

## **WELLINGTON WATER – statement of proposal to become a shareholder in a council-controlled organisation**

### **Overview**

1. The Greater Wellington Regional Council (GWRC) supplies bulk water to Hutt City Council, Upper Hutt City Council, Porirua City Council and Wellington City Council (the Cities). GWRC owns and manages land and infrastructure to enable this bulk water supply. This land and infrastructure includes water catchment areas, dams, reservoirs, water treatment plants, pumping equipment and pipes. GWRC's role in owning and managing land and infrastructure to supply bulk water to multiple territorial authorities is unique in New Zealand.
2. The downstream water infrastructure owned by the Cities is currently managed on their behalf by a council-controlled organisation called Capacity Infrastructure Service Limited (Capacity). Each of the Cities is a shareholder in Capacity and Capacity contracts separately with each of the Cities to provide water infrastructure management services (water supply, wastewater, stormwater).
3. GWRC considers that, while retaining public ownership of bulk water assets, there are advantages to managing these infrastructure assets on a network basis alongside the downstream water supply, wastewater and stormwater services managed by Capacity. Over the medium to long term Wellington's metropolitan water services could be better delivered by integrating the management of the network infrastructure. In summary, the proposal is that:
  - 3.1 GWRC retains ownership of its bulk water infrastructure assets;
  - 3.2 GWRC becomes a shareholder in Capacity;
  - 3.3 Capacity is renamed "Wellington Water Limited" trading as "Wellington Water";
  - 3.4 The make-up of Wellington Water's board of directors is changed;
  - 3.5 Wellington Water's board reports to a new committee of GWRC (the Water Committee) made up of five elected members - one representing each of Wellington Water's shareholders;
  - 3.6 Each council retains a direct relationship with the board of directors via service level agreements and funding agreements;
  - 3.7 Staff currently employed by GWRC to manage its bulk water infrastructure assets transfer to Wellington Water;

- 3.8 Some operational assets (but not infrastructure assets) transfer to Wellington Water; and
  - 3.9 GWRC contracts with Wellington Water to provide water infrastructure management services for its bulk water supply<sup>1</sup>.
4. The purpose of this statement is to inform the public and seek feedback on the proposal. Any decision made by GWRC to implement the proposal will, however, be subject to GWRC finalising the details of agreements with the Cities. If final agreements cannot be reached, then the proposal will not proceed. The feasibility of the proposal has already been tested with the Cities; each of which has expressed support in principle<sup>2</sup>.

## Have your say

5. Submissions on this proposal may be made to GWRC and are welcomed. Submissions must be made in writing and sent either:
  - 5.1 By post to:

Wellington Water proposal  
Freepost 3156  
Greater Wellington Regional Council  
PO Box 11646  
Wellington 6142
  - 5.2 Or by email to: [info@gw.govt.nz](mailto:info@gw.govt.nz)
6. Submissions must be received no later than 4 pm on [insert] 2014.
7. Any person or organisation who wishes to make a submission has a right to be heard in person by GWRC. Submitters who wish to be heard must request this in their submission.
8. Every submission:
  - 8.1 Will be acknowledged by GWRC; and
  - 8.2 May be made available to the public, including via GWRC's website.
9. The Local Government Act 2002 requires GWRC to make all written submissions on this proposal available to the public. This requirement is subject to the provisions of the Local Government Official Information and Meetings Act 1987. If you consider there to be compelling reasons why your details and/or submission should be kept confidential, you should explain this as part of your submission.
10. The consultation on this proposal will run concurrently with the Draft Annual Plan, as follows:

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<sup>1</sup> This does not include management of the water supply catchment areas, which will continue to be managed by GWRC through its regional parks functions.

<sup>2</sup> Note: this statement has been made ahead of the Cities considering this proposal. Once feedback has been received from the Cities the statement will be reviewed

6 March 2014	GWRC adopted this statement of proposal and a summary of the information contained in it for consultation
24 March 2014	Submissions open
28 April 2014	Submissions close at 4 pm
27-28 May 2014	Submissions in person heard
12 June 2014	GWRC will consider submissions and the outcomes of the consultation process
26 June 2014	GWRC will make a final decision about the proposal

## Background

11. GWRC collects water from rivers and an aquifer, treats it and provides it to the Cities. GWRC's aim is to provide a continuous and secure supply of safe, high-quality water in a sustainable and cost-effective way. It seeks to meet the reasonable water needs, both current and future, of the people living within the Cities' respective districts.
12. To achieve this aim, GWRC:
  - 12.1 Owns and operates four water treatment plants, 15 pumping stations and 183 kilometres of pipes. GWRC owns and manages assets with a value of \$464 million;
  - 12.2 Supplies on average approximately 140 million litres of water daily. More than half of this is used by households, the equivalent of two full bathtubs per person every day; and
  - 12.3 Plays an important role in ensuring that high-quality water is collected and distributed in a sustainable manner.
13. GWRC's role in bulk water supply is defined by the Wellington Regional Water Board Act 1972, but the manner in which this role is carried out is controlled by GWRC itself. The GWRC Water Supply Asset Management Plan (page 4) provides that GWRC is to:
 

*Provide enough high-quality water each day to meet the reasonable needs of the people of greater Wellington, in a cost effective and environmentally responsible way.*

This will remain GWRC's focus if this proposal is adopted and implemented.
14. More information about GWRC's existing bulk water supply activities can be found at:
  - 14.1 Long-Term Plan 2012-22 (<http://www.gw.govt.nz/long-term-plan/>)
  - 14.2 Water Supply Annual Report for the year ended 30 June 2013 (<http://www.gw.govt.nz/water/>).
  - 14.3 Water Supply Asset Management Plan (<http://www.gw.govt.nz/water/>)

15. Capacity is a council-controlled organisation under the Local Government Act 2002. It provides water management services (water supply, wastewater, stormwater) for the Cities. This includes providing planning, advice, design, project and operations management, maintenance, and monitoring relating to the assets and services of the water networks of the Cities. The Cities own the water infrastructure assets that are managed by Capacity. They also set all policies and performance objectives that are expected to be met.
16. Political oversight of Capacity is facilitated by a shareholders' advisory group consisting of representatives from the Cities.
17. Capacity's principal objectives, as set out in its statement of intent, are:
  1. *To operate as a cost effective, resilient and successful business, returning benefits to our shareholder councils and their communities.*
  2. *Through our people, to build a reputation for reliability, excellence, effectiveness, efficiency, courtesy and integrity, and as an organisation where people want to work.*
  3. *To develop and deliver sustainable and integrated service delivery and management of our clients' assets.*
  4. *To ensure the people of the Wellington region have safe reliable drinking water, effective wastewater collection and treatment, clean harbours, healthy streams and protection from flooding.*
18. Capacity has two different share classes. Voting shares (Class A) are held equally. Class B shares are held in differing amounts to reflect each City's economic stake in the company. Each of the Cities is entitled to appoint one director (in practice this is usually a councillor), and to jointly appoint independent directors to Capacity's board. There must be at least as many independent directors as councillors on the board. A copy of Capacity's constitution and details of its directors can be found at the Companies Office ([www.business.govt.nz/companies](http://www.business.govt.nz/companies)).

## Reasons for the proposal

19. The objectives of the proposal are to manage GWRC's bulk water supply in a way that is optimal in terms of:
  - 19.1 Retaining public ownership of bulk water infrastructure;
  - 19.2 Enabling a strategic approach to, and the integrated management of, service delivery for the Wellington metropolitan water supply network;
  - 19.3 Enhancing public accountability and maintaining political oversight in relation to the management of the Wellington metropolitan water services; and
  - 19.4 Promoting cost-effectiveness over the long term.

20. Water supply is an essential service, vital to our health, quality of life and economic prosperity. Building, maintaining and operating water supply infrastructure is expensive, so we need to make the most efficient use of our resources. Other local authorities in the region have similar water supply objectives, and this proposal is an opportunity to align those objectives and provide a better service to the community in the metropolitan part of the region. An improved ability to manage the Wellington metropolitan region's water supply infrastructure in a strategic and integrated way, as well as the possibility of efficiency gains over the long term, are expected by taking a more coordinated approach to tackling these objectives.
21. While GWRC's water supply group has been operating very well in the current environment, the challenges faced in relation to water supply will increasingly require a strategic and integrated approach to managing the network infrastructure as a whole. Population growth may require us to increase our water supply capacity within the foreseeable future. Climate change will also impact on water supply.
22. Increasing our water supply capacity will require capital investment and a continued focus on resilience planning.
23. GWRC's long-term approach, as stated in its Long-Term Plan 2012-22 (page 72), is to:
- ... maintain and operate our existing water supply system to the highest standard and to be ready to provide additional sources of supply, when these are needed, to meet our growing population. We will also continue to work with the local authorities we supply and with the community to promote efficient and wise use of water. We will maximise opportunities to work with others and take a strategic approach to enable better long-term planning, increased cost effectiveness and enhanced operational capability. This includes taking the lead in developing a regional approach to the provision of bulk water supply in emergencies to improve resilience.*
24. GWRC's values and statements set out our overall approach and underpin the way we operate. They include:
- We take a strategic and long-term view. Many of the issues we deal with are complex and span administrative boundaries and electoral timeframes. Taking a strategic and long-term view on planning and decision making ensures we put our efforts in the right place for current and future generations
  - Shared issues require shared solutions. Issues such as freshwater management, land management, biodiversity, regional economic development and transport are shared issues that cannot be resolved by GWRC in isolation. They require a collaborative approach with other key stakeholders, communities and agencies in local and central government
25. GWRC's proposal fits this long term approach and our stated values.

## Assessment of options

26. GWRC has sought to identify all reasonably practicable options for achieving the objectives identified and described above. The main options are:
- 26.1 **Option A - Status quo:** Under this option GWRC would continue to manage bulk water supply in-house through its water supply group. GWRC would continue to have some regular customer meetings with the Cities' water supply activities beyond handing over bulk water at points of supply and recovering GWRC's costs pursuant to the Wellington Regional Water Board Act 1972.
  - 26.2 **Option B - Establish a new council-controlled organisation:** Under this option GWRC would establish its own 'version' of Capacity to undertake the management functions currently performed in-house by its water supply group.
  - 26.3 **Option C - Become a shareholder in Capacity and contract with it, but make no other changes:** Under this option GWRC would become a shareholder of Capacity in the same way as the Cities. This would allow GWRC to appoint a director to Capacity's board and participate in the existing shareholders' advisory group.
  - 26.4 **Option D - Become a shareholder in Wellington Water (Capacity renamed) and contract with it, and establish an oversight committee, replacing the current shareholders advisory group:** Under this option Council would become a shareholder of Capacity in the same way as the Cities. In addition, its name would become Wellington Water and the membership of the board changed so that all of its directors would be independent. The board would report to a new Water Committee comprising one political representative from each of Wellington Water's shareholders. The Water Committee would be subject to the Local Government Official Information and Meetings Act 1987 and provide a forum for transparent political oversight and community involvement.
27. These options have been considered against the following criteria and fit with GWRC's overall strategic direction:
- 27.1 Ability to deliver high quality water services;
  - 27.2 Ability to enable more effective network service delivery via integrated services;
  - 27.3 Ability to enable more effective and integrated democratic decision-making;
  - 27.4 Ability to achieve step change cost efficiencies; and
  - 27.5 Ability to provide environmental protection and alignment with the ecosystem services approach to managing environmental decisions.

28. In assessing the reasonably practicable options, GWRC is also required to consider:
- 28.1 The benefits and costs of each option in terms of the present and future interests of the region;
  - 28.2 The extent to which community outcomes would be promoted or achieved in an integrated and efficient manner by each option; and
  - 28.3 The impact of each option on GWRC's capacity to meet present and future needs in relation to its statutory responsibilities.
29. In addition to the criteria set out above, GWRC has considered a range of other matters that it considers relevant, including:
- 29.1 Its statutory obligations under s 130 of the Local Government Act 2002, the Wellington Regional Water Board Act 1972 and Part 2A of the Health Act 1956; and
  - 29.2 GWRC's existing policies and planning documents in relation to its water supply function.
30. GWRC's analysis of the main options is summarised below:

	<b>Option A</b> <b>Status quo</b>	<b>Option B</b> <b>GWRC CCO</b>	<b>Option C</b> <b>Capacity</b>	<b>Option D</b> <b>Wellington Water</b>
Ability to deliver high quality water services	✓	✓	✓	✓
Ability to enable more effective network service delivery via integrated services	X	X	✓	✓✓
Ability to enable more democratic decision-making	X	X	X	✓
Ability to achieve step change cost efficiencies	X	X	✓✓	✓✓
Ability to provide environmental protection and alignment with the eco-system services approach to managing environmental decisions	✓	✓	✓	✓

## Explanation of the analysis

31. The status quo option has no establishment costs or uncertainty associated with change. However it will be sub-optimal for implementing a strategic and long-term integrated approach to water management services and will not realise any long term cost efficiencies from scaling up management of water infrastructure and services. The status quo also provides the Cities with limited input into planning that will influence the future cost of GWRC's bulk water supply.
32. Option B, establishing a GWRC company, would have establishment costs and uncertainty associated with change without any corresponding benefit over the status quo.
33. Joining Capacity, Option C, under the current arrangements would enable a more integrated and strategic approach to water supply within the metropolitan part of the region. It may also enable some long term cost efficiencies to be achieved resulting from scaling up the management of infrastructure investment under a single management company. A further benefit is that it will allow for alignment of GWRC and the Cities' environmental objectives through the single management entity. This option, however, would have establishment costs and uncertainty associated with the transfer of employees from GWRC's water supply group to Wellington Water. In addition, it would not significantly enhance the existing governance structure, political oversight or community involvement.
34. Option D, Wellington Water, would enable a more integrated and strategic approach to water management within the metropolitan part of the region. It would enhance democratic decision making by providing a forum for transparent political oversight of, and community involvement in, Wellington Water's governance arrangements. It may also enable some long term cost efficiencies to be realised from scaling up the management of infrastructure investment under a single management company. And, like the Capacity option, it will allow for alignment of GWRC and the Cities' environmental objectives through the single management entity. As with other change options, there will be some establishment costs and uncertainty associated with the transfer of employees from GWRC's water supply group to Wellington Water.
35. The preferred option that forms the basis of this proposal is Option D - Wellington Water.

## Detailed description of the proposed option - Wellington Water

### Becoming a shareholder in Wellington Water

36. The proposal is that GWRC is issued with the following shares in Wellington Water:
  - 36.1 The same number of voting (Class A) shares as are held by each of the Cities; and
  - 36.2 The number of Class B shares which reflects the extent of GWRC's water assets requiring management relative to the Cities'.
37. Any cost of becoming a shareholder in Wellington Water is likely to be small. No value is attributed to the Class A shares. The value exchanged for the Class B shares will need to be determined by subsequent negotiation with the Cities, but most of the payment by GWRC is likely to occur through the transfer of operational assets.



### **Changes to Capacity's constitution**

38. GWRC's agreement to become a shareholder in Wellington Water would be made contingent on finalising agreement with the Cities that:
- 38.1 Capacity is renamed "Wellington Water" and it uses the operational/trading name "Wellington Water"; and
  - 38.2 The make-up of the company's board is changed so that it is comprised of an appropriate number of independent directors (who are not elected members of the shareholding Councils) with specialist skills in relation to governing a water management services company. The board would remain publicly accountable and would be complemented by the political oversight achieved via the proposed Water Committee.
39. Some other more minor amendments to the existing constitution of Capacity may also be agreed, including changes to the current shareholders' agreement. This agreement sits alongside the constitution and establishes the shareholders' advisory group, the main functions of which would be overtaken by the proposed Water Committee.

### **Establishment of the Water Committee**

40. GWRC's proposal to join Wellington Water would be made contingent on finalising agreement with the Cities that:
- 40.1 A committee of GWRC is established under the Local Government Act 2002, with terms of reference to monitor Wellington Water's performance; receive half-yearly and annual reports from Wellington Water; receive draft and final statements of intent from Wellington Water; and provide comments on draft statements of intent.
  - 40.2 The Water Committee will comprise one elected member from each of GWRC and the Cities (i.e. each of Wellington Water's shareholders). The Water Committee will be serviced by, and subject the standing orders of, GWRC; but responsible for electing its own chairperson.
  - 40.3 While the Water Committee will not hold any delegated authority as a decision-making entity in its own right, GWRC and the Cities will agree to delegate some of their shareholder powers to their appointed member. This will allow the Water Committee to function and make decisions as a meeting of Wellington Water's shareholders.
41. The purpose of establishing the Water Committee includes:
- 41.1 To co-ordinate the local authority shareholders' relationship with Wellington Water;
  - 41.2 To provide a forum for the shareholders to receive advice about, and reach agreement on, the strategic and integrated management of the Wellington metropolitan water services (i.e. water supply, wastewater and stormwater). This would include the management of GWRC's bulk water infrastructure;
  - 41.3 To allow for the political governance of Wellington Water in a way that avoids any conflicts of interest which may arise from appointing elected members as directors; and

- 41.4 To facilitate the transparency of, and public involvement in, the political governance function.

### **Contracting for water infrastructure management services**

42. If the proposal proceeds, GWRC will need to contract with Wellington Water for the provision of infrastructure management services for its bulk water supply. A "service level agreement", initially based on the service contracts the Cities already have in place, will be negotiated. This service contract will determine what management services will be provided, what Wellington Water's obligations will be and the cost of the management services.
43. The date on which Wellington Water starts providing management services to GWRC and whether a phase-in period is required will need to be negotiated and agreed. It is envisaged the new management regime will start in the 2014/15 financial year.

### **Accountability and monitoring arrangements**

44. Wellington Water will be answerable to GWRC:
- 44.1 Under the service contract;
  - 44.2 Through the accountability and monitoring obligations that council-controlled organisations and local authorities have under the Local Government Act 2002, including Wellington Water's statement of intent; and
  - 44.3 Through GWRC's role as a shareholder and its ability to influence the appointment of independent directors to the board of Wellington Water.
45. Each shareholder's power to comment on Wellington Water's draft statement of intent will be delegated to its representative on the Water Committee. This will allow the Water Committee to provide comments to Wellington Water in a collective and 'joined-up' way, and in an environment that allows for public input/community views. It is likely that each shareholder's power to approve the final statement of intent or seek a resolution to require the board of Wellington Water to modify its statement of intent will also be delegated to its representative on the Water Committee. This will need to be discussed and agreed with the Cities.
46. Wellington Water will also be accountable to the public through meetings of the Water Committee, as well as the publication of its statement of intent and half-yearly and annual reports.

### **Operational implications**

47. The most significant operational impact will involve the approximately 60 GWRC employees that make up GWRC's water supply group. As GWRC's water management services will be carried out by Wellington Water, it is anticipated that the majority of the roles performed by these staff will be taken over by Wellington Water. An employment processes needs to be followed, including consultation with affected staff.
48. A significant portion of GWRC's water supply group is already located in buildings in Petone that are adjacent to Capacity. While all of the core bulk water supply infrastructure, including land, will remain owned by GWRC, some operational

assets (such as vehicles and some movable equipment) may be transferred to Wellington Water.

49. The proposal is not expected to have any impact on:
- 49.1 The levels of service and asset management practises set out in the Water Supply Asset Management Plan, November 2012 (including maintaining ISO 9001 (quality) and ISO 14001 (environmental) certification in relation to bulk water supply);
  - 49.2 GWRC's aim to ensure that its assets are managed well and all relevant environmental standards, health and safety standards and water quality and supply targets are met.
50. The proposal will not negatively alter the intended level of service provision for bulk water supply, nor transfer the ownership or control of GWRC's bulk water supply assets to Wellington Water.

### **Relationship with iwi**

51. Issues of interest to Maori will continue to be addressed through existing Maori representation arrangements on GWRC's Strategy and Policy Committee. Through these arrangements, Maori values would help to inform the development of GWRC's service level agreement with Wellington Water and any decision GWRC makes in relation to its infrastructure (e.g. investigating a new water source). Service level agreements are anticipated to include a requirement for Wellington Water to engage proactively with iwi on related matters.

### **Financial implications**

52. Bulk water is supplied by GWRC under the Wellington Regional Water Board Act 1972. The Act determines how the costs of providing the bulk supply are shared among the Cities. GWRC charges the Cities a uniform charge for water supplied to them based on an apportionment of the bulk water costs relative to the amount of water used by each City. GWRC's costs of producing and distributing bulk water are levied on each City annually. GWRC will continue to set the levy and collect the uniform charge following consultation through its Annual Plan process. The Wellington Regional Water Board Act 1972 means the cost of bulk water supply is not funded by GWRC's rates, but rather by the Cities themselves, including through their rates. Any costs of, and the future savings arising from, the proposal will therefore be reflected in the amounts charged to rate payers by the Cities, rather than by GWRC.
53. This proposal is intended to provide long term financial benefits by the integration of management of the three waters across the Wellington metropolitan region, aligning service delivery and asset planning, and promoting cost effectiveness. The total assets of the three waters in the four Cities and GWRC amount to over \$2.5 billion with operating expenditure over \$105 million pa. With a significant investment in this critical infrastructure, long term planning and coordination of capital investments is vital.

54. GWRC and Capacity will incur some costs to implement this proposal and (with the Cities) to manage Wellington Water into the future. This will be offset over the long term by operational efficiencies and gains expected from the integrated management of network infrastructure planning.
55. A preliminary estimate of costs to implement this proposal include:
- Project costs incurred during the development of this proposal, including legal advice and technical reports. These costs will be allocated to the GWRC water group and should amount to less than \$100,000.
  - Implementation costs associated with transition. GWRC and Capacity will incur costs to establish the new Water Committee and change the constitution and the shareholders agreement. There will be costs associated to the transfer of GWRC employees and operational assets to the new entity, and preparing a new GWRC service level agreement. Wellington Water is also expected to incur costs to establish new management systems and to rebrand as Wellington Water.
  - Minor costs associated with the purchase of shares. Capacity, currently have four shareholders with a total of 400 B Class shares valued at \$2 each share. GWRC, as a new shareholder, will be required to purchase an appropriate number of B Class shares. These would likely be partially funded through the transfer of GWRC operational assets to Wellington Water.
  - Minor costs associated with the administration of the new Water Committee, including support for GWRC elected members and monitoring Wellington Water's performance against the SOI and the service level agreement.
56. All costs allocated to the GWRC Water Group will be passed on via the water levy to the four Cities. The GWRC Water Group currently includes in its operating costs, allocated overheads from GWRC Corporate. These overheads will need to be reviewed in light of the services provided.

## Consultation

57. Please let us have your feedback. Details on how to make a submission are set out in the section "Have your say" above.