

Agenda for a meeting of the Waikato District Council to be held in the Council Chambers, District Office, 15 Galileo Street, Ngaruawahia on **WEDNESDAY 29 JUNE 2016** commencing at **1.00pm**.

*Information and recommendations are included in the reports to assist the Board in the decision making process and may not constitute Council's decision or policy until considered by the Board.*

1. **APOLOGIES AND LEAVE OF ABSENCE**
2. **CONFIRMATION OF STATUS OF AGENDA**
3. **DISCLOSURES OF INTEREST**
4. **REPORTS**
  - 4.1 Sub Regional Water CCO Proposed Record of Agreement 2
5. **EXCLUSION OF THE PUBLIC** 28

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**CHIEF EXECUTIVE**  
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## Open Meeting

<b>To</b>	Extraordinary Council
<b>From</b>	Tim Harty General Manager Service Delivery
<b>Date</b>	22 June 2016
<b>Chief Executive Approved</b>	Y
<b>DWS Document Set #</b>	1543148
<b>Report Title</b>	Sub Regional Water CCO Proposed Record of Agreement

### I. EXECUTIVE SUMMARY

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A number of independent reports have concluded that Hamilton City, Waikato and Waipa District Councils could manage water, wastewater and stormwater infrastructure more efficiently and cost-effectively by forming a joint Council-controlled organisation (CCO). Those reports have also indicated there would be substantial non-financial benefits in forming a CCO.

All three Councils have now agreed, in principle, to form a ratepayer-owned CCO to manage water and wastewater services, pending full public consultation.

A Waters Governance Group (WGG), supported by a staff Project Control Group (PCG), was tasked with agreeing the essential elements of any CCO (if one was to be formed) and has now reached a proposed Record of Agreement. The WGG has also agreed a plain English version of the Record of Agreement in order to provide more clarity and certainty to ratepayers, residents and others about what has been agreed.

Should the Record of Agreement and supporting document be adopted by all three Councils, post the October 2016 local body elections the newly elected Councils would be required to further consider and support, or not, the proposed Record of Agreement. If it was supported, each Council would be required to formally propose forming a CCO and undertake a full public consultation process. The shape and feel of any public consultation process has yet to be determined and is an ongoing task for the PCG.

### 2. RECOMMENDATION

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**THAT** the report from the **General Manager Service Delivery** be received;

**AND THAT** Council adopt the attached **Record of Agreement** and supporting documentation relating to the potential formation of a water and wastewater CCO for Hamilton City and Waipa and Waikato District Councils.

### 3. BACKGROUND

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A number of independent reports have concluded that Hamilton City, Waikato and Waipa District Councils could manage water, wastewater and stormwater infrastructure more efficiently and cost-effectively, as well as gain non-financial benefits for ratepayers including improved compliance with environmental standards through an alternate delivery model.

In late 2014, the three Councils jointly commissioned an independent report to look at the management of water and wastewater infrastructure services in detail. A specialist consultancy (Cranleigh) was asked to consider three options:

- (1) Boosting the existing shared service arrangements between all three Councils.
- (2) Retaining the status quo with each Council continuing to run its own water operations
- (3) All three Councils forming a joint, rate-payer owned CCO to run water and wastewater services on behalf of all three organisations.

In May 2015, the Cranleigh report was presented to the three Councils. It made two recommendations:

1. That Hamilton City, Waikato District and Waipa District Councils transfer their water and wastewater assets into a jointly-owned not-for-profit Council-controlled organisation (CCO), and
2. That the Councils retain ownership of their urban stormwater assets, but outsource management of those assets to the CCO on a cost recovery basis.

In July 2015, following receipt of the Cranleigh report Hamilton City and Waikato District Councils agreed, in principle, to form a CCO to manage water and wastewater activities, subject to full public consultation. Waipa DC agreed, in principle, to form an asset-owning CCO in March 2016 (also subject to public consultation).

In late 2015, a nine-person WGG was tasked with working through a range of issues to reach agreement and establish the essential elements that determine how a ratepayer-owed CCO would function, if formed. The WGG has now reached a draft Record of Agreement following a number of facilitated meetings informed by professional advice from Peter Winder (McGredy Winder) supported by Mike Stanton (Cranleigh). That draft Record of Agreement is attached.

The WGG has also agreed a 'plain English' version of the Record of Agreement in order to give more clarity and certainty to ratepayers, residents and others about what has been discussed. The plain English version is also attached.

It should also be noted that on 9 June 2016 the Local Government Act 2002 Amendment Bill (the bill) was introduced to the House. The focus of the bill is to provide a broader range of functions to be transferred between local authorities, joint governance arrangements for areas of common or shared interest, and greater use of joint CCOs for providing services.

## 4. DISCUSSION AND ANALYSIS OF OPTIONS

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### 4.1 DISCUSSION

The WGG considered the draft Record of Agreement through a series of facilitated workshops. Following the WGG's general agreement on content of the documentation, workshops were held with elected members across all three Councils (this Council's was held on 7 June) with comments fed into the documents. On 10 June the WGG considered the final documents and confirmed its general support.

Please note that support for the attached documents does not mean a decision to form a CCO has been made. A decision on whether or not to form a CCO could not be made until:

- All three Councils formally propose forming a CCO following the 2016 local body elections in October, and
- Ratepayers and the general public across all three Councils have been consulted on that formal proposal to form a CCO.

If consultation goes ahead, it is unlikely to happen until 2017. A Special Consultation Process is required and this could not occur prior to the election. Given the scale and scope of any next stage, and the need to be fully prepared to brief the incoming Councils, the PCG will continue to work on the possible approaches to the next stage of the process over the next few months.

### 4.2 OPTIONS

There are two options available to Council:

**Option One:** Adopt the attached proposed Record of Agreement and supporting plain English document. Adopting the documents will reflect Council's continued in principle support of a CCO, based on the Record of Agreement. However it will not signal a final decision to form a CCO. In line with previous discussions with Council and the Governance Group representatives, this is the preferred option.

**Option Two:** Not support the adoption of the attached Record of Agreement and supporting plain English version. This will signal that Council does not support the proposal to form a CCO based on the proposed Record of Agreement attached.

This option is inconsistent with previous views expressed by Council and the Governance Group representatives and is not recommended.

## 5. CONSIDERATION

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### 5.1 FINANCIAL

There are no financial impacts of the decision. Any works undertaken by staff can be covered within existing budgets and workloads.

The delivery of the Cranleigh contractual requirements to the three Councils represents the end of the commission. The work was undertaken within the \$350,000 budget. Further

communications input may be required over the next short period. This will also be covered within the existing budget allocation.

## **5.2 LEGAL**

There are no known legal matters related to the adoption of the attached documentation. It should, however, be noted that the recent Bill introduced to parliament supports the approach being taken here.

## **5.3 STRATEGY, PLANS, POLICY AND PARTNERSHIP ALIGNMENT**

The proposed formation of a Waters CCO aligns with a number of Councils Plans and Policies, notwithstanding the requirements and intent of Section 17a of the Local Government Act.

## **5.4 IWI**

Engagement with Iwi on the formation of a CCO is ongoing. Council representatives on the appropriate Joint Management Agreement Committees have continued to keep Iwi partners up to date. Further, the three Mayors and Chief Executives met with senior Iwi representatives from across the sub-region to discuss the CCO proposal in April. Following that meeting, staff have continued to liaise with Iwi representatives. A joint statement from Iwi is provided in the plain English document. Iwi engagement and liaison will continue.

## **5.5 ASSESSMENT OF SIGNIFICANCE AND ENGAGEMENT POLICY AND OF EXTERNAL STAKEHOLDERS**

Any change to the way Council delivers water and wastewater services will trigger the Significance Policy. This will require a full public engagement process. The manner, scope and scale of the process is yet to be determined or agreed.

## **6. CONCLUSION**

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For many years the three Councils have been working through a complex process to consider the formation of a ratepayer-owned water and wastewater CCO. The work has been in front of Council a number of times in either workshops, or via formal reports.

The documents attached to this report are public records of discussions and a proposed agreement on the essential elements of a CCO, should one be formed. However they do not signal that a final decision to form a CCO has been made.

## **7. ATTACHMENTS**

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- Draft Record of Agreement
- Plain 'English' version of the Record of Agreement

## Water Governance Group

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### Record of Agreement:

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1. This Agreement records the consensus reached by the Waikato Water Governance Group in relation to the design and operation of a possible Waikato Waters CCO.

### Key Elements of the Proposed CCO

2. The key elements of the proposed Waters CCO are agreed as per the Cranleigh report:
  - a. The purpose of the CCO will be to provide drinking water and treat and dispose of wastewater (water services) across the Hamilton, Waikato and Waipa local authority areas.
  - b. The CCO will aim to deliver water services and operations in an efficient, effective and sustainable manner, maintaining agreed service standards and prudent management.
  - c. The CCO will also provide stormwater services under contract to Hamilton City, Waikato District and Waipa District Councils.
  - d. The CCO would be 100% owned by Hamilton City Council, Waikato District Council and Waipa District Council.
  - e. It will be possible for other Councils to join the CCO on a fair and equitable basis.
  - f. The CCO will take the form of a shareholder-owned, limited liability entity subject to taxation advice.
  - g. The CCO will earn enough revenue to maintain and develop the waters network, but will not pay dividends to shareholders.
  - h. It will effectively be a cooperative in favour of water customers and communities, although customers will not be members or shareholders.
  - i. The CCO will purchase the water and waste water assets and liabilities of the three Councils. This will involve a transfer of those assets and related liabilities from each Council to the CCO. In consideration for the water and waste water assets the Councils will receive a mix of cash, shares in the CCO and shareholder loans.
  - j. The CCO will manage its own balance sheet and debt within agreed parameters.
  - k. The CCO will be overseen by an independent, professional board of directors who are appointed by shareholders through the Shareholders' Forum.
  - l. The CCO will be managed by a CEO reporting to the Board of Directors.

- m. Operational decisions about water services will be the responsibility of the Board, based on an agreed Statement of Intent with the Councils and on decision thresholds defined in the constitution on a 'no surprises' basis.
- n. The CCO will be 'customer-facing'. That is, it will be expected that any service requests or customer complaints will be managed by the CCO.
- o. The CCO will report against financial and non-financial performance targets, and on any other matters reasonably requested.
- p. The CCO will bill customers directly after a transition period.
- q. Strategic planning, particularly for growth, will remain the exclusive prerogative of the Councils, and the CCO will be constitutionally bound to give effect to these plans and strategies.

## Values and Principles

3. As joint owners of a Waikato Waters CCO, Hamilton City and Waikato and Waipa District Councils would require the CCO to adopt, and expect it to adhere to, the following values and principles:
  - **Transparent, Ethical and with Integrity** – operations, costs and business practices must be transparent to both shareholders and the public. The CCO must act with integrity and adopt the highest ethical standards in all that it does. Its business practices must be beyond reproach.
  - **Open and Customer Focused** – placing customers at the centre of all that it does, the CCO must be focused on delivering the services that they need. It must be responsive, open to criticism and feedback, and constantly seek to learn and improve.
  - **Reliable** – with the customer at the centre of all that it does, the CCO must deliver reliable services, replacing aging infrastructure as is necessary to maintain supply, and securing additional water sources as may be necessary to ensure reliable, consistent delivery.
  - **Affordable** – with the customer at the centre of all that it does, the CCO must deliver affordable services. To do this it must be very focused on finding the most cost-effective ways of delivering its services.
  - **Safety** – develop and foster an embedded safety culture that is reflected in the quality, consistency, and safety of products and services. The safety culture will be reflected in **all aspects** of the CCO's operations and in the way in which it looks after its customers and its staff.
  - **Innovation** – develop and foster a culture of innovation that constantly seeks to find new ways of delivering more cost effective services.
  - **Kaitiakitanga** – recognising the guardianship and link between Iwi, water and natural resources.
  - **Environmental Care** – the long-term success of both the CCO and the communities that it serves depends on the sustainable management of water resources. The CCO must embed sustainability principles in its business, caring for the water sources on which it depends, minimising water losses, minimising wastewater overflows, and ensuring that the quality of discharges meet required standards. The CCO must also



play a positive role in managing demand for water and appropriate incentives for conservation.

- **Social Responsibility** – working for the benefit of the communities that it serves, the CCO must imbue its activity with a strong sense of social responsibility. A strong social conscience must be reflected in pricing policy and tariff structures.
- **Enabling Economic Development** – providing reticulated water and wastewater services is a key enabler of economic development and growth. The CCO must plan and develop water services to sustain existing communities and support the agreed growth priorities of the shareholding councils.

## Commitments to Iwi

4. Establishing a CCO would change the way in which water services are delivered and managed but it would not change in any way commitments to Iwi through Memoranda of Understanding, Joint Management Agreements, and a number of co-governance and co-management arrangements. Neither would it change processes for water allocation, consents, or regulatory responsibilities.

## Control of Water Assets

5. The Local Government Act prohibits the privatisation of water assets. The councils support the current legislation and keeping water assets in public ownership.

## Joint Shareholder Decisions

6. Joint shareholder decisions will be made by a Shareholders' Forum established under the constitution of the CCO and a related shareholders agreement. This forum would allow voting in proportion to shareholding.
7. How each council deals with its responsibilities and decision-making will be determined by each council. It is expected that each council will have a framework for considering the performance of the CCO and any issues that need to be decided by the Shareholders' Forum.

## Membership of the Shareholders' Forum

8. The Shareholders' Forum will comprise a lead representative and two others appointed by each council.
9. The lead representative will be authorised to exercise any voting on behalf of the shareholding council. In the absence of the lead representative, one of the other representatives will be authorised to exercise the shareholder's votes.
10. It will up to each council to determine how it considers the matters considered by the forum and how their representatives reflect their interests.
11. For the first 18 months of operation, the Shareholders' Forum will be chaired by a non-voting independent chair. At the end of the 18 month period the Shareholders' Forum will recommend to councils whether or not to continue with an independent chair, or whether the position of chair will rotate between shareholders.



12. The Independent Chair will be appointed by resolution of each of the three shareholding councils.

## Decision-making Thresholds

13. Shareholders will use best endeavours to make all joint shareholder decisions by consensus.
14. The role of the non-voting Independent Chair will be to facilitate consensus decisions. The Independent Chair must ensure that adequate time is devoted to reaching a consensus. However, where, after the best efforts of the Independent Chair and the members of the Shareholders' Forum a consensus cannot be reached, a decision will be made by voting.
15. Where consensus cannot be reached, 'ordinary' decisions made by the Shareholders' Forum will be by simple majority of votes on a one (equal) vote per shareholder basis.
16. Where consensus cannot be reached, 'significant' decisions made by the Shareholders' Forum will be by way of super-majority with voting proportionate to the shareholding of each council and require a majority of 75% of shareholder votes.
17. Table 1 shows which of the decisions reserved for the Shareholders' Forum are ordinary and which are significant and require a super-majority. It also shows where the role of either the Board or the Shareholders' Forum is to make recommendations or establish principles.

## Decision-making Framework

18. Table 1 records the broad allocation of decision-making between the Board of the CCO, the shareholders collectively, and the shareholders individually.
19. In the table the ✓ indicates the decision-maker. The table also shows those responsible for making a recommendation.

**Table 1: Decision-making Framework**

Decision	Decision-maker			Type of Shareholder Decision
	CCO Board / Management	Shareholders Jointly	Individual Shareholders	
Establishing / changing the CCO's constitution		Recommend	✓	Unanimous
Establishing debt caps and/or debt ratio limits (SOI/Letter of Expectation)	Recommend	✓		Significant
Increases in debt over a certain cap or ratio	Recommend	✓		Significant
Establishing debt levels, security and sources of borrowing	✓		(See Note 1)	NA
Entering into a loan within debt cap and ratio limits	✓			NA
Repayment of shareholder loans	Recommend	✓		Significant
Approving a material transaction – including any additional related revenue	Recommend	✓		Ordinary

Decision	Decision-maker			Type of Shareholder Decision
	CCO Board / Management	Shareholders Jointly	Individual Shareholders	
Acceptance of another Council as a new shareholder and issue of shares, or change in shareholding	Recommend	Recommend	✓	Unanimous
Appointment of Chairperson		✓		Ordinary
Appointment of Directors		✓		Ordinary
Appointing the CCO CEO	✓			NA
Letter of Expectation		✓		Ordinary
Statement of Intent (See Note 2)	✓	✓		Ordinary
Development (and measurement) of KPIs	Contribute / Recommend	✓		Ordinary
Reporting CCO performance	✓			Ordinary
Monitoring the performance of the CCO		✓	Receives reports	Ordinary
Ensuring statutory compliance	✓			NA
Ensuring that assets are maintained to agreed standards over the long-term	✓			NA
Delivering water and wastewater services to agreed standards	✓			NA
Establishing growth priorities		✓ confirm for CCO	✓ through joint process – see below	
Alignment to shareholder strategic plans	✓			NA
Development and approval of capital works programme	✓			NA
Establishing procurement processes and approaches to tendering	✓			NA
Awarding tenders	✓			NA
Establishing / harmonising tariff structures	✓	Establish principles		Ordinary
Changes in tariffs / charges	✓	Establish limits		Ordinary
Negotiating tariffs with major water users	✓			NA
Customer relations – complaints, resolution and feedback process	✓			NA
Water Conservation and Demand Management	✓	Establish principles		Ordinary
Implementing water metering	✓	Establish principles		Significant

**Note 1:**

If a council chooses to borrow money secured against rates and on-lend to the CCO that would require the relevant council decisions.

**Note 2:**

The CCO Board prepares a draft SOI and adopts it following consideration of Shareholder Forum comments. By practice Shareholders 'accept' by resolution the final SOI. The Shareholders' Forum may (by resolution) require the CCO Board to change the SOI (see Local Government Act 2002, Schedule 8).

## Establishing Growth Priorities

20. Decisions relating to implementing growth priorities will be determined by the shareholding councils through a new joint committee. For the purposes of this agreement this decision-making body is referred to below as a 'Growth Forum'. The details of the way in which the Growth Forum will be constituted and operate will be finalised later.
21. Each council will take the agreed location and sequencing of growth cells from Future Proof and translate that into more detailed planning for growth within its district. That planning will integrate and align the public infrastructure required to support growth.
22. The Growth Forum will provide the mechanism by which the more detailed growth planning from each council is then integrated. This will resolve any cross boundary issues, and ensure that the sequencing, timing and scope of the planned infrastructure best provides for the growth of the sub-region.
23. The Growth Forum will recommend to councils the agreed priorities for infrastructure. Councils will make final decisions relating to their infrastructure through their Long Term Plan processes (including consultation with their community).
24. The Growth Forum will convey the agreed priorities for infrastructure to the Shareholders' Forum. The Shareholders' Forum will then ensure that these priorities are reflected in the CCO's Letter of Expectation, Statement of Intent, etc.
25. Only shareholder council representatives will be members of the Growth Forum. Only shareholder council representatives will be able to vote and make decisions at the Growth Forum. Other organisations, including the CCO, may be invited to attend and provide advice.
26. Ideally decisions at the Growth Forum will be by consensus. At the Forum all councils will be represented on an equal basis.

## Alignment to Council Objectives

27. The CCO will be required to act in the interests of its shareholders and give effect to Council policy as conveyed to the CCO through the Shareholders' Forum, the annual letter of expectations from shareholders and the Statement of Intent process.
28. The constitution of the CCO will use Section 131 of the Companies Act (or equivalent) to support the requirement to act in the interests of shareholders. This requirement will also be reflected in letters of appointment to directors.
29. The councils will use the process described above to establish agreed approaches to growth and development and priorities across the sub-region. These development priorities will be conveyed to the CCO through the Shareholders' Forum.



30. Through the Shareholders' Forum, councils may set other objectives and expectations for the CCO. When developing objectives for the CCO the Shareholders' Forum will provide for input from the Board of the CCO on their ability to meet any proposed objectives and any cost or revenue implications.

## Asset Valuation

31. The three councils will jointly appoint one valuer to independently value, or confirm the valuation of all the councils' water services assets as at the formation date of the CCO (expected to be 1 July 2019) using the ODRC methodology.
32. As agreed through LASS the councils will this year appoint one valuer and agree one set of asset life assumptions, one set of unit rates, and optimisation methodologies.
33. The agreed valuer will complete the valuation of the assets, which will become the agreed value of the assets for transfer to the CCO.

## Treatment of Existing Council Debt, Development Contributions and Reserves

34. On formation, the CCO would raise debt at least sufficient to settle the agreed consideration.
35. On formation, the CCO would assume all future water infrastructure expansion obligations that each of the councils has relating to development contributions that they have previously received and the councils will pay to the CCO any unspent cash they have received as development contributions for this purpose.
36. On formation, the CCO would pay the councils a cash amount equal to their deficit reserve (if any) and any council with a surplus reserve would pay a cash amount equal to the reserve to the CCO.

## Treatment of Future Vested Assets

37. Future vested assets are assets that are transferred to a Council at nominal or zero cost by a developer. They will be sold to the CCO with the consideration being an increase in the shareholder loan of that Council.
38. As part of their submissions to Government on new legislation, the councils will suggest reforms so that developers can be required to vest relevant assets directly with a CCO rather than in the council. Under this approach other exemptions will need to apply to avoid large, taxable, paper profits arising in the CCO.

## Consideration

39. The principles that apply to consideration are:
  - the councils should be treated in a fair, equitable and even manner
  - the approach to consideration must be transparent and able to be simply explained to the public



- total consideration for each council will be equal to the value of assets contributed
- the value of the councils' assets will be determined by independent valuations prior to the establishment of the CCO
- given the intention to minimise costs to water customers and the need to leave headroom for future capital expenditure, the amount of consideration that is paid as cash needs to be prudent and should not result in the CCO exceeding the maximum prudent level of debt that the CCO could take on at establishment
- no council should be left with residual water-related debts upon establishment of the CCO
- the councils' level of existing water debt will be confirmed by an independent reviewer.

40. The final calculation of consideration will be done as part of the establishment process. It must reflect the value of the assets held by each council at that time. The value of the assets at that time will depend upon the level of investment that the councils make between now and then. This means that at this time the councils cannot agree the final dollar value of consideration, they can only agree the basis on which consideration will be calculated at establishment.

41. The agreed approach to consideration is that:

- a. Total consideration paid by the CCO to the councils will be equal to the sum of the water-related assets, net water-related working capital and any surplus net reserves that are transferred into the CCO (i.e. total assets contributed).
- b. Consideration will be a mix of cash, shareholder loans and ordinary shares.
- c. The cash consideration paid to each council will be the greater of:
  - an amount proportional to the total assets contributed by each council multiplied by the total debt contributed by councils to the CCO as calculated below:
 
$$\left( \frac{\text{Total Assets Contributed by Council}}{\text{Total Assets in CCO}} \right) \times \text{Total Debt Contributed by all Councils}$$
  - or
  - the total water-related debt contributed by each council to the CCO.
- d. The total consideration paid as ordinary shares will be equal to 75% of the total assets in the CCO less the total debt contributed by councils. The ordinary shares received by each council will be equal to their net equity percentage pre-merger.

The definition of net equity is as below:

$$\text{Net Equity} = \text{Total Assets Contributed} - (\text{Debt} + \text{Deficit Reserves})$$

- e. Shareholder loan amounts will make up the balance of consideration, with the shareholder loan amounts to be apportioned to each council calculated as follows:

$$\text{Council Shareholder Loan} = \text{Total Assets Contributed by Council} - \text{Cash Consideration} - \text{Ordinary shares}$$

42. On commencement, the CCO will raise debt at least sufficient to pay the cash consideration to each council.
43. Based on the current forecast model (as at 30 June 2019), the agreed approach to consideration would result in the following:

<b>Consideration</b>				
<b>As at 30/06/2019</b>	<b>Waikato</b>	<b>Hamilton</b>	<b>Waipa</b>	<b>Total</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<i>Council Water Assets (2 Waters)</i>				
Fixed Assets	248.9	787.6	232.3	1,268.8
Net Working Capital	4.1	12.5	3.7	20.3
Surplus Net Reserves	0.0	0.0	0.0	0.0
<b>Total Assets Contributed</b>	<b>253.0</b>	<b>800.1</b>	<b>236.0</b>	<b>1,289.1</b>
<b>% of Total Assets</b>	<b>19.6%</b>	<b>62.1%</b>	<b>18.3%</b>	<b>100.0%</b>
<i>Council Water Debt</i>				
External Debt	38.9	130.9	22.6	192.4
Deficit Net Reserves	22.5	0.0	8.9	31.4
<b>Total Debt</b>	<b>61.5</b>	<b>130.9</b>	<b>31.5</b>	<b>223.8</b>
Net Pre-merger Equity	191.6	669.1	204.5	1,065.3
<b>% Equity Pre-merger</b>	<b>18.0%</b>	<b>62.8%</b>	<b>19.2%</b>	<b>100.0%</b>
<i>Purchase Consideration Paid</i>				
Cash	61.5	138.9	41.0	241.3
Ordinary Shares	133.6	466.7	142.7	743.0
Shareholder Loans	58.0	194.4	52.4	304.8
<b>Total Consideration</b>	<b>253.0</b>	<b>800.1</b>	<b>236.0</b>	<b>1,289.1</b>
<b>% Shareholding</b>	<b>18.0%</b>	<b>62.8%</b>	<b>19.2%</b>	<b>100.0%</b>

Please note that the above figures are rounded to one decimal place; any slight differences in the addition of rows is due to rounding.

## Debt/Equity Position of the CCO

44. It is noted that based on work to date, the ratio of debt to equity of the CCO has been forecast to peak at just over 31%. Many international water companies have ratios much higher than this.

## Shareholder Exit Provisions

45. It will be possible for a shareholding council to exit from the CCO and resume the management and operation of the water and wastewater activities in its area.
46. If a council were to decide to exit from the CCO the following principles would apply:
- Fairness.** The arrangements should be fair to both exiting and remaining shareholders.



- b. **Trigger points.** An exit would need to be triggered by a council asking to leave. The key would be appropriate time lines. This might be:
  - i. departing council notifies other shareholders it wishes to leave
  - ii. other shareholders working with the CCO board and management to develop a detailed exit plan within one year
  - iii. departing shareholder has up to one year to accept the plan or agree another
  - iv. once a plan is agreed it should be implemented within 18 months.
- c. **Treatment of assets.** The departing shareholder will need to buy from the CCO all the water and wastewater assets in its territory at the value they are held in the CCO's accounts together with an appropriate amount of working capital. At the boundaries there may be some assets that serve customers outside the exiting council's territory, or customers within the exiting council's territory may be serviced by assets that remain within the CCO. The remaining and departing councils will need to agree appropriate arrangements for these assets as part of the exit plan.
- d. **Consideration.** As payment for the CCO's assets the exiting council would agree to the cancellation of its CCO shares and shareholder loans and would pay the balance in cash.
- e. **Other liabilities.** It would be unfair for the remaining shareholders to be left with stranded assets or other liabilities. These might include a now oversized head office or operating systems or redundancy costs for staff not now required who do not wish to accept positions with the exiting council. These costs should be borne by the exiting council.
- f. **Transaction costs.** Fair transaction costs such as legal costs and increased costs of working should be borne by the exiting council.

## Option to Allow New Shareholders

- 47. It will be possible for another council to become a shareholder and transfer its water assets into the CCO.
- 48. A proposal for a new shareholding council would be considered by the Board of the CCO and a recommendation to accept or reject the proposal would be made by the Board to the Shareholders Forum. The final decision on the proposal would be made by the shareholders themselves in accordance with this agreement.
- 49. The following principles apply to a possible new shareholding:
  - a. The shareholders are open to considering the admission of new shareholders.
  - b. The admission of a new shareholder must be approved by the existing shareholders.
  - c. The admission of a new shareholder should not be detrimental to the existing shareholders.
  - d. A new shareholder will pay all the transaction costs of joining the CCO.



## Approach to Tariff structures

50. It is essential to establish a clear process for determining water service tariffs. The CCO needs to be able to raise the necessary revenue to cover its operating costs by direct billing. Direct billing is also important to establish a relationship between the customer and service provider. It is intended to move to a unified tariff structure across the sub-region as soon as possible.
51. The following principles apply to water and wastewater revenues and will be reflected in the Letter of Expectation, the Statement of Intent, the CCO monitoring framework and a no surprises policy:
- CCO revenues will be based on sustainable whole of life costs and long-term cost reduction.
  - Objective to move to price harmonisation as soon as possible so that customers of the same type, that receive the same level of service, pay the same tariffs.
  - Water and wastewater charges will not be higher than expected under council Long Term Plans for at least one year after the establishment of the CCO is completed.
  - CCO to bill customers directly as soon as possible.
  - The CCO must allow for both volume and fixed rate charging.
  - A hardship mechanism shall be included. The preferred mechanism will need to be developed and recommended by the CCO.

## Role and Competencies of the Board

52. The board of directors is appointed to act on behalf of the shareholders to run the day to day affairs of the business. A critical board task is the selection, mentoring and monitoring of the CEO.
53. Board members must collectively have skills relevant to a substantial water related infrastructure business. These skills will include civil engineering, accounting, law, customer service, financing, staff selection and monitoring, planning, information technology, health and safety, commercial contracts, procurement, an understanding of and empathy for iwi Māori perspectives, experience of dealing constructively with community matters and concerns and an understanding of local government.
54. This does not mean that the board must include an accountant, an HR expert or a lawyer. Rather that board should include people whose skill set includes a good understanding of the application and relevance of these to the running of a water company. Having said that, it is expected that at least one or two qualified engineers will be on the board given the core function of the business.
55. The board is appointed by the shareholding councils via their Shareholders' Forum and will be accountable to it via the letter of expectation, the statement of intent and reporting processes. If performance is inadequate, the Shareholders' Forum will have the ultimate sanction of removing and replacing some or all of the directors. The Shareholders' Forum will have the right to remove directors at any time.



### **The Potential for Elected Representatives to Serve as Board Directors**

56. Elected representatives including community board members are not permitted to serve as board directors.

### **Iwi Relationships**

57. Councils will require that one of the competencies that is required on the Board of the CCO is an understanding of and empathy with iwi Māori perspectives. Councils will consult iwi to explain the proposed structure and governance arrangements of the water company and to hear which matters are likely to be of most interest to iwi. This will assist in determining the best avenue for those interests to be heard and will include ensuring that existing consultative arrangements are linked to the water business.

### **How the Voice and Interests of Customers Are Heard**

58. The agreed Board competencies include experience of dealing constructively with community matters and concerns.
59. Representing the interests of customers will be a critical role for councils via the Shareholders' Forum, statement of intent and monitoring process.
60. Councils will ensure that the statement of intent includes clear targets and key performance indicators on service performance and customer satisfaction.

### **The Management of Stormwater Assets**

61. Councils will negotiate appropriate management service agreements for their stormwater activities during the implementation phase. The councils will also adopt the principle that no council should be offered lower pricing for like for like stormwater services than any other council.

### **Central Government Insurance Cover for Natural Disasters**

62. Under current legislation, Central Government insurance cover for natural disasters will not be available to the CCO. However, there may be changes to this legislation and so this position may change by the time that the CCO is formed.
63. Should there be no change to legislation, the CCO can simply buy the necessary cover in the market.

### **Government Rate Rebates Programme**

64. Current legislation provides for rates rebates for certain customers who have difficulty paying. This would not be available to the CCO. As with insurance cover, this legislation is under review.
65. Should there be no change to legislation, the CCO could provide a comparable tariff rebate scheme for such customers at little cost.



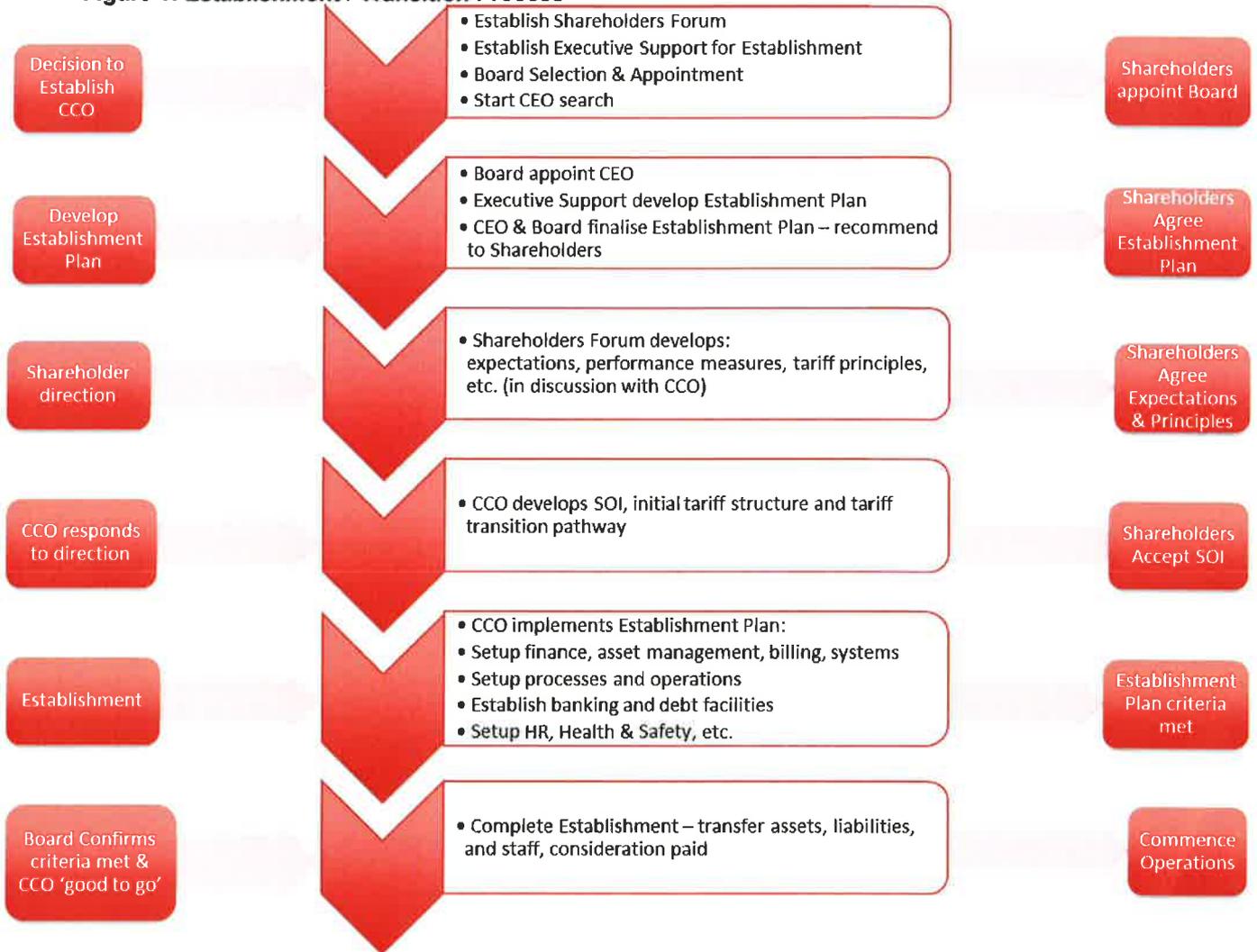
## Transition & Establishment Processes Options

66. The current negotiation between the councils is intended to produce an agreed CCO proposal that (once agreed by all Councils) will become the basis of a single public description of a possible Waters CCO that will inform the public. It is intended that this single description of the CCO would be available before the end of June 2016.
67. Assuming that the three councils reach agreement on a proposed CCO, it is intended that they would each consult the public on the proposal in 2017. Following public consultation, if the three councils agree to proceed then the establishment and transition process would begin.
68. This sequence of steps is shown in Figure 1 below. It provides a staged transition process and does not transfer assets, liabilities, staff and operational responsibility to the CCO until it is fit for purpose and ready to go.
69. The process provides key decision / control points to shareholders through the process. Under this approach, once a decision to establish a CCO is made, shareholders would work to:
  - a) appoint the Board
  - b) agree an establishment plan
  - c) develop and agree the expectations that they will set for the CCO, the principles that the CCO must use to develop its tariff structure, and their expectations with respect to growth and economic development
  - d) consider and adopt the SOI.
70. The CCO will work systematically through the establishment process according to an agreed establishment plan. The CCO Board will oversee the establishment, including recruiting a CEO, SOI, initial tariff structure and tariff transition pathway. The CCO will also setup its business systems and processes **before** it takes over ownership and operation of the water and wastewater systems. Having these systems in place and operational before the CCO commences full operations significantly reduces risks associated with the transition. Importantly, staffing arrangements, management and operational systems will all be in place before it takes over assets.
71. The establishment plan will include the criteria that the CCO Board must meet before the final stage of the establishment process is completed. The CCO Board must satisfy itself that the organisation meets the criteria and is fit for purpose before they agree to the final stage of the transition – the transfer of assets, liabilities, staff and operational responsibility.
72. Prior to the good to go decision, the shareholders will have ample scope to exercise their decision-making role as they establish expectations, principles and the framework of performance measures within which the CCO will operate. All of this must be established and agreed before the transfer of assets and operational responsibility.
73. In order to complete the establishment / transition process in a timely manner many of the processes shown in Figure 1 would be undertaken in parallel, rather than sequentially. The selection and implementation of business systems will need to be run in parallel with the process of setting shareholder expectations. The start of the CEO selection process (selecting a recruitment consultant, developing a draft position description and person spec, etc.) can happen in parallel with the selection and appointment of the Board.
74. The establishment process would also be supported by an executive team comprising key staff from each council. Their role will be to assist both the shareholder representatives and the Board and CEO through the process.



75. Assuming that the three councils consult on the proposal to establish a CCO at the beginning of 2017, it is expected it would be possible to complete the establishment process and transfer the assets and responsibilities to the CCO by the end of the 2018-19 financial year.

**Figure 1: Establishment / Transition Process**



Each year we spend more than \$100 million dollars delivering water and wastewater services.

We deliver around 38 billion litres of water and dispose of around 23 billion litres of wastewater. That's enough clean, drinking water to fill more than 15,000 Olympic size swimming pools... and enough wastewater to fill more than 9,000 more.

Across the Waikato and Waipa districts, and within Hamilton city, we provide these services to more than 76,000 connected households and businesses.

**WE ARE REQUIRED BY LAW  
TO DELIVER THESE SERVICES  
IN THE MOST EFFICIENT AND  
COST-EFFECTIVE WAY.**



June 2016





## WHY HERE?

Hamilton city, Waikato and Waipa districts are all high-growth areas. Over the next 30 years, population across the three neighbouring Councils will increase from around 265,000 to around 384,000. That's around 75 new people per week moving here.

We will need more water and wastewater infrastructure, or upgraded infrastructure, to cope with our growing population. We will also need to provide the right infrastructure for the industrial and economic growth we'll need to sustain and support our communities.

While Hamilton will experience an increase in the number of young people living in the city, many more people across the three Council areas will be older, with smaller average incomes. Affordability of Council services will be an even more important issue with a greater focus than ever before on efficiency and cost-effectiveness.



## BACKGROUND

Councils by law must provide services, including water and wastewater services, in the most efficient and cost-effective way.

A number of independent reports have suggested that Hamilton City, Waikato District and Waipa District Councils could manage water, wastewater and stormwater infrastructure in a better way; a way which will provide significant financial and non-financial benefits to ratepayers and others.

In late 2014 the three Councils agreed to explore this issue further, commissioning an independent report to look at water infrastructure services in detail. A specialist consultancy called Cranleigh was asked to consider three options:

- (1) Boosting the existing shared service arrangements between all three Councils. (All three currently work together on trade waste and laboratory services and to encourage water conservation)
- (2) Retaining the status quo with each Council continuing to run its own water operations (meaning there would be no change)
- (3) All three Councils forming a joint, Council-controlled organisation (CCO) to run water and wastewater services on behalf of all three Councils.

The report did not consider privatising water services. Privatising Council-delivered water services is against the law in New Zealand. All three Councils support the current legislation and support keeping water assets in public ownership.

## TWO RECOMMENDATIONS

In May 2015, the Cranleigh report was presented to the three Councils. It made two recommendations:

1. That Hamilton City, Waikato District and Waipa District Councils transfer their water and wastewater assets into a jointly-owned not-for-profit Council-controlled organisation (CCO), and
2. That the Councils retain ownership of their urban stormwater assets, but outsource management of those assets to the CCO on a cost recovery basis.

All three councils have agreed to support the formation of the CCO in principle, subject to the outcome of public consultation. That consultation is unlikely to happen before 2017. **No decision to form a CCO has been made or could be made for some time.**

*Full copies of the reports from Cranleigh (including a 38-page summary report) are available at [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz). Copies of a report from Mott MacDonald (who advised Cranleigh on engineering issues) is also available on this website, along with other information.*

## WHAT IS A CCO?

*CCO stands for Council-controlled organisation. In a CCO one or more Councils control 50 per cent or more of votes, 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 Waikato Regional Airport Ltd (jointly owned by Hamilton City, Waipa, Waikato, Matamata-Piako and Otorohanga District Councils) and Local Authority Shared Services (jointly owned by 12 councils).*



## CRANLEIGH

### WHY THE REPORT RECOMMENDED A CCO

The Cranleigh report identified two main areas of benefit from forming a CCO – financial and non-financial.

#### NON-FINANCIAL BENEFITS

The Cranleigh report says forming a ratepayer-owned CCO would:

- **improve compliance with environmental and drinking water standards**  
In a CCO structure, the concentration of expertise, a single-minded focus on water services and greater financial resources will ensure environmental and drinking water standards are met. Directors will be personally liable if they are not.
- **help create a stronger and more resilient waters network across the three council areas**  
Combining into one entity would make greater expertise and resources available across the whole sub-region.
- **help attract and retain expert waters service staff to work in the region**  
Working for a larger, dedicated waters organisation is likely to be more appealing to specialist water staff.
- **help develop a regional water centre of excellence**  
Having a specialist waters organisation would provide combined expertise in water infrastructure, available locally.
- **better harness and maximise the economic potential of the region.**  
Water is a critical economic resource. Having water infrastructure managed more efficiently and cost-effectively would ensure water services can better support economic growth and development.

#### FINANCIAL BENEFITS

The Cranleigh report also says forming a ratepayer-owned CCO would create significant savings for Councils and ratepayers. The figures in the table below are based on the Councils' 2015-2025 draft 10-Year Plans and draft 30-year Infrastructure Strategies.

COUNCIL	Estimated savings over 10 years (from the Cranleigh report)	Estimated savings over 28 years (from the Cranleigh report)
Hamilton City Council	\$52.3 million	\$282.1 million
Waikato District Council	\$28.1 million	\$105.5 million
Waipa District Council	\$26.7 million	\$80.8 million
	Estimated total savings over 10 years = \$107.1 million (an average of \$10.7 million per year)	Estimated total savings over 28 years = \$468.4 million (an average of \$16.7 million per year)

The Cranleigh report says savings would come from three key areas:

- **Operational expenditure** (the money spent to operate the waters business) would reduce by \$153.5 million over 28 years (an average of \$5.4 million per year)
- **Capital expenditure** (the money spent on items like plant and equipment) would reduce by \$150.9 million (an average of \$5.3 million per year)
- **Debt optimisation:** Debt optimisation involves borrowing more money up front and repaying it over a longer period of time. Cranleigh advise that optimising debt would reduce total charges to consumers by \$164 million – an average of \$5.8 million per year – over 28 years. (See page 8, Q8, for more information on debt optimisation.)

*Comprehensive financial information, including estimated break-downs of annual savings for consumers, is available at [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz). This website also contains a full copy of the Cranleigh report (including a 38-page summary) plus further detailed information.*



## DISCUSSIONS SO FAR

All three Councils have agreed to support the formation of the CCO **in principle**, but have not made a decision. No decision could be made until:

- all three Councils have considered the issue following the 2016 local body elections in October, and
- ratepayers and the general public across all three Council areas have been consulted.

If consultation goes ahead, it would be unlikely to happen until 2017 at the earliest. Following that consultation with the public, each Council would need to make its own independent decision about whether to form a CCO or not.

However, all three Councils have now agreed on what the waters CCO might look like, if it were to go ahead.

This proposed agreement outlined in this document, has been reached in order to give more clarity and certainty to ratepayers, residents and others about what has been discussed.

This proposed agreement is summarised on page 3 – 6. A copy of the full agreement along with much more information, is available at [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz).

# PROPOSED AGREEMENT

*The CCO's purpose would be to provide drinking water and treat and dispose of wastewater across Hamilton, Waikato and Waipa. The CCO would aim to do so in an efficient, effective and sustainable way, maintaining agreed service standards and acting prudently. The CCO would also be contracted by the three Councils to provide stormwater services (with Councils retaining ownership of their stormwater assets).*

*Establishing a CCO would not change, in any way, existing Council commitments to Iwi. Nor would it change Councils' commitment and support for the Vision and Strategy for the Waikato River (Te Ture Whaimana o te Awa o Waikato).*

## VALUES

*The three Councils believe any CCO managing water infrastructure on behalf of communities should adhere to the following set of values.*

### **Transparent, ethical, with integrity**

Be guided by the highest ethical standards and use business practices that are beyond reproach.

### **Open and customer-focused**

Put customers first by being responsive and open to customer feedback while constantly seeking to learn and improve.

### **Reliable**

Invest what is necessary to ensure reliable water and wastewater services.

### **Affordable**

Be focused on delivering affordable services and constantly seek to be cost-effective.

### **Safety**

Foster and support a strong culture of workplace safety.

### **Innovation**

Foster a culture of innovation aimed at delivering more cost-effective services.

### **Kaitiakitanga**

Recognise the guardianship and link between river Iwi, water and natural resources.

### **Environmental care**

Care for water sources, minimise water use, ensure compliance with environmental standards and encourage water conservation.

### **Social responsibility**

Have a strong sense of social responsibility, including in setting prices for water.

### **Enabling economic development**

Plan and develop services in ways that support the economy and growth priorities.

# HOW A CCO MIGHT WORK

Councils have agreed how the CCO might work, if one was formed. The proposed agreement is summarised in this booklet and is available in full at [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz).

## ROLES AND RESPONSIBILITIES

- The CCO would provide drinking water and treat and dispose of wastewater across Hamilton, Waikato and Waipa. It would provide stormwater services under contract to the three Councils.
- The CCO would manage any customer requests or complaints.
- After a transition period the CCO would bill connected customers directly. The Councils would set the principles and limits for water and wastewater charges but actual charges would be set by the CCO.
- Waipa, Hamilton and Waikato are all growing rapidly and new water and wastewater infrastructure will be needed in the future. Councils would maintain full responsibility for deciding growth priorities. The CCO would be responsible for designing and delivering the water and wastewater infrastructure required to support planned growth.

## OWNERSHIP AND SHAREHOLDING

- Any CCO managing water and wastewater infrastructure on behalf of the Hamilton, Waipa and Waikato communities would be 100 per cent owned by Hamilton City, Waikato District and Waipa District Councils. There would be no other shareholders and, effectively, the Councils would control the organisation.
- The CCO would be set up as a limited liability partnership or company and would act as a co-operative, working on behalf of customers and communities.
- The CCO would only earn enough money to maintain and develop the waters network. It would not pay dividends to shareholding Councils.
- The CCO would buy the water and wastewater assets of each Council, meaning it would own all of the water infrastructure assets which currently belong to each Council. In return, each Council would receive a mix of cash, shareholder loans and shares in the CCO (see page 6).

- Councils would transfer existing water and wastewater-related debt to the CCO. This would mean that connected water and wastewater consumers will pay off that debt, not all ratepayers.
- A shareholding Council could leave the CCO if it chose to. But the exit arrangements would need to be fair to all three Councils. Other Councils could also join the CCO at a later date, but this would need to be unanimously agreed by all three Councils first.

## CHECKS AND BALANCES

- Councils would want a number of checks and balances to ensure the CCO was working cost-effectively and efficiently and in the best interests of ratepayers.
- Day-to-day operational decisions about water services would be the responsibility of the CCO. But decisions would be guided by formal agreements the CCO would have with all three Councils. The CCO would also be required to meet agreed service standards.
- Overall, the CCO would be accountable to all three Councils on a range of financial and non-financial targets.

## SPECIFIC ROLES OF COUNCILS

- Councils believe there are some decisions which should be made by the CCO – but those decisions should be based upon principles or limits set by Councils. For example, the CCO would manage its own balance sheet and debt – but it would have to do so within debt limits set by shareholding Councils.
- The Councils would set principles and limits around the price charged for water and wastewater so that customers of the same type, receiving the same level of service would pay the same charge no matter where they were located.
- If the CCO wanted to implement water meters, or take other water conservation or demand measures, it could only do so based upon principles set by the Councils. Specifically, principles around water meters could only be set if Hamilton City Council and at least one of the other shareholding Councils agreed with those principles via a vote at the Shareholders' Forum (see page 5).
- The Councils would also be responsible for establishing a constitution for the CCO. Any changes to that constitution would require the unanimous agreement of all three Councils.

## IWI STATEMENT

Waikato and Waipa River Iwi have a special relationship with the Waikato and Waipa Rivers. Within this relationship exists *mana whakahaere* (roles and responsibilities) to support the restoration and protection of the health and wellbeing of the Waikato and Waipa Rivers for future generations.

*Te Ture Whaimana* (Vision and Strategy) is the primary direction-setting document in relation to activities that affect the Waikato River and its catchment.

The significance of the Waikato and Waipa Rivers to all river Iwi is

formally reflected in settlement and co-management legislation. It heralds a new era of co-governance and co-management between the Crown, local authorities and all river Iwi. In all cases, river Iwi reserved their rights and interests in fresh water.

At a national level, the resolution of Iwi rights and interest in fresh water is currently being discussed with the Crown. The resolution of these interests will be essential to the continued development of a robust, enduring and equitable framework for managing fresh water for the future of the country.

# CCO CUSTOMERS

CCO customers would be those connected to the water and wastewater network. Not everyone is, particularly in Waikato and Waipa districts where many people live rurally and are not connected to a Council network (see graphs back page).

- The CCO would need enough money to cover the costs of supplying, treating and disposing of water. After a transition period, that money would come from directly billing customers.
- The CCO would only recover the costs of supplying and treating water, and disposing of wastewater. It would not seek to make a profit and would not pay any dividends to the shareholding Councils. Any surpluses would be reinvested back into the waters network to benefit connected water and wastewater consumers.
- The CCO would need to meet very clear targets around customer satisfaction. The CCO would also be expected to set up a hardship scheme, equivalent to the current rates rebate scheme, to ensure that low-income customers were no worse off under a CCO, than under the existing Council structures.



# HOW DECISIONS WOULD BE MADE

The CCO, which would be 100 per cent owned by Hamilton City, Waikato District and Waipa District Councils, would be accountable to those three Councils.

Elected members, as representatives of the community, must have a strong influence on the CCO. This would be achieved through a Shareholders' Forum.

## SHAREHOLDERS' FORUM

The Shareholders' Forum would ensure a CCO was strongly guided by what Councils want and need. Its role would be to provide clear guidance to the CCO's Board of Directors.

- The Forum would be made up of three elected members (Councillors) from each of the three Councils (nine Councillors in total).
- For the first 18 months of the CCO, the Shareholders' Forum would be chaired by a non-voting independent Chair (appointed by the three Councils).
- The Shareholders' Forum would make a number of collective decisions on behalf of individual Councils. Those decisions would include things like:
  - establishing how much debt the CCO could incur,
  - approving material transactions,
  - appointing the Board of Directors (including the Chair of the Board),

- developing formal accountability documents (Letter of Expectation and Statement of Intent),
- developing a series of measures (key performance indicators) against which the CCO would be measured,
- setting principles and limits for water and wastewater charges,
- establishing principles for water conservation and demand management, including any implementation of water meters.

## BOARD OF DIRECTORS

- The CCO would be governed by an independent, professional Board of Directors with the right mix of skills and competencies. A key competency would be an understanding of the unique relationship Iwi have with the Waikato and Waipa Rivers, and the laws around this. Another key competency would be experience in dealing constructively with community matters and concerns.
- Other skills would include civil engineering, accounting, law, customer service, financing, staff selection and monitoring, planning, local government expertise, information technology, health and safety, commercial contracts and procurement.
- The Chair of the Board and Directors would be appointed by the three Councils, via the Shareholders' Forum. The Shareholders' Forum could remove Directors at any time.
- Elected Councillors or Community Board members from any of the shareholding Councils would not be permitted to sit on the CCO Board of Directors.

# ASSETS, DEBT AND SHAREHOLDING

If a CCO was formed each Council would be treated in a fair, equitable and even way.

- The size, age, condition and value of the water and wastewater assets belonging to all three Councils is different. Before any CCO was formed, these assets would be valued by a common, independent valuer. The level of water and wastewater-related debt held by each Council would also be independently confirmed.
- The three Councils would transfer their water and wastewater assets to the CCO (at the value determined by the independent valuer.) In return for those assets, each Council would receive a mix of cash, shares in the CCO and shareholder loans. Together, the cash, shares and shareholder loans would equal the value of each Council's water and wastewater assets.
- No Council would be left with water and wastewater-related debt once the CCO was established. This means that each Council would receive cash from the CCO to go towards their water and wastewater-related debt. The amount received would be based on the proportion of assets transferred to the CCO. If necessary, the cash paid by the CCO, and levels of shareholding, would be adjusted to cover the amount of debt each Council had.
- The CCO would borrow the money required to pay the Councils. This would mean that both the water-related debt, as well as water and wastewater assets, would move from the Councils to the CCO.
- The CCO's total debt limits would be set jointly by shareholding Councils and would reflect the requirement of the CCO to keep water costs down and act in the best interests of its customers.

The final value of assets and levels of water and wastewater debt will change between now and when a CCO might be formed.

However, based on financial forecasts for June 2019, and based on the proposed agreement detailed here, this is how the assets, debt and shareholding would look.

<b>Assets, debt and shareholding (based on forecasts to June 2019)</b>				
	Waikato	Hamilton	Waipa	Total
As at 30/06/2019	\$million	\$million	\$million	\$million
<b>Council water and wastewater assets</b>				
Total assets contributed to the CCO	253.0	800.1	236.0	1,289.1
% of total assets contributed to the CCO	19.6%	62.1%	18.3%	100.0%
<b>Council water and wastewater debt</b>				
External debt	38.9	130.9	22.6	192.4
Deficit net reserves	22.5	0.0	8.9	31.4
<b>Total</b>	<b>61.5</b>	<b>130.9</b>	<b>31.5</b>	<b>223.8</b>
<b>Cash, loans and shares in the CCO paid to Councils</b>				
Value of cash	61.5	138.9	41.0	241.3
Value of shares in the CCO	133.6	466.7	142.7	743.0
Value of shareholder loans	58.0	194.4	52.4	304.8
<b>Total value to each Council</b>	<b>253.0</b>	<b>800.1</b>	<b>236.0</b>	<b>1,289.1</b>
<b>% of shareholding</b>	<b>18.0%</b>	<b>62.8%</b>	<b>19.2%</b>	<b>100.0%</b>

Please note that the above figures are rounded to one decimal place; any slight differences in the addition of rows is due to rounding.

For more detail on how assets, debt and shareholding might be treated if a CCO was formed, go to [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz)

## MORE INFORMATION IS AVAILABLE

This is a summary of the agreed proposal between all three Councils. A full copy is available at [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz).

This website contains the Cranleigh report recommending the formation of a CCO plus reports from other independent consultants.

The website also contains all reports from all three Councils relating to the recommendation to form a CCO, plus further information, including media releases and other independent reports.

## WHAT HAPPENS NOW?

All three Councils have only agreed to support the formation of the CCO in principle. **No decision to form a waters CCO covering Hamilton City, Waikato District and Waipa District has been made.**

The agreed proposal on what a CCO might look like, outlined here, is not binding on any incoming Council. It has been developed to give more clarity and certainty to ratepayers, residents and others about what has been discussed.

A decision on whether or not to form a CCO cannot be made until:

- All three Councils formally propose forming a CCO following the 2016 local body elections in October, and
- Ratepayers and the general public across all three Councils have been consulted on that formal proposal to form a CCO.

If consultation goes ahead, it would be unlikely to happen until 2017 at the earliest. Following consultation, each Council would need to make a final decision on whether to form a waters CCO or not.

# QUESTIONS AND ANSWERS

1. *Would forming a CCO mean water services are being privatised?*  
No. The privatisation of Council-delivered water services is against the law in New Zealand.
2. *Would the CCO aim to make a profit?*  
No. The CCO would only recover the costs of supplying and treating water, and disposing of wastewater. Any surplus funds would be reinvested back into the waters network to benefit consumers.
3. *What is wrong with the way water infrastructure is currently being managed?*  
The status quo is working, but independent advice suggests it has some limitations and cannot deliver the financial and non-financial benefits that could be offered by a CCO.
4. *If a CCO was formed could there be staff redundancies from each of the three Councils?*  
Yes, there could be. Under a CCO it is estimated around 34 fewer staff would be required to run water activities. However the independent report from Cranleigh estimates there would be few redundancies because of natural staff turnover over the two years it would take the CCO to be established. The CCO

- would also require its own staff and these jobs would need to be filled.
5. *Is this all about 'who owns water'?*  
No. This issue is about water infrastructure. It has nothing to do with the ownership – or not – of water. It is all about how we deliver more cost-effective and cost-efficient services and also takes into account non-financial benefits.
  6. *Does a CCO mean the introduction of water meters for those areas that do not already have them?*  
No. Waipa District Council and Waikato District Council already have water meters in many parts of their districts (\*see below) and in Hamilton most commercial, industrial and rural users are already metered. If the CCO wanted to implement water meters, or take other water conservation or demand measures, it could only do so based upon principles set by the Councils. Specifically, principles around water meters could only be set if Hamilton City Council and at least one of the other shareholding Councils agreed with those principles via a vote at the Shareholders' Forum.
  7. *Would a CCO be required to meet the infrastructure and development*

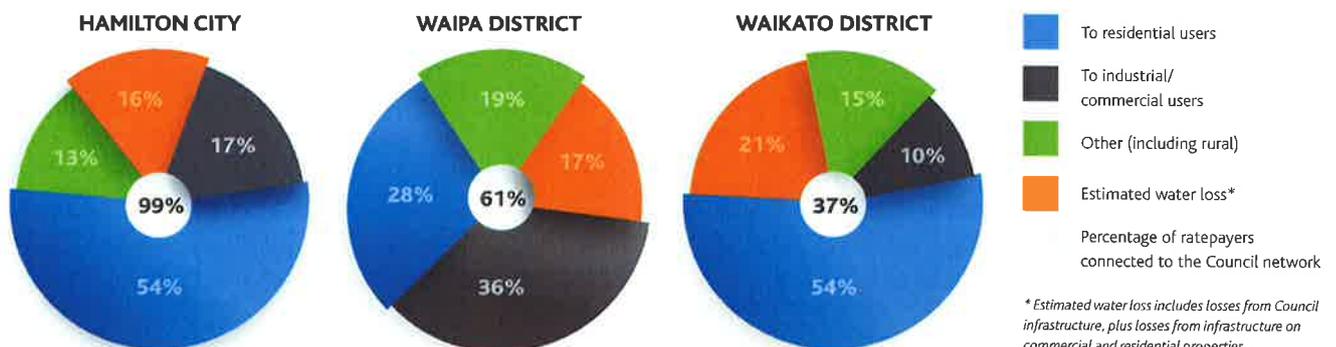
*obligations that Councils may already have with developers?*  
Yes.

8. *What is debt optimisation?*  
Debt optimisation involves borrowing more money up front and repaying it over a longer period of time. This reflects that water and wastewater assets have a long life. Using debt in this way allows the cost to consumers to be spread out. It means charges to current water and wastewater customers would be lower, but also means that after 30 years future users would share in some of the cost.  
  
Over the life of the water and wastewater assets, the total interest bill would be higher than what would have been incurred if current council borrowing plans were followed. This is because more money would have been borrowed, overall. The total debt, at peak, would also be higher.
9. *Would new Councils elected in October have to abide by the proposed agreement outlined here?*  
No. It would be up to new Councils as to what they wanted to do.

*For a far more extensive series of questions and answers see [www.waterstudywaikato.org.nz](http://www.waterstudywaikato.org.nz)*

*\*In Waipa there have been residential water meters in Ohaupo since 1991 and parts of Pirongia since 1997. The majority of rural, industrial and commercial users in Waipa are already metered. In the Waikato district all towns apart from Raglan, Ngaruawahia and Huntly already have water meters and all industrial users are already metered. By the time the CCO would be established, the whole of the Waipa and Waikato districts would be metered as the decisions to install meters have already been made. In Hamilton, there are already around 3,900 meters in place, covering most commercial, industrial and rural users,*

## WHERE COUNCIL-SUPPLIED WATER GOES (Based on the 2014/2015 financial year)



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**Open Meeting**

<b>To</b>	Waikato District Council
<b>From</b>	GJ Ion Chief Executive
<b>Date</b>	24 June 2016
<b>Prepared by</b>	LM Wainwright Committee Secretary
<b>Chief Executive Approved</b>	Y
<b>DWS Document Set #</b>	1544804
<b>Report Title</b>	Exclusion of the Public

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**I. EXECUTIVE SUMMARY**

To ensure that the public are excluded from the meeting during discussion on public excluded items.

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**2. RECOMMENDATION**

**AND THAT** the public be excluded from the meeting during discussion on the following items of business:

**a. D & N Ryburn, 26 Rangiriri Road, Rangiriri**

This resolution is made in reliance on section 48(1)(a) and 48(2)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by sections 6 or 7 of that Act which would be prejudiced by the holding of the whole or the relevant part(s) of the proceedings of the meeting in public are as follows:

Reason for passing this resolution to withhold exists under: **Ground(s) under section 48(1) for the passing of this resolution is:**

**Section 7(2)(i)(j)**

**Section 48(1)(d)**

**b. Tainui Bridge Agreement between Waikato District Council and Genesis Energy**

This resolution is made in reliance on section 48(1)(a) and 48(2)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by sections 6 or 7 of that Act which would be

**prejudiced by the holding of the whole or the relevant part(s) of the proceedings of the meeting in public are as follows:**

**Reason for passing this resolution to withhold exists under:**      **Ground(s) under section 48(1) for the passing of this resolution is:**

**Section 7(2)(i)**

**Section 48(1)(d)**