



**OUR WATER –
IS THERE A BETTER WAY TO
MANAGE IT?**

OUR WATER NEEDS

Water is something we tend to take for granted. We expect it to be clean, plentiful and always there when we turn on the tap. We also expect that wastewater (sewage) is efficiently treated and disposed of, not to be flooded each time it rains, and that charges for these services will be reasonable.

HOW IS IT MANAGED NOW?

Right now, each city council in our region manages the provision of water supply, wastewater and stormwater services to homes and businesses in its district. The Wellington Regional Council supplies water to each of the city councils in the area.

A BETTER WAY TO MANAGE IT?

Current arrangements then, have elements of duplication, which is why three councils – Hutt City, Wellington City and Wellington Regional Council – have been considering options. The benefits of competitive costs for essential services flows directly into the local economy and in turn favourably influence the community's costs overall. They therefore impact on the general wellbeing of the community. The three councils want to make sure that residents and ratepayers receive as efficient water services as possible (by “water services” we mean water supply, wastewater and stormwater services).

At this stage, the Upper Hutt and Porirua City Councils have decided not to participate in the development of this proposal. If changes to the way water services are provided go ahead these councils will be able to make an assessment of potential benefits to their cities before deciding whether to join in the future.

FOUR KEY REQUIREMENTS

Before looking at any options, four key requirements for the delivery of water services were agreed by the three councils. These requirements are that:

- **Water assets will remain in public ownership and control;**
- **Quality and security of supply will be maintained;**
- **Significant savings must be achieved; and**
- **Flexibility must be maintained to meet the future needs of the region.**

THE OPTION BEFORE YOU

The councils looked at a number of possible options. Evaluation of these options, including what we have now, showed that meeting the requirements set out above would, under the current circumstances, best be achieved by combining the water services activities of the three councils into one organisation.

The organisation proposed is a trust, which would:

- Be publicly owned and controlled.
- Deliver savings in operating and capital expenditure of at least \$2.8m/year, which could then be passed on to consumers and ratepayers in the form of lower charges. This saving represents about 10% of operational costs or 4% of total costs.
- Bring together in a single body the skills the councils already have in managing and operating the region's water services.
- Allow the councils to set charges for water services in the same way they do at present.
- Provide a better quality service to residents and businesses.

WHY A TRUST OVER OTHER OPTIONS?

Options that have been considered include a water board, a company-type structure, management by joint council committee and the status quo. A separate water board would require a special law change and could take some years to achieve. Setting up a company might suggest a move towards privatising the region's water services and would need to have an objective of making a profit from these services. A joint council committee could run the services but all decisions would be subject to the approval of each council - which would not be an efficient approach.

The proposed option is for a stand-alone **trust**, which would combine efficient management of council assets with full public ownership. This option can be put in place within a relatively short timeframe – it may not be the best compared with what a law change would allow but it can be achieved now.

WHAT IS A TRUST?

A trust is an arms-length (separate) legal entity governed by trustees to achieve agreed results. Unlike a company the proposed trust would not have an objective of making a profit but one of minimising costs. It would be established by the councils signing a trust deed and appointing trustees. The councils would become the beneficiaries of the trust and through the councils, their ratepayers and citizens. The trust deed would require the trustees to manage the assets and supply water services for the benefit of the community. Trustees would normally be appointed by the councils for a fixed term but could be changed at any time if the councils were not happy with how the trust was being managed. An example of a trust is the Wellington Regional Stadium Trust. This was established by the Wellington City Council and the Wellington Regional Council. Its purpose was to build and operate the Wellington stadium.

Although a trust is not subject to the same rules for public information as is a council, this could be made a requirement of the trust through the trust deed. This would be the same as now applies to Health Boards.

HOW WOULD THE TRUST BE MANAGED?

The management of water supply, wastewater and stormwater services would be through a board of trustees jointly appointed by the three councils.

- The three councils would still have the ultimate control. They would make the policy under which the trust would operate. They would set its operating standards, its expected revenues and quality of service. They would continue to set charges and collect them through rates. They would be able to reclaim their assets from the trust should it be dissolved.
- The trustees would be appointed by the councils and therefore not be directly accountable to you (although a councillor may become a trustee).
- The trustees would be directly accountable to your elected political representatives. The trustees could be changed at any time if it was considered that they were not achieving the expectations of the community.
- The trustees would need to be appropriately skilled to do the job. The trust would be managing assets worth nearly \$1 billion, and trustees would need to combine a mix of professional abilities, among them financial and technical skills, community awareness, environmental knowledge, and skills in asset management.
- The trust would operate the equipment – water treatment plants, pipes, pumping stations, and reservoirs – which deliver the service. It would fund, from its own revenues or borrowings, any new assets required for the future. It would not and could not be profit-driven, but instead would aim to minimise costs.

WHO WOULD OWN AND MANAGE THE WATER ASSETS?

The following table sets out the proposed ownership and management arrangements for the water services assets.

	Hutt City Council				Wellington City Council				Wellington Regional Council	
	Water Supply	Wastewater Reticulation	Hutt Valley Bulk Wastewater	Stormwater	Water Supply	Wastewater Reticulation	Wellington Clearwater Project	Stormwater	Wholesale Water Supply	Water Supply Catchments
Ownership	Trust	Trust	Hutt City Council	Hutt City Council	Trust	Trust	Wellington City Council	Wellington City Council	Trust	Wellington Regional Council
Management	Trust	Trust	Trust	Trust	Trust	Trust	Wellington City Council	Trust	Trust	Wellington Regional Council

HOW WOULD RISKS BE MANAGED?

There are always risks in changing the way a council service operates. If the councils proceed with the project a number of measures will be put in place to ensure these risks are minimised. These include documents specifying how the trust would be set up, operate and report to the councils and the community.

IS THIS A FIRST STEP TOWARDS PRIVATISATION?

No. The councils are committed to public ownership of the region's water and wastewater services. That in part is why a trust is favoured over a company, which has overtones of privatisation.

WHAT IF IT DOESN'T WORK?

The proposal has been subject to expert independent review. This has indicated it is likely that the trust would at least achieve if not exceed the benefits estimated in the proposal.

However as a safeguard the proposal contains a provision that would make the move to a trust reversible. The trust's performance would be monitored on a regular basis and, if it was performing poorly, there is the ability for the councils to wind the trust up and to return to the status quo (with some associated costs).

WHAT SAVINGS COULD WE EXPECT?

Independent analysis has found that the trust will produce ongoing savings of at least \$2.8 million per year, out of a total annual expenditure on water services of \$30.6 million a year (excluding interest and depreciation) across the three councils. The savings would take up to five years to be fully achieved.

While there would be one off costs for establishing the trust, estimated to be up to \$3 million, the long term nature of water services will see the cost savings continuing for many years into the future.

The following table sets out the projected savings and costs across the three councils over the first 5 years of operation. The cost of establishing the trust will be funded from future savings.

This means that even in year one, ratepayers will not pay any more for their water services. After that they should pay less.

	Year 1 \$m	Year 2 \$m	Year 3 \$m	Year 4 \$m	Year 5 onwards \$m
Savings before additional costs	0.9	1.4	1.9	2.7	3.0
Costs of establishing the trust	2.2	0.8	0	0	0
Additional ongoing costs	0.2	0.2	0.2	0.2	0.2
Minimum net savings after additional costs	-1.5	0.4	1.7	2.5	2.8

In addition to the savings generated by the trust, there are an estimated \$1 million in savings that the three councils themselves may be able to achieve as a result of water services transferring from the councils to the trust. These savings could be possible because managing water services on a combined basis would require fewer support services (finance, records, computers etc) than are necessary if these services are managed separately within the three councils.

WHERE DO THE SAVINGS COME FROM?

The proposal will produce savings in 3 areas:

Economies of Scale

Savings arise by eliminating the duplication of water services activities, which currently occurs between the three councils. These account for about 45% of the total savings.

Best Practice

The efficiency of various management practices currently varies between the three councils. Best practice savings will arise from the trust adopting the most efficient management practices from each of the three participating councils. These account for about 35% of the total savings.

Deferred Capital Expenditure

Managing the water services activities of the three councils together will enable parts of the water systems which are required if water services are managed separately by each of the three councils, to be avoided or eliminated. The resulting savings in capital expenditure account for about 20% of the total savings. It is possible that these savings could be delivered without the Trust, but to do so would be more problematic.

WHERE DO THE ADDITIONAL COSTS COME FROM?

One off establishment costs

These costs which would be spread over the first two years are for the establishment of and the transition to the trust.

Additional ongoing costs

There would be additional ongoing costs for activities, which are in addition to those carried out currently by the councils. They include costs associated with the board of trustees and costs of auditing the trust.

WOULD THERE BE REDUNDANCIES?

One of the goals of the project is to make the delivery of water services more efficient by reducing duplication, which means that some jobs would be lost. However, the great majority of staff who run water supply, wastewater and stormwater services should simply transfer to the trust. Where possible, staff would come from the three councils. There will be a clearer view of the effects on employment once final plans for the new structure have been developed.

WOULD I PAY MORE IN RATES AND/OR WATER CHARGES?

No. You would not pay more as a result of a shift to trust management. The money saved would enable the councils to lower rates and other charges for water services.

WOULD THIS MEAN WATER METERS ARE INSTALLED IN ALL HOMES?

This is a decision for individual councils, not the trust. You would continue to be charged for water services through your rates. The trust would be prohibited from installing water meters on residential properties unless the councils have policies that provide for it.

WHO WOULD I GO TO IF I HAD A PROBLEM WITH MY WATER SERVICES?

The trust would be required to ensure that it is readily accessible to members of the general public. This would require the trust to maintain in each of the participating cities a location where you could go with enquiries or problems. It is proposed that this would be within the offices of the participating councils. You would also be able to telephone the trust through any of the participating councils or directly. Water consumers in Porirua and Upper Hutt would continue to contact their city council as they do at present.

HOW WOULD THE VARIOUS CHARGES BE SET?

Charges would be set in much the same way as they are now.

- The Regional Council would continue to set the wholesale water levies payable by the four city councils in the Wellington metropolitan area each year, based on a business plan supplied by the trust. The savings in the bulk water accounts resulting from the new integrated structure would be shared by the four cities – Hutt, Porirua, Upper Hutt, and Wellington.
- The city councils would continue to set water, wastewater and stormwater charges.
- In the interests of avoiding duplication and maximising savings it is proposed that at least for a transitional period the trust would purchase most support services such as accounting, IT (computer services) and office space from the three councils. It is anticipated that the majority of these services will be provided by the Wellington Regional Council. The councils providing support services would have to demonstrate value for money.

HOW WOULD I KNOW THAT I'M NOT PAYING TO FIX PROBLEMS IN ANOTHER CITY?

The accounts relating to each city and to the wholesale water supply would be ring-fenced (kept separate), with overheads (shared support costs) being allocated on a fair basis. The trust deed and operating charter of the trust would require trustees to ensure that cross-subsidisation did not occur between the cities. In addition, it would be expected that the annual audit of the trust would look at this aspect and formally confirm that allocations of any shared costs were correct and fair.

WHAT ABOUT PORIRUA AND UPPER HUTT CITIES AND OTHER COMMUNITIES?

Porirua and Upper Hutt City Councils have decided not to be part of the proposal at this stage. However they would not be disadvantaged by the trust proposal and could join at any time by mutual agreement. Because these Cities are supplied with bulk water by the Wellington Regional Council they would, nevertheless, receive a share of savings in bulk water supply costs, which arise from this proposal.

The proposal would not directly affect those paying regional rates. This is because the Wellington Regional Council wholesale water supply system is funded from sales of water to the four cities in the Wellington metropolitan area.

WATER CONSERVATION

Managing the wholesale and retail water supplies together through the trust will enable a more co-ordinated and effective approach to water conservation between the three councils.

However the estimated cost savings do not include any savings that could arise from improved water conservation. This is because achieving these savings, which would mainly result from avoiding the need to develop new water supply sources, do not necessarily depend on integration of water services.

WHAT ABOUT CLEARWATER – WELLINGTON CITY’S WASTEWATER TREATMENT PLANT?

Clearwater represents a major ratepayer investment in the treatment of Wellington City’s wastewater. Ideally this asset would also transfer to the trust. However, contractual and financial issues rule this out for the present.

WHAT ABOUT HUTT VALLEY BULK WASTEWATER?

Managing the collection and disposal of bulk wastewater in the Hutt Valley on behalf of both Hutt City Council and Upper Hutt City Council is a function of Hutt City Council under the Hutt Valley Drainage Act 1967. Upper Hutt City Council has decided against direct participation in the proposed trust at this point.

It is not proposed to transfer to the trust either the assets that make up the Hutt Valley bulk wastewater system or Hutt City Council’s responsibility for bulk wastewater disposal in the Hutt Valley. However, it is intended that many of the activities required to manage bulk wastewater disposal will be carried out for Hutt City Council by the trust. This is because greater efficiencies can be achieved by managing the various water supply, wastewater and stormwater activities together.

Hutt Valley bulk wastewater activities will be clearly ringfenced within the Trust. The relationship between Hutt City and Upper Hutt City will continue to be managed on behalf of the two cities by Hutt City Council through the joint Hutt Valley Services Committee that comprises elected members from both cities.

SUMMARY OF PRO'S AND CON'S OF WATER INTEGRATION

Issue	Pros - For Integration	Cons - For the Status Quo
Water supply and wastewater asset management	<ul style="list-style-type: none"> ▪ Ability to better integrate network development from bulk collection through to the consumer. 	<ul style="list-style-type: none"> ▪ Each council looks after its own networks. ▪ Each council adopts its own individual operation and maintenance policies.
Customer service	<ul style="list-style-type: none"> ▪ Consistent and integrated approach to customer services at all levels (wholesale & retail) across Hutt City and Wellington City. ▪ One-stop shops for all Hutt City and Wellington City customer issues associated with water, stormwater and wastewater services. ▪ One customer charter for all services. 	<ul style="list-style-type: none"> ▪ May be more focussed on local customers ▪ May enable more flexible approach to customer services. ▪ There may be some confusion over who a customer should approach. ▪ If there is general customer satisfaction with the status quo , why change it?
Cost savings	<ul style="list-style-type: none"> ▪ Cost savings of \$2.8m per annum, which means less pressure on rates. ▪ Lower costs for water services will contribute to growth in the local economy. ▪ 	<ul style="list-style-type: none"> ▪
Environmental management	<ul style="list-style-type: none"> ▪ Integrated approach to water, stormwater and wastewater services. ▪ Opportunity for more effective conservation initiatives. ▪ 	<ul style="list-style-type: none"> ▪ Each council sets and follows its own standards of environmental management.

<p>Staffing impact</p>	<ul style="list-style-type: none"> • Opportunity for sharing common resources and expertise in the operation, maintenance and management of water, stormwater and wastewater services. • Taking advantage of best practice from the three councils. 	<ul style="list-style-type: none"> ▪ Some staff reductions likely through integration.
<p>Trust development and governance</p>	<ul style="list-style-type: none"> ▪ The trust deed and need for agreement should make it harder to privatise than existing arrangements. ▪ Greater opportunity for councils to participate in decision making on all aspects of water services (both wholesale and retail). ▪ Councillors exert control through professional trustees. 	<ul style="list-style-type: none"> ▪ Potential for public confusion between the role of the Trust and that of the councils. ▪ Councillors exert control through council management. ▪ Does not rely on achieving consensus across the councils. ▪ A trust is not directly accountable to the ratepayers – you can vote for your councillor, but not for a trustee. ▪ A trust is not subject to the same rules for public information at a council.
<p>Risks</p>	<ul style="list-style-type: none"> ▪ Risks can be managed through how the trust is set up and through the various agreements with the councils. ▪ In the event the trust arrangement was not satisfactory, the trust can be wound up and the water services assets returned to the appropriate council. 	<ul style="list-style-type: none"> ▪ There are risks in changing the way the councils provide their water services.

WHAT IF WE DO NOTHING?

If we do not adopt this proposal some likely cost savings may have been sacrificed. This could be up to \$20 million over the next ten years. Central government could introduce a form of integration, but has indicated that it favours local solutions for local areas. That is why we are considering this initiative now.

WHAT STAGE HAS THE PROPOSAL REACHED?

We are now at the stage where the three councils want to hear what the community has to say about the proposal before they reach any final decisions on the future of your water services.

WHAT ARE THE NEXT STEPS?

At the conclusion of the consultation process a group of representatives of the three councils will hear submissions. This will result in a report to the three councils, each of which must then decide whether or not to proceed.

If it is decided to set up the trust, a number of issues will have to be resolved, among them trustee appointments, transfer of assets, senior management appointments and transfer arrangements for staff.

KEY POINTS TO REMEMBER

- Officers of the three councils -- HCC, WCC and WRC -- have worked together on this proposal.
- Any decision on whether to go ahead or not with the trust will only be made at the end of the public consultation process.

HOW CAN I HAVE MY SAY?

If you have any questions you can come to the public meetings that are to be held to discuss this issue. These meetings will be advertised in local papers.

You can send a written submission to the councils right now, and you can appear before a joint panel from the three councils to talk about it. Please phone 04 570 6666 to make an appointment in Lower Hutt and 04 499 4444 for Wellington before 5.00pm 30th April.

To have your say now:

- Fax your submission to 04 381 7775.
- Complete and post the attached submission form to Freepost 57412, Water Services Integration, Attn: Water Integration Project, PO Box 2199, Wellington (No Stamp required) or drop it into a Council Service Centre or any council library.

Please ensure that your submission is received by Monday 5.00pm, 30th April 2001.

“This is a discussion document prepared to assist public consultation”.