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Report to the Policy and Finance Committee
from Howard Stone, General Manager

Water Integration

1. Purpose

To advise the Council on whether it should place the Water Services Integration Project Report before the community and undertake a formal process of public consultation.

2. Background

Since 1991, the Wellington Regional Council has actively pursued a means of integrating the metropolitan water supply. Its objective has always been to consolidate water assets, policy development, service delivery, pricing and all other operational aspects under one directly accountable i.e. elected local authority or water board.

For nine years, the objective could not be pursued effectively owing to institutional priorities and preferences of the involved local authorities of the region. In fact, the environment for agreement was very infertile. On reflection, the expectation of agreement to the rationale of a single regional authority with elected members directly accountable to the public for the delivery of potable water was, perhaps a little naive, given the nature and behaviour of local government.

In May 2000 the three Chief Executive Officers of Wellington City Council, Hutt City Council and the Wellington Regional Council presented a joint paper to their Councils seeking agreement, in principle, to progress the proposition of an integrated water supply. (see Attachment 1). The two other authorities who are customers of the Wellington Regional Council wholesale

water supply, Porirua City Council and Upper Hutt City Council, declined to participate.

In June 2000, the project group consisting of two executives from each participating Council commenced work towards developing its proposals. The Project Report was delivered to Councillors at the end of January and supported by two workshops to facilitate further understanding.

3. Comment

- The Project Group has worked co-operatively and professionally. It has clearly been constrained in different options by the existing legislative framework and having to make some assumptions about achieving the possible rather than the ideal. In spite of this, it has reached a consensus which all members are prepared to support. Given the history of water integration since 1991, this is a remarkable achievement in its own right, and the members of the Project Group are to be congratulated.
- The contents of the Project Report, the rationale behind it and the recommendations contained within it have already been exposed to Councillors and I will not repeat them here. Rather, I will pose the questions which I believe you, as Councillors, will need to consider in determining whether or not you wish to engage in a process of public consultation to further the proposition. These questions were posed to you at the first workshop and they are:
 - **Is the proposal worth pursuing?**
 - i.e. Do the economic benefits suggested outweigh the risks of moving from the status quo?
 - **Is the proposal the preferred way to integrate the regional water supply?**
 - i.e. If you had a clean sheet of paper, would you design a solution similar to the one proposed and/or is the project proposal close enough to the ideal to comfort Councillors that it is not a complicated construct.
 - **How will governance be exercised?**
 - i.e. Will it be clear to the public who is responsible for what; will it accommodate institutional differences; and most importantly, will it “work” effectively in providing the key community service of water supply?
 - **What are the visible risks associated with the Project proposal?**

- How each Councillor sees the answers to the above questions will no doubt be at the core of the debate in endeavouring to arrive at a determination. There are certainly a number of facts incorporated in the proposal but there is a very high level of judgment required in deciding whether the relationship sets, accountabilities and systems of operation will provide the basis for a workable, long term integration option.
- While there will inevitably be risks in proceeding with the proposal there could also be possible effects of not proceeding. The Management Contract with the Wellington City Council expires on 30 June 2001 and based on previous indications, the Wellington City Council will probably embark on a tender process for services post 30 June 2001.

4. Opinion

As Councillors will know, it is my preference to offer unequivocal advice on key issues rather than present options, particularly when there is a yes/no alternative as in this case. There are a range of views in answer to the key questions posed in the previous section and some of the executive views differ. All these views are valid in that they are sincerely held by the executives concerned. However, I see it as my role to be clear on my position and to articulate the reasons for it. To do this I will offer my opinion on each of the questions I have posed to you as final decision makers.

Question 1: Is the proposal worth pursuing?

There is no doubt that cost savings should accrue as a result of implementing the project proposals. The PWC analysis indicates that \$2.2 million per annum could be saved in operating expenditure and a further \$0.6 million per annum in capital expenditure.

These savings are based on a “high level” review by PWC and may be greater or smaller on detailed analysis. They include water, wastewater and storm water operations and no break-out of the Wellington Regional Council’s main interest in potable water supply is available. I have a view that the \$0.6 million capex saving is questionably attributed to the integration proposal as a simple exchange of letters of agreement between WRC and WCC could produce the same effect. Assuming a savings level of \$2.8 million per annum, a net reduction of 4% on current total costs is possible.

It should also be noted that with transitional costs estimated at \$3 million it will take three years before any net savings are effected.

Other potential savings in support are noted in the report but they are based on expectations rather than analysis and as such, their extent is a matter of judgement.

Overall, there are savings to be made. However, taking all things into consideration, they do not, in my opinion, represent a compelling argument in their own right. It will take three years before they materialise; there remains a degree of uncertainty over some areas; the unquantifiable costs of a totally new set of arrangements are not incorporated – nor could they be; and there remains the question of what of the savings could be achieved without integration.

Question 2: Is the proposal the preferred way to integrate the region's water supply?

Certainly the proposal is not straightforward. The inclusion of wastewater and storm water, albeit with some major assets excluded, has moved somewhat beyond the original brief of water supply. This is not a criticism but it does add further management and governance complications. The absence of two other Councils at this stage was a given at the start of the project.

The legislative and accountability framework constraints have dictated that responsibility remains with the Councils but ownership and management is centered in a separate entity – the Trust. The question is, can each Council have confidence that relationships, governance arrangements and effectiveness will be guaranteed to the same extent as the status quo? I not only have serious doubts but in some respects, the proposed arrangements run contrary to what I regard as sound management principles.

The extent of “ring fencing” begs the question – is this really “integration” or is it a form of management arrangement.

Finally, under this question, is the consideration of whether you would choose the project proposals for an integrated water supply if you had a “clean sheet of paper”. In my mind, the answer is clearly no! but, there is rarely available the luxury of a “clean sheet of paper”. So the question is – “is the project proposal ‘good enough’ in the circumstances?” In my opinion, it is not. Other proposals such as the WRC leasing proposal are much nearer the optimum position.

Question 3: How will governance be exercised?

This is the area of most concern and of most uncertainty.

Each of the Councils will be moving from a position of “control” to one of “significant influence” as co-settlers of the Trust. The history of “joint committees” or “joint control” in local government does not inspire confidence.

However the rules are arranged, joint owners require a level of “goodwill” to ensure co-operative behaviour in the interests of the citizens. While not prejudging this, it again has to be noted that past and recent events give cause for concern. In the end analysis the views on governance will be a matter of

confidence and judgement. I would however pose a number of questions for consideration in this regard, all of which will require answers.

- How will major decisions be made?
- Who “owns” the business plan and if it is the Trust, how do the settlors influence it? – SCI?
- Who will decide issues such as Capex levels and debt repayment programmes, given that each Council controls the revenue streams to the Trust.
- What is the point of resolution? Who decides when there is disagreement?
- Who has ultimate power? The Trust? The Councils? No one?
- Will the Trust’s existence confuse accountability – in the eyes of the public?

All sorts of procedures can be put in place to manage events and some are contained in the project proposal. However, hard decisions will ultimately need to be made by consensus.

This may or may not be a reasonable expectation of the three Councils. One thing is certain however and that is that governance for the WRC will be more difficult than it is now in respect of bulk water.

Question 4: What are the visible risks associated with the project proposal?

Most of the visible risks have been articulated under the previous questions so I do not intend to reiterate. Issues of tax, financial viability of the Trust and non materialisation of savings need also to be considered.

However, most risks can be managed in some way or other. The project proposal presents a framework for managing many of these risks. The question to be answered is “will it work?”

The project team has acknowledged that its proposals are a “first step” towards integration and by definition there are many uncertainties. For me the uncertainties and the risks outweigh the potential benefits at this time.

5. Impact on WRC

The impact on the WRC of moving ahead with the proposals is far more significant than the impact on the two territorial authorities. Much of this impact has been covered in presentations and workshops.

I do not intend to cover all aspects of the changes which would need to be made. Impacts can be managed if the benefits of any change are sufficient to justify such change. In addition, the impacts on the WRC, although clearly important, should not be the primary driver of this decision-making process.

It is sufficient to say that in my opinion, the economic and organisational downside for the WRC is potentially large enough to add further weight to my overall conclusion that the project proposal, as it stands, is not one which I could confidently endorse as offering net benefits to the community of water users or the Council itself.

6. Conclusions

The final question for me is:

“Does the necessary compromise of the project proposal cause difficulties in governance, accountability, operational effectiveness and ratepayer influence to the degree where it is less effective than either the current arrangements or what a greenfields (no compromises) option would deliver?”

My answer is, yes it does, and as a consequence, I cannot advise the Council to move forward to put the project proposal to the public for consultation.

Without wishing to prejudge overall public opinion, I believe the lack of clear accountability for total service in water delivery back to duly elected representatives will, in itself, cause public disquiet.

Water integration should remain a goal of this Council in my opinion. The current review of the Local Government Act offers a forum to arrive at an optimum model and to enshrine it in law. Such a model should target a single Council or Board which is elected by the citizens and which is clearly and fully accountable for all regional water services in the metropolitan area. I suggest we do not lose the excellent work of the project group and submit the proposal to the Local Government Review Group of the Department of Internal Affairs as a resource for their consideration.

7. Recommendations

That the Committee

- i) Congratulates the Project Group on the quality of the work completed.
- ii) Notes the necessary compromises which have been made to facilitate a joint project report.
- iii) Decides that the potential benefits of the project proposals do not offset the risks and reduced political accountability therein.

- iv) *Decides that the project report should not go to full public consultation but instead be submitted to the Department of Internal Affairs as a resource to assist its review of the Local Government Act.*
- v) *Notifies the four city customers of the WRC's wholesale water service accordingly.*
- vi) *Requests the Utility Services Committee review operating plans and financial projections for next fiscal year on the basis of integration not proceeding, at least until the review of the Local Government Act is completed and enacted.*

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