 people got sick from water-borne disease, councils will be required to meet much higher drinking water standards in the future.

No-one is suggesting these standards aren't necessary – but they come at a cost. By working together, we will be able to respond more quickly and in a more cost-effective way.

• **Best use of money**
Over the next decade, Hamilton City and Waipa District Councils alone must spend huge amounts of money – hundreds of millions of dollars – to provide the water, wastewater and stormwater services our fast-growing communities will need.

We need to invest that public money in ways that provide the best possible value to ratepayers. By working together in a formal structure, councils will have better buying power and more expertise available, when we need it.

• **Giving water the attention it deserves**
Water is one of, if not the most, important services a council can provide. Both councils want that service to remain in the control of councils, with elected members continuing to make decisions on behalf of their respective communities.

A Shared Waters Management Company will allow both councils to retain control of decision-making on behalf of their communities.

• **Looking at the big picture**
It's clear the government is not satisfied councils are providing water, wastewater and stormwater services in the best possible way. The government wants councils to work together – not independently – and deliver better, more cost-effective and safer water, stormwater and wastewater services.

Multiple experts advise that in the waters business, scale is key to driving efficiencies and getting the best results. But councils want to develop a model that suits the needs of their own communities; not be forced into a model that might not be right for them.



The options we considered...

Since 2015, we have considered four different structures to improve the delivery of water, wastewater and stormwater services. They are:

Option 1:

Forming an asset-owning Council-controlled Organisation

This would involve the councils transferring their water assets (infrastructure like plants, pipes etc) as well as water-related debt to a newly-formed company set up just to deliver water, wastewater and stormwater services. The company would be a Council-controlled Organisation (CCO) so would still be owned by the shareholding councils. This asset-owning model is similar to Watercare Services Ltd in Auckland which is owned, on behalf of ratepayers, by Auckland Council.

Option 2:

Expanding the existing 'shared services' model

Hamilton City, Waipa District and Waikato District Councils already share some services including trade waste, laboratory and water education services. We considered expanding this informal arrangement. However, without a formal structure, it would be inefficient and would not provide the benefits that other options could.

Option 3:

Keeping the status quo (no change)

This option would mean no change. Each council would continue to run its own water, wastewater and stormwater services, independently from each other.

Option 4:

Forming a Shared Waters Management Company

This option would involve councils forming a specialist council-owned company to manage water, wastewater and stormwater on behalf of ratepayers. Councils would retain ownership of their water infrastructure and the finances of each council would continue to remain completely separate.

Elected Councillors from each council would hear advice from the Shared Waters Management Company, but would continue to make all the major decisions (including investment decisions and how to charge for water) on behalf of their own communities.

This non-asset owning model has some similarities to Wellington Waters which is 100 per cent owned by Hutt, Porirua, Upper Hutt and Wellington Councils and the Greater Wellington Regional Council. Wellington Water's role is to manage the drinking water, wastewater and stormwater services on behalf of its council owners.

▶ Elected Councillors from each council would hear advice from the Shared Waters Management Company, but would continue to make all the major decisions (including investment decisions and how to charge for water) on behalf of their own communities. ◀

Our preferred model: A Shared Waters Management Company

Both Hamilton City Council and Waipa District Council have separately resolved (in May 2017) that forming a jointly-owned, Shared Waters Management Company is their preferred way forward for consultation.

But neither council will make a decision until their communities have had a say.

(Waikato District Council has yet to make a decision on which option it believes is best for its own community).

Hamilton and Waipa prefer a Shared Waters Management Company because it provides more benefits, and less risk, for ratepayers compared to some of the other options considered.

The benefits include:

The benefits of scale

In the waters business, most experts agree scale is important. A larger, combined operation will allow both councils to get benefits for ratepayers we could not get on our own. For example, we will have much greater purchasing power and will be in a stronger position to negotiate better contracts.

Experts available

By combining existing waters expertise, more skills will be readily available to both councils. Having a core group of expertise encourages further, related specialist knowledge to build up. Over time, we expect the Shared Waters Management Company to become a specialist Centre of Excellence in water, wastewater and stormwater issues.

Better careers for staff

Staff tell us that working in an organisation focused just on water issues, alongside a larger group of professional colleagues and peers, would provide better career paths and better professional development than what councils working independently can currently provide. Given the shortage of specialist waters staff nationwide, it is important to retain this critical expertise in the public sector.

Less risk

Forming a non-asset owning Shared Waters Management Company will allow us to secure many of the benefits of working together but without some of the risks and complexity of combining councils' water assets and debt. This is a simpler model to develop and implement.

Professional direction

The Shared Waters Management Company would have a separate, independent Board of Directors with specialist expertise in technical and other areas not necessarily available on elected councils. The Board's strong focus will be on delivering the best possible water, stormwater and wastewater services in the most cost-efficient way. The Board will work under the strong direction of both councils (formalised in written agreements) and all major decisions will continue to be made by elected Councillors.

Consistent approach to asset management and planning

By working together in one organisation, we'll be able to develop a more consistent and cost-effective approach to managing our water assets. We'll be able to better plan and manage things like maintenance and this will improve our ability to work more cost-effectively with contractors, land developers and others. It will ensure we are better able to cater for and support growth in a way our communities can afford.

An improved waters network

Over time, efficiencies will allow us to make ongoing improvements to our waters and wastewaters networks and to our stormwater schemes. We will be in a better position to control and manage rising costs. Our critical infrastructure will become more resilient and we will, more easily, be able to meet tougher environmental and public health standards.

Responding to government direction

Central government wants councils to ensure enough money is available for key infrastructure – especially water – in order to support growth. They would like to see councils working together to deliver better, more cost-effective and safer water and wastewater services.

Councils remain in control

The Shared Waters Management Company would be 100 per cent owned by the councils. There would be no other shareholders. While there would be a separate Board of Directors, the Board will take its instructions from the councils, via a Shareholders Forum (see diagram, page 4).

All major decisions about water, stormwater and wastewater would continue to be made by elected Councillors, on behalf of ratepayers. And ratepayers, as they do now, would continue to have input into those decisions via Annual Plans, 10-Year Plans and other public processes.

Financial efficiencies

A Shared Waters Management Company would deliver cost-efficiencies for councils and their ratepayers. But these efficiencies are unlikely to come back to ratepayers as 'savings'. Instead, they are likely to be reinvested back into the waters networks to meet the costs of growth and meet higher environmental and public health standards.

Money from Hamilton ratepayers would be reinvested back into Hamilton's network. Money from Waipa ratepayers would be reinvested back into Waipa's network. There would be no 'cross-subsidisation' but, over time, both councils would get more work done for less.

An independent report* says the Shared Waters Management Company would deliver savings in the operational area (i.e. day-to-day running expenses) and in the capital expenditure area (i.e. new pipes, treatment plants etc).

Across the councils, operational savings are estimated to be at least \$43 million over 28 years. For the same time period, capital expenditure savings are estimated to be at least \$73 million.

This means a Shared Waters Management Company is expected to deliver cost efficiencies of at least \$116 million over 28 years. That's about \$4 million in cost efficiencies per year across the councils. These figures already take into account the cost of establishing the company (estimated at between \$5 – 10 million).

**Report from Mott Macdonald and Scottish Water, October 2017
Full report available at www.waterstudywaikato.org.nz*



Questions and answers

1. Could other councils join the Shared Waters Management Company?

Yes, if the other shareholding councils, who were already involved, agreed.

2. Would a Shared Waters Management Company introduce residential water meters to Hamilton?

No. It could not force Hamilton City Council to install residential water meters. Hamilton City Council has decided that water meters are off the table.

3. Would ratepayers in Hamilton or Waipa still receive their rates bills or (in Waipa's case, water meter bills) from their council?

Yes. Individual councils would still be responsible for billing people for water and wastewater. That would not change.

4. Under a Shared Waters Management Company, would the cost of water and water infrastructure be combined and shared between the two councils?

No. Each council would continue to ONLY pay for the water it uses, and for the cost of the services within its own boundaries. There would be no 'pooling' of water resources. The finances of each council would remain completely separate.

5. If customers had a water, stormwater or wastewater issue, who would they contact to sort it out?

Customers would be able to call either the Shared Waters Management Company or their council, whatever is easiest for them.

6. Will operational waters, stormwater or wastewaters staff at the councils be made redundant if a Shared Waters Management Company was formed?

No. Councils are already short of staff in this area. Should a company be formed, non-management waters staff would transfer to the SWMC on existing terms and conditions. The councils would work directly with managers on an individual basis.

7. Are there any other models comparable to a Shared Waters Management Company in New Zealand?

Yes, Wellington Water (wellingtonwater.co.nz) is 100 per cent owned by five councils and manages drinking water, wastewater and stormwater services on behalf of those councils. It does not own the water assets; it simply manages them on behalf.

8. Could a council leave the Shared Waters Management Company if it didn't work out?

Yes, but exit arrangements would need to be fair to all councils involved.

9. Is the model being proposed still a CCO (Council-controlled Organisation)?

Yes, but it is not an asset-owning CCO. In a CCO one or more councils control 50 per cent or more of the voting rights, or have the right to appoint 50 per cent (or more) of the directors. In other words, councils 'control' the organisation.

Existing local CCOs include Hamilton Airport (jointly owned by Hamilton City, Waipa, Waikato, Matamata-

Piako and Otorohanga District Councils); Local Authority Shared Services – LASS (jointly owned by 12 councils in the greater Waikato region).

10. Is this a step towards an asset-owning water company?

No. Both Hamilton City and Waipa District Councils do not support an asset-owning model.

11. Would this be a step towards privatisation?

No. Both councils want water assets to remain in public ownership.

12. How will work and funding be prioritised between the councils involved?

Final decisions on what to spend, when, will be made by the elected members at each council on behalf of their communities.

13. If a company was formed to run water, wastewater and stormwater services, what would the councils remain doing?

The councils would continue to do all the things they are currently responsible for. There would be no change to other services like roading, planning, building services, parks and gardens and community services.

14. Could the Shared Waters Management Company run up as much debt as it liked?

No. The councils would control how much debt the company could incur through the Shareholders' Forum. Each council would set and fund its own work programme

so little debt would be required, and only for assets such as software systems, vehicles and plant.

15. How would a Shared Waters Management Company change the councils' existing commitments to Iwi?

It wouldn't. A Shared Waters Management Company would not change, in any way, any existing council commitments. Nor would it change the councils' commitment and support for the Vision and Strategy for the Waikato River (Te Ture Whaimana o te Awa o Waikato).

16. Is this issue about 'who owns the water?'

No. This is about the most efficient and effective way to provide day-to-day operations and management of water, wastewater and stormwater infrastructure; it has nothing to do with the ownership (or not) of water.

17. When will a final decision on whether or not form a Shared Waters Management Company be made?

After the people of Hamilton and Waipa have had their say. Final decisions are likely to be made before Christmas 2017 so they can be factored into each council's draft 10-Year Plan.

18. Can anybody go and hear the verbal submissions on this proposal?

Yes. They are public meetings and all are welcome.

waterstudywaikato.org.nz

