Economic Case

The economic case sets out the options for change and analyses them against the investment objectives, critical success factors from the strategic case and the principles of the cultural case.

Conclusions from the economic case

Asset owning CCO

The assessment in the economic case highlights the asset owning CCO as the model which is best able to meet the investment objectives, the critical success factors and the principles. It is the most effective service delivery model for the following reasons:

- It is the option that best meets the investment objectives and principles defined as part of the review.
- It addresses the issue of affordability.
- A dedicated regional water CCO is expected to concentrate on three water challenges and be able to prioritise investment decisions across the region leading to better environmental and community outcomes than the Councils can individually achieve.
- It would have sufficient scale to create strategic capacity across the region and support the areas where that is currently lacking. Scale, capacity and capability gives a level of expertise and resilience in three waters that can be applied regionally, benefitting all ratepayers of the region rather than only some as is the case now. Importantly the capacity and capability is shared across the region in an ongoing and sustainable way.
- Each of the five Hawkes Bay councils engages with mana whenua who have been complicit in this Three Waters review. They collectively presented and then endorsed seven principles in respect of water (set out in the cultural case), as well as the asset owning CCO as the preferred option. The continuance of involving mana whenua in governance and decision-making roles that enables the active exercise of kaitiakitanga aligns with Te Tiriti o Waitangi obligations.
- A regional water CCO is expected to provide improved asset management, improved management of risk, and be better placed to meet any increased compliance requirements or increased environmental standards than the Councils can individually.
- In addition to being the only model that effectively addresses affordability issues across the region, the asset owning model also maximises available operational savings for the region, ensuring that services are not only affordable, but delivered in a cost effective way.

While the water utility would be of modest size and scale when compared to other national and international examples it still provides improved opportunities for advancement and job enrichment for the staff working in it. Similarly, by being a dedicated water utility there is an improvement in resilience when considered regionally than under the current model through creating greater breadth and depth of resources, right up to and including the board of directors.

The financial benefits generated from aggregation mean that overall, the cost of the three waters service for the region is the lowest under the asset owning CCO model. Notwithstanding that, in our view a key financial benefit is that a regional asset owning CCO reduces the future risk of any single community having to fund an unexpected or unplanned infrastructure upgrade.

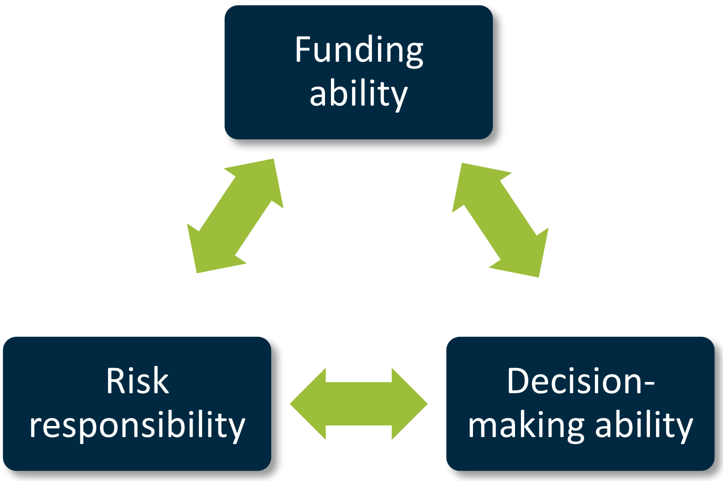
The analysis in this report suggests that while a Hawke's Bay regional water CCO is of a small scale it is sufficient to achieve the investment objectives and principles of the region. Notably, the identity of respective mana whenua in Hawkes Bay must be maintained in any potential model through its process of inclusion, co-governance and implementation, supported by, *"It is important to proactively engage mana whenua in designing urban environments within their rohe so that they can have a meaningful role in shaping the outcome." (Urban Water Principles – Ngā Wai Manga (MfE 2018)*

Other options considered

In our view the asset management capability and the understanding of the network performance regionally would improve with the creation of either of the CCO options, but strategic asset management decisions would be the most effective with the regional asset owning CCO. While the economic case identifies that the regional management CCO is also better than the enhanced status quo, it is clear in our view, that the asset owning CCO is the most effective service delivery model for Hawke's Bay. Under the management option the individual councils will still need to approve the funding which may hamper making the best regional investment due to differences of opinion, funding challenges or competing priorities within each council.

The following diagram depicts the core of planning, delivery and control of the three waters services. They are inter-related and difficult to separate, and, in our view, the optimal model is one in which there is clarity around roles and responsibilities.

Figure 28 Core activities for three waters



Under the enhanced status quo all three roles sit with each council. Under the asset owning option all three roles sit with the CCO. Under the management CCO option the roles and responsibilities are shared. This creates a structure that requires significant investment into building and maintaining relationships. It is this shared responsibility that reduces the management CCO from achieving the full benefits of aggregation that the asset owning model can achieve.

Consideration was also given to whether the management CCO could also be funded regionally (different to the Wellington Water model). In our view that is not practical as a long-term solution for Hawke's Bay. Issues relating to "investment into other council areas" would continue to arise and Councils would be left as asset owners, ultimately responsible for the assets and the service, holding residual risks but with almost no ability to control any aspect of the service. it would require a complicated arrangement between the CCO (service provider), Regional Council (regional rating entity) and Council (asset owners).

It is in effect a structure designed to replicate an asset owning CCO model, but it does so without the clarity that is created by transferring the assets and ability to fund itself through charging customers.

A shared services business unit provides limited benefits and is simpler and cheaper to implement. However, it does so through a relatively complicated arrangement that has had mixed success in New Zealand. There are benefits for Central Hawke's Bay and Wairoa from access to strategic capacity the SSBU would create but these flow through to almost no impact on overall affordability.

While a sub-national management CCO will likely create the largest efficiencies and a water utility with genuine scale, the region would no longer be in control of the service provider. For many communities of Hawke's Bay, the local connection to the provider was highlighted as being of real importance and this was a point reinforced by mana whenua of Hawke's Bay through councils' Māori committee engagement.

Assessment of the long list

A long list of three waters services delivery options was developed using the five dimensions of the Better Business Case approach.

Figure 29 Five long list option dimensions

Service scope (what)	Service solution (how)	Service delivery (who)	Implementation (when)	Funding

This structured nature of this approach forces the separate consideration of each dimension rather than the traditional approach of selecting from the usual answers and seeing which fits best. The advantage is that all potential options are canvassed and considered at the initial stage.

All options are compared to the enhanced status quo which assumes that there are changes to the regulatory settings. In all other respects the enhanced status quo remains as it is with the four territorial authorities[30] delivering the three waters services under their current arrangements. While the precise nature of the regulatory changes are not yet known, these changes are assumed to be increased environmental standards and compliance requirements. For the purposes of this assessment, this is assumed to be leading to increased operational costs and further capital expenditure in order to upgrade existing treatment plants to meet these new higher standards and relies on information provided by the Department of Internal Affairs and discussions with the councils. That sees the three waters capital investment across the four councils 2018-2028 LTP period increase from $313 million to $605 million.

All options have been considered as operating in the new regulatory environment, but it is important to highlight that the enhanced status quo represents real change and that presents affordability challenges for two of the four councils.

The long list of options is set out in ***Appendix E*** along with the long list assessment in **Appendix F.** Options that did not meet the strategic objectives or critical success factors were then discarded from further analysis. The principles were not used in the assessment of the long list as at the time a cultural case had not been developed.

[30] Hawke's Bay Regional Council has no direct role in the delivery of three waters services except in a number of overlaps between land drainage and urban stormwater

Short list

The long list assessment was confirmed through a workshop with the Council's project team on 12 March 2019. A high-level analysis was undertaken using the investment objectives and critical success factors. Key findings at the long list stage were:

- **Stormwater**. The service being considered should be the three waters. While there are technical and operational reasons that could see stormwater being either included or excluded. The holistic approach to water, expressed as a principle by Māori is that there is only one water and any potential option should take into account the upstream water (all water that contributes into the three ((infrastructure)) waters) and the downstream water (all discharges to water). This would include all rivers, lakes, sea, groundwater etc.

  Mai te rangi, ki te whenua, Mai uta, ki tai - from the sky to the land, from the hinterlands to the sea

- **Delivery Model**. Whether the ultimate delivery model was through staff, contractors and consultants or a mix was not as important at this stage as determining the right organisation. A mixed model where a balance of staff, contractors and consultants was used was the likely outcome and the organisation(s) would themselves work out the appropriate mix. What was identified was that neither an entirely outsourced model or entirely insourced model was appropriate, and that the organisation(s) should retain control over the strategic asset management function under any model.
- **Delivery Options**. The delivery model itself was one of the critical decisions and there were multiple options with this that if implemented well could meet the investment objectives and critical success factors and that these would need to be evaluated in detail.
- **Regional Approach**. The strong intention of the Councils was to move forward together to implementing a preferred option, once that is identified, and the analysis should assume that as the position. The strength of a regional approach was recognised as was the likely reduction in benefits if one of more Councils did not proceed.

Affordability. Given the affordability challenge in the region different options for funding need to be explored including different options to that which currently exist in New Zealand.

The following options were determined as the short-list:

- Enhanced status quo – Noting that the future status quo will be considerably different to the current and will therefore be evaluated as an enhanced status quo
- Option 1 – Three waters shared services business unit with
  - current council funding
- Option 2 – Three waters management CCO
  - current council funding
  - regional funding
- Option 3 – Three waters asset owning CCO
  - regional funding

All options were required to consider the opportunities available from government support.

In addition to these options, the additional costs and benefits of sub-national management CCO were to be compared at a high level to the costs and benefits of a regional management CCO so that the additional costs and benefits of that model being sub-national could be considered.

Responding to community desires for different service levels

Like the Councils, a regional water CCO, whether asset owning or the management option could accommodate community desires for different levels of service such as un-chlorinated water. In doing so any organisation would have to ensure that the regulations and standards could be met. In an article for Water New Zealand magazine called 'Chlorine-free Drinking Water - how might that be done?[31] Jim Graham, who at the time was Water New Zealand's Principal Advisor Water Quality, looked at how exceptions to treatment and residual disinfected water supplies might look in a New Zealand environment. He considered the Danish example as the most suitable model for New Zealand. Mr Graham referred to greater efforts in source protection, increased research, compliance with appropriate standards, backflow devices on every property, a reduction of water leaks to below 5% and attitudinal change from suppliers and customers such that there was acceptance that the costs likely to arise from the provision of unchlorinated water were considered worthwhile.

These would all be issues that a water supplier, regardless of the model would need to take into account and to be successful in Hawke's Bay be able to deliver if the community or communities so desired. But what is of particular relevance for this review is the paragraph which states

> ***"both the Dutch and Danes said that corporatised water entities, large or small were essential because decision making needs to be independent of other municipal activities. Decision makers need specific water supply knowledge and water funding should not be competing with other projects."***

We note that Jim Graham is now the Principal Technical Advisor at Taumata Arowai.

Assessment of shortlist options

The financial case sets out the costs and benefits of each option and their impacts at a regional and individual council level. There are, however, many non-financial costs and benefits of each option which need to be considered. This section concentrates on those.

The comparison of the short-listed options again uses the investment objectives and principles to both demonstrate the differences between the options and the relative strengths and weaknesses of each. All comments on alternative options are as a comparison to the enhanced status quo and from a regional perspective.

A summary of each option is set out before the assessment with further detail about roles and responsibilities set out in **Appendix A.** For the sake of clarity, we highlight that none of the options include assumptions about installation of water metres or volumetric charging, nor provide for privatisation of the water services or assets.

Enhanced status quo

Function

- Each council would plan and deliver all capital and operational works within their council area
- Accountability for overall performance of the networks would lie with each council
- Each council would continue to fund and finance the services from within their respective council areas according to their own policies and approaches

Operation

[31] Water, July/August 2019 Issue 210 at Page 28 https://*www.waternz.org.nz/Article?Action=View&Article_id=1656*

- The council will continue to employ staff and determine the right mix of staff, consultants and contractors for three water services and all associated corporate support
- Operational plant, equipment and vehicles would remain the property of each council (except where services are contracted out and plant, equipment and vehicles are the contractor's property) as would the replacement programs
- Regional projects would continue on an ad-hoc basis with Central Hawke's Bay and Wairoa largely benefiting from picking up on initiatives driven by Hastings and Napier

Governance

- The Councils with the support of the relevant committees in each council will provide oversight of the three waters services including the councils standing committees, Māori Advisory and/or liaison committees
- Assume that the Hawke's Bay Drinking Water Governance Joint Committee continues in a regional role
- Public Interfaces
- Each council would maintain their role as the interface with the community. Customer service, billing and all major customer interfaces is with the Councils

Table 13 Summary of assessment against investment objectives – enhanced status quo

To provide three water services in a way that is affordable and effective
Impact on customers / ratepayers
▪ The anticipated future costs of upgrading infrastructure and meeting an enhanced regulatory requirement will have a significant impact on all the ratepayers of Hawke's Bay. The biggest impact, however, is on Central Hawke's Bay and Wairoa. ▪ The average three waters rate in Central Hawke's Bay and Wairoa is forecasted to rise by 107% and 160% at an average of 8% and 12% per annum respectively. In both cases the average cost of water and wastewater in these districts is approaching the highest of the international affordability metrics referenced by Water NZ of 5% of household income, with Wairoa forecast to exceed that threshold.
Asset management
▪ The four councils will continue to undertake strategic and technical AM activities independently. Opportunities to share and collaborate AM initiatives regionally will be based on individual asset managers (or fraternity approach) rather than building institutional knowledge. This approach will continue with using consultants to fill the capacity gaps. For the two rural councils, they will continue to be operationally focused, reacting to incidences, and meeting mandatory requirements as needed. They will less likely plan long term due to limited resources. Assets may not be managed proactively in terms of risk, levels of service and costs with the enhanced status quo option.
Financial sustainability
▪ Councils can and do set their rates based on the services they provide. They are therefore capable of raising the revenue necessary to provide the three waters services regardless of the costs. However, rising three water costs will mean council investment is focused on three waters and other council services and activities may be reduced in order to alleviate impacts on the ratepayers. ▪ In the post Covid-19 councils will be under pressure to keep rates low, lead communities and stimulate their local economies. This will force councils to make difficult trade-offs. ▪ The Councils' debt profiles under the enhanced status quo option sees borrowing peak at $433 million across the region (in 2023/24). With the impact of Covid-19 changing appetites for taking on debt.
To provide services that are safe, reliable and resilient
Resilience
▪ The four councils will continue to operate their water systems independently. This will result in low level of resilience capability and readiness with operators only having knowledge of their own plants, limited documented processes, limited standardisation of plants regionally and aged workforce. Critical equipment spares may be available locally but not necessarily shared regionally. ▪ The smaller councils with communities that rely more heavily on a limited number of sectors are exposed to risks of economic shocks that affect those sectors and their communities. There is less resilience across the whole the system of people, funding and infrastructure.
Risk management
▪ Water network risks will continue to be understood and managed at operational level. The enhanced status quo option may not structurally support a multi layered risk management approach which is more common with larger organisations particularly utility focused. High risk events may not be escalated as dealt with informally. ▪ Similar to asset management above, risk management opportunities to share and collaborate initiatives regionally will be based on individual asset managers. For the two rural councils, they will continue to react to incidences due to limited resources and competing demands. There may be less focus on critical assets. Good practice risk management documentation such as Emergency Response Plans and Standard Operating Procedures will be undertaken separately and be of a variable standard. We note that an Emergency Response Plan is part of the Drinking Water Governance Joint Committee work programme.

Compliance
▪ The four councils will have less flexibility to respond to changing requirements (such as legislation changes or higher environmental standards) and the ability to discuss strategically with the regulator (i.e. Regional Council, Taumata Arowai and Ministry of Health) with the enhanced status quo option. Meeting increasing compliance requirements such as SCADA system and consent monitoring will be undertaken separately. Discussions with the Regional Council on strategic issues such as NPS Freshwater Management and consent conditions for specific schemes will be undertaken separately. This may lead to less cost-effective strategic outcomes for the region.
To provide services through a model that enables a meaningful role for Māori
Treaty of Waitangi partnership
▪ No change. The Local Government Act continues to require councils to give effect to principles of Treaty of Waitangi and each council determines how to give effect to this. ▪ Engagement with the Chairs of the Māori committees indicated that the status quo does not meet expectations of Māori and the Asset Owning CCO was the preferred option. ▪ Governance provided by council and relevant individual committees of council and the region wide Joint Committee on Drinking Water. Māori committees continue in their roles with limited or no delegated authorities noting that Hastings District Council now has a role for mana whenua on each committee. ▪ Currently, little opportunity for Māori to participate in decision making relating to three waters.
To provide services through a model that has the value of water at the centre
Environment
▪ Increased national regulatory standards assumed to have affect and lead to better environmental outcomes as a result with associated investment required to deliver those. ▪ Different approaches across the region continue with affordability and strategic capacity having an impact on the ability of each council to respond to requirements for investment and when that can take place. ▪ Balance between investment in three waters and other services and assets will continue to be made with this now exacerbated by post Covid-19 response plans limiting budgets and requirements to focus on economic recovery.
Community
▪ No change: retains greatest connection between community and the services provided. ▪ Strong connections to community remain through well-established mechanisms, links, people and identify of their Councils. ▪ Single provider of 'council services' provides clarity of accountability and responsibility for community that can be accessed through established channels.
Cultural
▪ No change. Different approaches across the region with these being driven by the Council and the individual needs of Māori and mana whenua. ▪ Connections remain through well-established mechanisms and links to the individual councils. ▪ Te Ao Māori principles incorporated into individual projects on an ad hoc basis.
To provide three waters services in a way that supports our urban and rural communities
Social and economic impacts
▪ The status quo will retain the existing operational, technical and strategic roles in each council and community (through staff, consultants and contractors). ▪ Cost increases for the three waters services will impact all communities creating future affordability issues in particular for Central Hawke's Bay and Wairoa. Impact of cost increases will most be felt most by those who can least afford the increases e.g. fixed and low-income households. ▪ Significant cost increases may affect the future growth of these areas. ▪ Councils retain full control over all aspects of growth planning and infrastructure provision for their areas. Local matters can be prioritised to support growth and development.

Local connection

- No change, councils retain the role of service provider.

To provide three waters services that builds enduring capability and capacity

Technical and operational

- Succession planning and dealing with an aged workforce will be undertaken separately or in limited capacity. This may result in key operational staff working for long periods with health and safety implications. There is a risk of high staff turnover due to fatigue or extended sick leave. It may be difficult to attract and retain new staff in these situations.
- Councils will continue to compete with each other, the private sector and Taumata Arowai for resources. Further exacerbating challenges with recruitment and retention of appropriately skilled and experienced staff.

Strategic capacity

- The strategic capacity will remain embedded within the four councils with the enhanced status quo option. Capacity and capability will be unevenly spread across the region.
- Strategic capability / capacity is more limited for the two rural councils due to their size. They are generally more focused on operational aspects and meeting mandatory requirements.

How does this option incorporate or respond to the seven principles developed by Māori?

- Engagement with the Chairs of the Māori committees indicated that the status quo does not meet expectations of Māori and the Asset Owning CCO was the preferred option.
- Under the current approach, the key requirements established in the Local Government Act in order to give effect to the principles of the Treaty of Waitangi are around maintaining and improving opportunities for Māori to contribute to local government decision making processes. While we acknowledge Hastings District Council has put in place Māori representation on all committees, in general the role for Māori in three waters is an advisory one or consultative. The chairs of the Māori committees also highlighted the advisory nature of the Māori Advisory Board of Taumata Arowai as an example of the status quo approach.
- Incorporation of the principles under the status quo largely relies on the individual practice or approach of a Council rather than it being part of a system designed to give effect to them.

Shared Services Business Unit

Function

- The Shared Services Business Unit (SSBU) would aim to develop a single set of strategic asset management plans and a combined infrastructure delivery programme for implementation across the region.
- The SSBU would plan and deliver all capital and operational works within the sub-region.
- Accountability for overall performance of the networks would lie with the Councils.
- The SSBU would have regional strategic oversight of network management and implement asset management strategies across the region which may be uneconomical for some of the councils to introduce individually.

Operation

- The SSBU would operate as a ring-fenced business unit and would not exist as a separate legal structure. Staff would be seconded into the SSBU but remain employed by their original council on the current terms and conditions.
- The SSBU would only have the limited corporate support with the existing three waters structures to supplement the three waters specialists but largely would be supported by service level agreements (SLAs) with respective councils to provide the full range of support.
- SSBU would co-locate staff (virtually and physically) bringing together all management, administration, asset management, planning and project management staff, and the coordination of the maintenance crews. Wairoa and Central Hawke's Bay would operate as satellite offices.
- Any physical works staff would be accommodated either at treatment plants or in existing locations. Napier operational staff remain working out of the existing depot.
- Operational plant, equipment and vehicles would remain the property of each council as would the replacement programs.
- Operations and maintenance costs would be coded for costing through logging of work orders (within the systems adopted by the SSBU) to each council's network and asset identifiers, to enable costs to flow through the relevant council as required.
- The SSBU would consolidate materials and consumables across the sub regional networks to develop economies of scale.
- To produce the maximum opportunity to provide enhanced services, the SSBU organisation structure will be finalised at the establishment planning stage to ensure there is increased capacity and capability in the SSBU, and not simply the sum of the relevant parts of the Councils. There may be different positions required than currently exist across the combined councils, but it is expected that the total management and operational staff costs will be no more than the current group totals.

Governance

- The councils with the support of the relevant committees in each council will provide oversight of the three waters services including the Māori Advisory or Liaison committees.
- Assume that the Hawke's Bay Drinking Water Governance Joint Committee continues in a regional role and that could potentially increase in scope to include wastewater and stormwater
- SSBU would be supported by an advisory board that the CEO would report to. Formal reporting lines to each council would be through a joint committee of the Councils.

Public Interfaces

- Councils would maintain their role as the interface with the community. Customer service, billing and all major customer interfaces is with each of the Councils.

Table 14 Summary of assessment against investment objectives – shared services business unit

To provide three water services in a way that is affordable and effective

Impact on customers/ratepayers

- The anticipated future costs of upgrading infrastructure and meeting an enhanced regulatory requirement will have a significant impact on the ratepayers of Central Hawke's Bay and Wairoa.
- A SSBU provides only a minor reduction in impact compared to the status quo through expected savings that can be delivered as a result of improved asset management and aggregating the technical capability across the region.
- Over the next twelve years the average three waters rate in Central Hawke's Bay and Wairoa is forecasted to rise by between 91% and 141% at an average of between 7% and 11% per annum.

Asset management

- There will likely to be more asset management undertaken with larger in-house capability with SSBU across the now shared resources. The SLA will need to ensure the scope and deliverables are clearly defined to achieve good asset management benefits. Resource levels will need to be closely monitored to ensure it delivers the asset management programmes. There is opportunity to build in house asset management capability and the understanding of the network performance should improve with the SSBU option. It may not have the capability and strategic capacity of a dedicated water authority so improvements may be limited.
- The strategic investment decisions will still be made by the individual councils so limited benefits with this option.

Financial sustainability

- Councils can and do set their rates based on the services they provide. They are therefore capable of raising the revenue necessary to provide the three waters services regardless of the costs. However, rising three water costs will mean council investment is focused on three waters and other council services and activities may be reduced in order to alleviate impacts on the ratepayers. The Councils' debt profiles under the shared services business unit option sees borrowing peak at $428 million (in 2023/24) for three waters.

To provide services that are safe, reliable and resilient

Resilience

- There is opportunity to improve resilience with all operators and key operational staff located physically and/or virtually within the SSBU. Critical equipment spares would be available to share regionally. However, there are no commercial incentives with the SSBU to make major changes such as standardisation of plants, processes or procedures.
- The smaller councils with communities that rely more heavily on a limited number of sectors are exposed to risks of economic shocks that affect those sectors and their communities. There is less resilience across the whole the system of people, funding and infrastructure.

Risk management

- The water focused SSBU will more likely have the resources to improve risk management practices compared to the enhanced status quo option. The SLA will need to state the risk practices that need to be strengthened to ensure it is delivered. The less robust structure of the SSBU means that it is unlikely to bring new risk ideas or practices to the region in the same way that the industry specialist CCOs will. A suitable risk management framework may not be adopted with this option.

Compliance

- The water focused SSBU will have the resources to meet the current compliance requirements (i.e. SCADA and drinking water compliance). The asset owners in each council will still need to make any significant strategic decisions / negotiations with the regulators and not with the SSBU. This may not lead to less cost-effective strategic outcomes for the region with the shared services BU.

To provide services through a model that enables a meaningful role for Māori

Treaty of Waitangi partnership

- No change. The Local Government Act continues to require councils to give effect to principles of Treaty of Waitangi and each council determines how to give effect to this.
- Engagement with the Chairs of the Māori committees indicated that the status quo does not meet expectations of Māori
- Governance provided by council and relevant individual committees of council and the region wide Joint Committee on Drinking Water. Māori committees continue in their roles with limited or no delegated authorities noting that Hastings District Council now has a role for mana whenua on each committee.
- Currently, little opportunity for Māori to participate in decision making relating to three waters

To provide services through a model that has the value of water at the centre

Environment

- Increased national regulatory standards assumed to have affect and lead to better environmental outcomes as a result with associated investment required to deliver those.
- Different approaches across the region continue with affordability and strategic capacity having an impact on the ability of each council to respond. Balance between investment in three waters and other services and assets will continue to be made.

Community

- No real change retains greatest connection between community and the services provided.
- Strong connections to community remain through well-established mechanisms, links, people and identity of their councils.
- Communities should remain able to choose individual services levels that may be over and above the 'standard' e.g. unchlorinated water. Responsibility for and decisions will rest solely with each individual Council.
- While SSBU has little public 'brand', the regionalisation of people and the services while still retaining the councils as the public interface could lead to less clarity of accountability and responsibility for the community.

Cultural

- No change. Different approaches across the region with these being driven by the Council and the individual needs of Māori and mana whenua.
- Connections remain through well-established mechanisms and links to the individual councils.
- Te Ao Māori principles incorporated into individual projects on an ad hoc basis.

To provide three waters services in a way that supports our urban and rural communities

Social and economic impacts

- The SSBU will retain the existing operational, technical and strategic roles in each council and community (through staff, consultants and contractors).
- Cost increases for the three waters services will impact all communities creating future affordability issues in particular for Central Hawke's Bay and Wairoa. Impact of cost increases will most be felt most by those who can least afford the increases e.g. fixed and low-income households.
- Significant cost increases may affect the future growth of these areas.
- Councils retain full control over all aspects of growth planning and infrastructure provision for their areas. Local matters can be prioritised to support growth and development.
- Development of a single set of standards and a consistent approach to their application for all across the region will simplify things for developers and community.

Local connection

- Councils retain the role of service provider, some element of regionalisation through the SSBU but community unlikely to recognise any change in provider.

To provide three waters services that builds enduring capability and capacity

Technical and operational

- The shared services SSBU provides an opportunity to train operators to be interchangeable between plants, authorities and attract and retain new staff. The SSBU will need to compete with the private sector for staff. The SSBU still will be at a relatively moderate scale compared with the private sector. There will be some benefits with this option as the SSBU can make operational decisions regionally.
- Harmonising the asset management systems and processes will be more difficult with the SSBU option than with the CCO options.
- The aggregation of specialist resources provides some improvement for advancement and job enrichment but not at the same scale as a dedicated water utility. While staff would be seconded from the region into the SSBU it still relies on individual Councils resourcing and recruiting roles.
- SSBU structure is less robust than CCO structures and relying on SLAs for shared support services creates a more complex arrangement to administer. Highly reliant on relationships.

Strategic capacity

- Strategic capacity may be built up to a greater extent with the SSBU than the status quo, the increase is limited and modest.
- The SSBU does not have the scale and robustness of a dedicated water utility with wider industry exposure and involvement. The lack of certainty and longevity inherent in shared services will hamper the investment needed for real benefits to be achieved.

How does this option incorporate or respond to the seven principles developed by Māori?

- This option presents little change and is also therefore not considered to respond to or incorporate the principles.
- While a joint committee including Māori could have oversight, the principles and kōrero focussed on co-design and co-governance. Achieving these within what is effectively a status quo structure is unlikely to be successful in making the step change needed. In fact, in our view making that change would mean the opportunity to incorporate or respond to those principles would be lost.
- Engagement with the chairs of the Māori committees indicated that the status quo does not meet expectations of Māori and the Asset Owning CCO was the preferred option.

Regional Management CCO

Function

- The CCO would aim to develop a single set of strategic asset management plans and a combined infrastructure delivery programme for implementation across the region. This would be done by first reviewing all current Asset Management Plans, converting them to a common and consistent basis, then consolidating them into a sub-regional plan.
- The CCO would plan and deliver all capital and operational works within the region. Costs are then recovered from each council depending on the funding model chosen.
- Accountability for overall performance of the networks would lie with the CCO, except where a council has chosen not to proceed with the CCO's recommendations.
- Councils are the water supply authorities for the purposes of the Health Act.
- The CCO would have regional strategic oversight of network management and implement asset management strategies across the region which may be uneconomical for some of the councils to introduce individually.

Operation

- The CCO would operate as a separate legal entity external to all four councils, with its own governance, executive, administration support, procurement strategies, and operational equipment.
- The CCO would co-locate staff (virtually and physically) bringing together the management, administration, asset management, planning and project management staff, and the coordination of the maintenance crews and contractors. Wairoa and Central Hawke's Bay would operate as satellite offices.
- Any physical works staff would be accommodated either at treatment plants or in existing locations. We have assumed that Napier operational staff remain working out of the existing depot either as staff working for the CCO or Napier City Council staff working under contract for the CCO.
- The CCO would have its own financial systems, IT arrangements, risk management systems and a single asset management system which would all be introduced over time.
- Operational plant, equipment and vehicles would be sold to the CCO by each council at valuation. Funding for purchasing this equipment, along with sufficient reserves for working capital and to ensure equipment can be replaced, would be included in the initial capital provided to the CCO by all four councils. Typically, the operational funding requirement is related to the expenditure over the first six weeks to two months' trading.
- Operations and maintenance costs would be regionalised but coded for costing through logging of work orders (within the systems adopted by the CCO) to each council's network and asset identifiers. The CCO would consolidate materials and consumables across the sub regional networks to develop economies of scale
- The CCO is not intended to make a profit so it ought to be able to maintain lower rates than other external businesses.
- To produce the maximum opportunity to provide enhanced services, the CCO organisation structure will be finalised during the transition to ensure there is increased capacity and capability in the CCO, and not simply the sum of the relevant parts of the Councils. There may be different positions required than currently exist across the combined councils and there are additional roles created due to new corporate roles.
- The CCO would produce a capital works programme (including renewals) for each council annually in advance, along with drivers for key project. Each council would have the opportunity to approve or change the programme planned for their area, including the ability to add projects that have become significant for the council. Similarly, the CCO will be transparent about its maintenance plans (including intervention strategies) which would be derived from the Asset Management Plans.

- Once approved, the council would then have responsibility for funding the agreed list of works to be undertaken by the CCO or others. The utilisation of different funding mechanisms would be at the discretion of each council.
- Although councils have existing time frames for determining rating requirements, earlier time frames may need to be introduced for reaching agreement between the CCO and each council, similar to that afforded large contractor works at present, in order for the CCO to be able to operate efficiently.
- Having approved the maintenance plans as part of the AMP, councils would be aware if significant changes to existing funding levels are expected.

Governance

- Assumed that a co-governance model is adopted as part of responding to the cultural case
- The regional water CCO would report to and be held accountable by a joint committee of the Councils that include Māori in a co-governance role (shareholder committee). Involving mana whenua in governance and decision-making roles that enables the active exercise of kaitiakitanga aligns with Te Tiriti o Waitangi obligations and section 6(e) of The Local Government Act that requires councils to provide for opportunities for Māori to contribute to decision-making processes.
- A small board of professional directors would be appointed. The CEO would report to the board.

Public Interfaces

- Customer management would transition to the CCO. The transfer of customer services was found to a key success factor for Wellington Water.
- Vested infrastructure assets and development contributions would continue to be received by the relevant council. As the infrastructure became required, the contributed funds would be paid to the CCO as part of the capital delivery programme.
- The CCO would procure goods and services in its own name in order to deliver the required services.

Table 15 Summary of assessment against investment objectives – regional management CCO

To provide three water services in a way that is affordable and effective

Impact on customers/ratepayers

- Regionalising the operational costs, the councils benefit from efficiencies of scale. This flows through particularly for Central Hawke's Bay and Wairoa where the future cost of three waters services reduced from the status quo as a result of the increased population base over which these costs are shared.
- While at a regional level it moves from having four councils that residents, developers and the regional council may have to deal with bringing consistency of standards and approach. For residents it means potentially dealing with both the Council and a water CCO and creates the possibility of confusion over who is responsible for what.
- Stranded costs mean that the cost of the remaining services of each council will rise but when taken together the overall cost of the local government services for almost all ratepayers is less than it would be under the status quo.

Asset management

- The regional management CCO would be water focused and provide strategic asset management capability for multiple water networks. There would be large amount of work required to prepare a single Asset Management Plan and regional asset management strategies and work programmes. Strategic decisions must still be made by the asset owning councils which may hamper the decision-making capability of this option.
- Separate council priorities and service levels may require some loss of efficiency with the CCO required to plan for different requirements from funding agencies.
- The individual councils will still need to approve the funding which will limit the ability of the CCO to make the best for region investment due to differences of opinion or funding challenges.
- Asset management capability and the understanding of the network performance regionally will improve with the regional management CCO option.
- The strategic investment decisions will still be made by the individual councils so a lot of effort to gain moderate benefits with this option.

Financial sustainability

- The financial benefits generated from aggregation mean that overall, the cost of the three waters service for the region is less under this model than it would be under the enhanced status quo.
- Each council funds its capital expenditure so rising costs for upgrades and or new infrastructure still falls on small communities. If Council investment is focused on three waters, then other council services and activities may be reduced in order to alleviate impacts on the ratepayers. In the post Covid-19 councils will be under pressure to keep rates low, lead communities and stimulate their local economies. This will force councils to make difficult trade-offs even under the management CCO model.
- The Councils' debt profiles under the management CCO option sees borrowing peak at $423 million (in 2023/24).

To provide services that are safe, reliable and resilient

Resilience

- There is opportunity to improve resilience with all operators and key operational staff located within the single entity. Critical equipment spares would be available to share regionally. The larger entity would have the smarts to make major changes such as standardisation of plants and documented processes.
- A regional management CCO would be able to create greater breadth and depth of resources to improve resilience.
- A regional CCO would have the financial capacity to meet and respond to any future challenges better than an individual council could. However, due to funding arrangements limiting capital expenditure to within the council area the smaller councils with communities that rely more heavily on a limited number of sectors are still exposed to risks of economic shocks that affect those sectors and their communities.

Risk management
▪ The water focused entity will have the resources to improve risk management practices compared to the enhanced status quo or the SSBU option. ▪ The water focused Board of professional Directors is expected to have a higher level of expectations for risk including a risk management framework and the suitable underlying technical risk documents such as activity risk registers. Their risk appetite will be set by the Board but guided by the councils through the Statement of Intent and funding. ▪ Operational risks transfer to the CCO in the management option but as the Councils hold the funding responsibility and strategic decision-making responsibility, they will also hold risks associated with those. ▪ Model requires a significant focus on relationships between the CCO and the Councils. Relies on a high degree of trust to be effective.
Compliance
▪ The water focused CCO will have the resources to meet the current compliance requirements (i.e. SCADA and drinking water compliance). The single entity will have clear accountabilities under its SOI for each council. ▪ The asset owners in each council will still need to make any significant strategic decisions / negotiations with the regulators and not with the management CCO. This may not lead to less cost-effective strategic outcomes for the region with the management CCO option.
To provide services through a model that enables a meaningful role for Māori
Treaty of Waitangi partnership

▪ A Hawke's Bay water CCO would provide the opportunity to develop a framework that involves and engages with Māori that is designed for Hawke's Bay rather than accept a nationally imposed approach.
▪ To be effective the model will need to incorporate co-governance with Māori so they can contribute as a partner rather than via the advisory role they have had in the past. Based on feedback from the Chairs of the Māori committees the first step in the process will need to be a values-driven, co-design.
▪ The new provisions of the Local Government Act apply in addition to the "standard" legislative obligations on Councils to give effect to Treaty of Waitangi obligations and the principles of the Treaty of Waitangi. These are
    ▪ the requirement to consider whether knowledge of tikanga Māori is relevant to governance of the CCO and
    ▪ provisions requiring a water CCO, when making decisions that significantly affect land or a body of water, to consider "the relationships between Māori, and their culture and traditions, with their ancestral land, water, sites, wāhi tapu, valued flora and fauna and other taonga."
▪ Statutory obligations of Councils would be, at a minimum, passed through to the CCO through the Constitution, Statement of Intent, Statement of Expectations and Shareholder Agreements.
▪ The CCO structure provides the opportunity to embed a new approach. For example, the existing water CCOs in New Zealand have embedded the following:
  ○ Wellington Water has just updated its approach so that 'mana whenua partnership entities' can be appointed to the Wellington Water Committee. The Committee's role, amongst others is to appoint the Directors of Wellington Water and provide oversight.
  ○ Watercare – Independent Māori Statutory Board
    - statutory responsibility to promote Issues of Significance to Māori
    - oversight of projects, planning through to implementation and 'call in' powers.

To provide services through a model that has the value of water at the centre
Environment
▪ Increased national regulatory standards assumed to have affect and lead to better environmental outcomes. ▪ Dedicated regional management CCO with sole focus on three waters expected to lead to better ability to meet expectations and standards across the region. Bring consistency of approach and services across the region. ▪ CCO may still be limited by the extent to which each council can/will fund the required upgrades with this exacerbated by post Covid-19 response plans limiting budgets and requirements to focus on economic recovery ▪ Mixed points of accountability for the regulators as responsibility is shared between the CCO and the Councils.

Community
▪ Mixed points of accountability for the community across the basket of council services. Three waters services delivery comes from the CCO and the remainder from council and key decisions still made by each council. ▪ Communities should remain able to choose individual services levels that may be over and above the 'standard' e.g. unchlorinated water. Responsibility for and decisions will be spread across the CCO (as service provider) and the Council (as asset owner and water authority) ▪ All communities have access to the strategic capacity required to inform good decision making ▪ Requires community to engage with both the CCO and the Council.
Cultural
▪ Mixed points of accountability for the community. Three waters services delivery comes from the CCO, yet the ultimate responsibility lies with the decisions made by each Council. ▪ Requires Māori to engage with both the CCO and the Council. ▪ Opportunity with the change created with a CCO to develop a new approach to embed Te Ao Māori principles, noting the high degree of similarity between the new Local Government Act provisions relating to CCOs and the principles developed during this review through discussions with the Māori Committees.
To provide three waters services in a way that supports our urban and rural communities
Social and economic impacts
▪ Three waters services are vital to the social and economic viability of towns and cities. Mitigating expected future increases in costs of these service is important to regional growth and the growth of Hawke's Bay. This option reduces future costs for both Central Hawke's Bay and Wairoa from a level that is considered unaffordable. ▪ The management CCO option would retain the existing operational, technical and strategic roles that currently exist within each council as ○ under all options the operational roles in the rural and regional communities will continue to exist ○ both Wairoa and Central Hawke's Bay already largely outsourced the three waters service so the location of the roles is arguably already outside of their control and already at the level that could be expected if the service were aggregated. ▪ Councils retain control over growth planning and infrastructure provision for their areas but for three waters do so with the advice/support of the CCO. ▪ Local priorities would have to be recognised by the CCO through a prioritisation framework in the Statement of Intent and Shareholders Agreement otherwise local priorities could get lost in a regional view. However, some change can be expected from the current full council control given the broad regional mandate of the CCO and the need to balance regional priorities with local. ▪ Development of a single set of standards and a consistent approach to their application for all across the region will simplify things for developers and community.
Local connection to three waters service provider
▪ A regional management CCO governed by a board of professional directors may disconnect the community from the service provider. ▪ Customer service will be through a different organisation and the CCO will need to ensure that services and service levels for the small communities are at least maintained at the same level or increased in order to be successful.
To provide three waters services that builds enduring capability and capacity
Technical and operational
▪ The management CCO provides an opportunity to train operators to be interchangeable between plants, locations and attract and retain new staff (staff or contractors). The management CCO will need to compete with the private sector for staff. The management CCO still will be at a relatively moderate scale compared with the private sector with national and global reach including comprehensive training programmes, processes and systems. There will be major benefits with this option as the management CCO can make operational decisions regionally. ▪ The creation of a dedicated water utility CCO will provide increased opportunity for advancement, professional development, variety of locations and job enrichment for the staff working in it.

- There will be no competition between the councils for resources and the scale, while modest, will better allow them to compete with the private sector, the regulators and other utilities for those resources.
- The asset management systems and processes will likely be harmonised with the management CCO but will depend on the approval of the individual councils. The regional harmonisation will take longer than expected as experienced in the Auckland Region amalgamation (with Watercare and Auckland Transport).

Strategic capacity

- Strategic capacity will be able to be built more effectively with the management CCO than the status quo. The regional water CCO will have the moderate scale and smarts of a dedicated water utility with wider industry experience.
- Crucially for the region this option allows all four councils to benefit from the increase in strategic capacity and capability as that is shared regionally under this model.
- There will be less reliance on consultants for low level project work as they will be used as specialists or for peer reviews.
- There is a window of opportunity post Covid-19 to attract talent to the regions and away from the cities as people re-assess priorities and the job market tightens.

How does this option incorporate or respond to the seven principles developed by Māori?

- A regional three waters CCO provides an opportunity to develop a model that better incorporates and responds to the principles developed in this review than the status quo.
- Engagement with the Chairs of the Māori committees indicated that the status quo does not meet expectations of Māori and Asset Owning CCO was the preferred option.
- A new approach would better accord with the post Treaty of Waitangi settlement structures considered in the commercial case of this report where examples of co-governance are set out. There is also the Regional Planning Committee of the Hawke's Bay Regional Council where co-governance is already currently in action. We note the recently announced reform the health sector accepted by the government[32] also proposes a co-governance model for Health NZ with 50:50 representation of Māori and Crown. Sitting alongside that recommendation was one for a Māori health authority that "ensure that mātauranga Māori (Māori knowledge) and Māori health issues are appropriately incorporated into all aspects of the system". This echoes similar sentiments expressed throughout this review around the need for any new model to recognise Te Ao Māori and Te Mauri o Te Wai.
- A new structure, the business and operating models required to implement them all provide an opportunity for a step change and reflect a trend toward co-governance models. There is an opportunity to create a Hawke's Bay specific structure that incorporates the principles of mana motuhake and enabling of Te Tiriti o Waitangi.
- Developing the structure itself is an opportunity to show this in action by providing for a co-design approach which helps establish the governance structure. Developing a values-driven approach would likely need to be the first step in co-design process. The Chairs of the Māori committees articulated an expectation that the councils would, like Māori, define their values for three waters service delivery.
- Development of a three waters focussed entity allows for managing water in its widest sense to be at the core of the obligations, values and approach of the organisation such that it is responsive to Te Ao Māori. Reflecting not just wider community desires but incorporating Te Ao Māori principles of water management throughout the organisation.

[32] https://www.stuff.co.nz/national/health/300035515/halve-number-of-dhbs-drop-elected-boards-sweeping-health-system-reform-plan-accepted-by-govt?rm=a

Sub-National Management CCO

The assumptions for a sub-national management CCO are the same as for the regional management option.

The key differences are that

- a larger water CCO is created to service a wider population that goes beyond Hawke's Bay
- the savings arising from aggregation including efficiencies of scale and better asset management would be the greatest with the creation of a sub-national CCO or joining into an existing CCO such as South Wairarapa have recently done with Wellington Water
- there is no guarantee that the main office would be located within Hawke's Bay CCO nor that all staff would transfer into the CCO. Hastings, Napier, Waipawa and Wairoa may all become satellite offices.

Table 16 Summary of assessment against investment objectives – sub national management CCO

To provide three water services in a way that is affordable and effective
Impact on customers/ratepayers
▪ A larger CCO is more likely to be able to deliver on efficiency and effectiveness benefits. ▪ These would ultimately flow through to customers and ratepayers although unless all the costs (capital and operational) can be rationalised then the smaller communities will still face significant costs when major infrastructure is required. ▪ Stranded costs mean that the cost of the remaining services of each council will rise but when taken together the overall cost of the local government services for almost all ratepayers is less than it would be under the status quo.
Asset management
▪ The subnational management CCO would be water focused and provide strategic Asset Management capability for multiple water networks for many regions. ▪ There would need to be a decision if there is a separate Asset Management Plan for the Hawke's Bay region or it is included within the subnational area. The Hawke's Bay region's key infrastructure issues, levels of service, asset strategies and investments may be buried in the larger entity. ▪ Strategic decisions will still be made by the asset owning councils which may hamper the decision-making capability of this option. The individual councils will still need to approve the funding which may hamper good investment decisions. ▪ Asset management capability will improve with the subnational management CCO option due to the much larger scale and ability to adopt their good industry practices. Care would be needed to ensure that the understanding of the network performance regionally is retained. ▪ The strategic investment decisions will still be made by the individual councils so much effort to gain moderate benefits with this option. There are multiple asset management risks with the subnational management CCO that would need careful management / oversight.
Financial sustainability
▪ The financial benefits generated from aggregation mean that overall, the cost of the three waters service for the region is less under this model than it would be under the enhanced status quo. ▪ Having a larger group of customers, spread across a wide area with a broad range of economic sectors helps reduce the exposure to sector specific downturns. ▪ However, as each council funds its capital expenditure so rising costs for upgrades and or new infrastructure still falls on small communities. If Council investment is focused on three waters, then other council services and activities may be reduced in order to alleviate impacts on the ratepayers. In the post Covid-19 councils will be under pressure to keep rates low, lead communities and stimulate their local economies. This will force councils to make difficult trade-offs even under the management CCO model.

To provide services that are safe, reliable and resilient

Resilience

- Higher level of resilience capability and readiness by merging with a major water entity would be achieved. This needs to be balanced with having key operational staff located within the region.
- Critical equipment spares would be available to share sub nationally. The much larger entity would have the smarts to make major changes such as standardisation of plants and documented processes.
- A water CCO would be able to create greater breadth and depth of resources to improve resilience. These benefits would grow as the size of the CCO grows.
- A regional CCO would have the financial capacity to meet and respond to any future challenges better than an individual council could. Again, this benefit would grow as the size of the CCO grows.

Risk management

- There is an opportunity to adopt the risk management practices of a major water entity. Care would be needed that the risk appetite is aligned to the smaller Hawke's Bay councils, particularly the two rural councils.
- The risk management practices would improve with this option compared to the enhanced status quo or the shared services BU option.

Compliance

- The major water entity already has the resources, processes and systems to meet the current compliance requirements (i.e. SCADA and drinking water compliance).
- The single entity will have clear accountabilities under its Statement of Intent.
- The asset owners in each council will still need to make any significant strategic decisions. Negotiations with the regulators will need to involve both councils and the sub national management CCO. This may not lead to less cost-effective strategic outcomes for the region with the sub national management CCO option. The CCO may not be aligned to the Hawke's Bay's strategic outcomes.

To provide services through a model that enables a meaningful role for Māori

Treaty of Waitangi partnership

- The size of the CCO would dictate the iwi that would need to be involved, but regardless it would involve iwi from outside Hawke's Bay which may create complexity
- The new provisions of the Local Government Act apply in addition to the "standard" legislative obligations on Councils to give effect to Treaty of Waitangi obligations and the principles of the Treaty of Waitangi. These are
  - the requirement to consider whether knowledge of tikanga Māori is relevant to governance of the CCO and
  - provisions requiring a water CCO, when making decisions that significantly affect land or a body of water, to consider "the relationships between Māori, and their culture and traditions, with their ancestral land, water, sites, wāhi tapu, valued flora and fauna and other taonga."
- Statutory obligations of Councils would be, at a minimum, passed through to the CCO through the Constitution, Statement of Intent, Statement of Expectations and Shareholder Agreements.
- The CCO structure provides the opportunity to embed a new approach. For example, the existing water CCOs in New Zealand have embedded the following which contrast with the status quo:
  - Wellington Water has just updated its approach so that 'mana whenua partnership entities' can be appointed to the Wellington Water Committee. The Committee's role, amongst others is to appoint the Directors of Wellington Water and provide oversight.
  - Watercare – Independent Māori Statutory Board
    - statutory responsibility to promote Issues of Significance to Māori
    - oversight of projects, planning through to implementation and 'call in' powers.

To provide services through a model that has the value of water at the centre

Environment

- Increased national regulatory standards assumed to have affect and lead to better environmental outcomes.
- Dedicated sub-national management CCO with sole focus on three waters expected to lead to better ability to meet expectations and standards across the region. Bring consistency of approach and services across the breadth of its area of responsibility.

- Depending on the funding option this may still be limited by the extent to which each council can/will fund the required upgrades.
- Mixed points of accountability for the regulators as responsibility is shared between the CCO and the Councils.

Community

- Mixed points of accountability for the community across the basket of council services. Three waters services delivery comes from the CCO and the remainder from council and key decisions still made by each council.
- Communities should remain able to choose individual services levels that may be over and above the 'standard' e.g. unchlorinated water. Responsibility for and decisions will be spread across the CCO (as service provider) and the Council (as asset owner and water authority)
- Requires community to engage with both the CCO and the Council. As the size of the CCO grows then the connection to Hawke's Bay could be lost.

Cultural

- Mixed points of accountability for the community. Three waters services delivery comes from the CCO, yet the ultimate responsibility lies with the decisions made by each council.
- Requires Māori to engage with both the CCO and the Council. As the size of the CCO grows then the connection to Hawke's Bay could be lost.
- Opportunity with the change created with a CCO to develop a new approach to embed Te Ao Māori principles. While there is a high degree of similarity between the new Local Government Act provisions relating to CCOs and the principles developed during this review through discussions with the Māori Committees, new principles would need to be developed with Māori that reflect the actual area of the CCO.

To provide three waters services in a way that supports our urban and rural communities

Social and economic impacts

- Three waters services are vital to the social and economic viability of towns and cities. Mitigating expected future increases in costs of these service is important to regional growth and the growth of Hawke's Bay. This option would, through efficiencies of scale reduces future costs the Councils.
- It would not be clear whether the sub-national option would retain all the existing operational, technical and strategic roles that currently exist within each council as the larger the organisation created the greater the potential for duplication of roles.
- Councils retain control over growth planning and infrastructure provision for their areas but for three waters do so with the advice/support of the CCO.
- Local priorities would have to be recognised by the CCO through a prioritisation framework in the Statement of Intent and Shareholders Agreement otherwise local priorities could get lost in a regional view. However, some change can be expected from the current full council control given the broad regional mandate of the CCO and the need to balance regional priorities with local. The risk to small communities of being 'lost' within a regional provider will increase as the size of the CCO grows.
- Development of a single set of standards and a consistent approach to their application for all across the region will simplify things for developers and community.

Local connection to three waters service provider

- A sub-national water CCO governed by a board of professional directors may disconnect the community from the service provider. This would increase as the size of the CCO grows and if the 'head office' was not located within Hawke's Bay.
- Customer service will be through a different organisation and the CCO will need to ensure that services and service levels for the small communities are at least maintained at the same level or increased in order to be successful. The risk, perceived risk, for small communities would grow as the size of the CCO grows.

To provide three waters services that builds enduring capability and capacity

Technical and operational

- The subnational management CCO provides an opportunity to train operators to be interchangeable between locations and attract and retain new staff. The subnational management CCO will have scale that the Hawke's Bay councils can tap into including comprehensive training programmes, processes and systems. There will be mixed benefits with this option as the subnational management CCO can make operational decisions for the region potentially located in a metropolitan city outside the region.
- The creation of a large dedicated water utility CCO will provide increased opportunity for advancement and job enrichment for the staff working in it. The benefits of this will grow as the size of the CCO grows.
- There will be no competition between the councils for resources and the scale will better allow them to compete with the private sector, the regulators and other utilities for those resources.
- The asset management systems and processes of the large water entity will be adopted but will depend on the approval of the individual councils. The harmonisation will take longer than expected as experienced in the Auckland Region amalgamation (with Watercare and Auckland Transport).

Strategic capacity

- There will be immediate strategic capacity with joining or creating a large water entity. This needs to be balanced against regional IP potentially lost / eroded. It will be likely that the strategic capacity will be located outside the region in a metropolitan city.
- However, this option would still allow all four councils to benefit from the increase in strategic capacity and capability as those benefits would be shared sub-nationally under this model.
- There will be less reliance on consultants for low level project work as they will be used as specialists or for peer reviews.
- There is a window of opportunity post Covid-19 to attract talent to the regions and away from the cities as people re-assess priorities and the job market tightens.

How does this option incorporate or respond to the seven principles developed by Māori?

- A sub-national three waters CCO provides an opportunity to develop a model that better incorporates and responds to the principles developed in this review than the status quo however the importance of local connection was reinforced by mana whenua of Hawkes Bay through councils' Māori committee engagement
- A new approach would better accord with the post Treaty of Waitangi settlement structures considered in the commercial case of this report where examples of co-governance are set out. There is also the Regional Planning Committee of the Hawke's Bay Regional Council where co-governance is already currently in action. We note the recently announced reform the health sector accepted by the government[33] also proposes a co-governance model for Health NZ with 50:50 representation of Māori and Crown. Sitting alongside that recommendation was one for a Māori health authority that "ensure that mātauranga Māori (Māori knowledge) and Māori health issues are appropriately incorporated into all aspects of the system". This echoes similar sentiments expressed throughout this review around the need for any new model to recognise Te Ao Māori and Te Mauri o Te Wai.
- A new structure, the business and operating models required to implement them all provide an opportunity for a step change and reflect a trend toward co-governance models. The model would not be Hawke's Bay specific.
- Developing the structure itself is an opportunity to show this in action by providing for a co-design approach which helps establish the governance structure. Developing a values-driven approach would likely need to be the first step in co-design process. The Chairs of the Māori committees articulated an expectation that the councils would, like Māori, define their values for three waters service delivery.
- Development of a three waters focussed entity allows for managing water in its widest sense to be at the core of the obligations, values and approach of the organisation such that it is responsive to Te Ao Māori. Reflecting not just wider community desires but incorporating Te Ao Māori principles of water management throughout the organisation.

[33] https://www.stuff.co.nz/national/health/300035515/halve-number-of-dhbs-drop-elected-boards-sweeping-health-system-reform-plan-accepted-by-govt?rm=a

Regional Asset Owning CCO

Function

- The CCO would aim to develop a single set of strategic asset management plans and a combined infrastructure delivery programme for implementation across the region. This would be done by first reviewing all current Asset Management Plans, converting them to a common and consistent basis, then consolidating them into a sub-regional plan.
- The CCO would plan and deliver all capital and operational works within the region.
- Accountability for overall performance of the networks and the services would lie with the CCO.
- CCO is the water supply authority for the purposes of the Health Act.
- The CCO would have regional strategic oversight of network management and implement asset management strategies which may be uneconomical for some of the councils to introduce individually.

Operation

- The CCO would own all the three waters assets in Hawke's Bay and invest as required into new assets.
- The CCO operate as a separate legal entity external to all four councils, with its own governance, executive, administration support, procurement strategies, and operational equipment.
- The CCO would co-locate staff (virtually and physically) bringing together the management, administration, asset management, planning and project management staff, and the coordination of the maintenance crews and contractors. Wairoa and Central Hawke's Bay would operate as satellite offices.
- Any physical works staff would be accommodated either at treatment plants or in existing locations. We have assumed Napier operational staff remain working out of the existing depot either as staff working for the CCO or Napier City Council staff working under contract for the CCO.
- The CCO would have its own financial systems, IT arrangements, risk management systems and a single asset management system which would all be introduced over time.
- Operational plant, equipment and vehicles would be sold to the CCO by each council at valuation. Funding for purchasing this equipment, along with sufficient reserves for working capital and to ensure equipment can be replaced, would be included in the initial capital provided to the CCO by all four councils. Typically, the operational funding requirement is related to the expenditure over the first six weeks to two months' trading.
- The CCO would consolidate all operational costs across the regional networks to develop economies of scale.
- The CCO is not intended to make a profit so it ought to be able to maintain lower rates than other external businesses.
- To produce the maximum opportunity to provide enhanced services, the CCO organisation structure will be finalised during the transition to ensure there is increased capacity and capability in the CCO, and not simply the sum of the relevant parts of the Councils. There may be different positions required than currently exist across the combined councils and there are additional roles created due to new corporate roles
- As part of establishing the CCO, the Councils would delegate the necessary powers, responsibilities and decision-making authority to the CCO.
- The CCO would carry the full responsibility for operation and compliance across the networks and would not require Council approval of capital or maintenance expenditure/funding. Council would still provide direction and KPIs to the CCO through the Letter of Intent as a Shareholder, but not have direct control of projects.
- The CCO would set tariffs necessary to fund the programmes they develop, guided by principles agreed with the shareholders.

Governance

- Assumed that a co-governance model that responds to the cultural case is implemented.
- The regional asset owning water CCO would report to and be held accountable by a joint committee of the Councils that includes Māori in a co-governance role (shareholder committee). The regional water CCO would report to and be held accountable by a joint committee of the Councils that include Māori (shareholder committee) in a co-governance role. Involving mana whenua in governance and decision-making roles that enables the active exercise of kaitiakitanga aligns with Te Tiriti o Waitangi obligations and section 6(e) of The Local Government Act that requires councils to provide for opportunities for Māori to contribute to decision-making processes.
- A small board of professional directors would be appointed. The CEO would report to the board.

Public Interfaces

- The CCO would become the interface for all billing and water related issues. Customer management would transition to the CCO. The transfer of customer service was found to be a key success factor for Wellington Water.
- Existing development contributions be transferred to the CCO. The CCO would develop its own plan and then levy for future development contributions ensuring that there was no duplication with Council charges.
- The CCO would prepare and distribute bills to customers.

Table 17 **Summary of assessment against investment objectives – regional asset owning CCO**

To provide three water services in a way that is affordable and effective

Impact on customers / ratepayers

- This option makes the greatest possible impact across the region. The regional asset owning CCO is expected to create more savings over a longer period of time than the management option due to owning the assets and having control over all aspects of decision making.
- It significantly reduces the future burden on small communities of the infrastructure that is required by spreading those costs across a wider area.
- Current ratepayers would transfer to being customers of a regional asset owning CCO, complete with customer contracts more similar to other utility providers than the current approach. A CCO is not a council. It does not have the same powers to compel payment. Non-payment of a water CCO bill leads to debt recovery action and/or restriction of supply.
- While at a regional level it moves from having four councils that residents, developers and the regional council may have to deal with bringing consistency of standards and approach. For residents it means potentially dealing with both the Council and a regional asset owning CCO and creates the possibility of confusion over who is responsible for what in the short term.

Asset management

- The regional asset owning CCO would be water focused and provide strategic Asset Management capability for multiple water networks. There would be large amount of work required to prepare single Asset Management Plan and regional asset management strategies and work programmes.
- Strategic decisions would be the most effective with the regional asset owning CCO option. Senior staff can easily discuss infrastructure issues and options with their Executive Leadership Team and Board. These will be formalised with their Statement of Intent and Asset Management Plan.
- Asset management capability and the understanding of the network performance regionally would improve greatly with the regional asset owning CCO.
- Potential for connections to wider, more integrated asset planning to reduce with separate entities responsible

Financial sustainability

- The financial benefits generated from aggregation mean that overall, the cost of the three waters service for the region is the lowest under this model.
- The regional asset owning CCO reduces the future financial risk of any single community having to fund an unexpected or unplanned infrastructure upgrade.
- Having a larger group of customers, spread across a wide area with a broad range of economic sectors helps reduce the exposure to sector specific downturns.
- The regional three waters debt under this option sees borrowing peak at $420 million (in 2023/24).
- Stranded costs mean that the cost of the remaining services of each council will rise but when taken together the overall cost of the local government services for almost all ratepayers is less than it would be under the enhanced status quo.

To provide services that are safe, reliable and resilient

Resilience

- There will be improved resilience with all operators and key operational staff located within the single entity. Critical equipment spares would be available to share regionally. The larger entity would have the strategic capacity and capability to make major changes such as standardisation of plants and documented processes with consistently applied measures.
- A regional asset owning CCO would be able to create greater breadth and depth of resources to improve resilience.
- A regional asset owning CCO would have the financial capacity to meet and respond to any future challenges better than an individual council could. Neither does it face the kind of trade-offs that councils will face in the post Covid-19 recovery phase. Their role is clear and their income stream secure.

Risk management

- The water focused entity will have the resources to improve risk management practices compared to the enhanced status quo or the shared services BU option.
- The water focused Board will have a higher level of expectations for risk including a risk management framework and the suitable underlying technical risk documents such as activity risk registers. The Board can set its own risk appetite based on good industry practice.

Compliance

- The water focused CCO will have the resources to meet the current compliance requirements (i.e. SCADA and drinking water compliance). The single entity will have clear accountabilities under its SOI.
- The water entity can make any significant strategic decisions / negotiations with the regulators. This should lead to better outcomes for the region with the regional asset owning CCO option.

To provide services through a model that enables a meaningful role for Māori

Treaty of Waitangi partnership

- A Hawke's Bay water CCO would provide the opportunity to develop a framework that involves and engages with Māori that is designed for Hawke's Bay rather than accept a nationally imposed approach.
- To be effective the model will need to incorporate co-governance with Māori so they can contribute as a partner rather than via the advisory role they have had in the past. Based on feedback from the Chairs of the Māori committees the first step in the process will need to be a values-driven co-design of the CCO.
- The new provisions of the Local Government Act apply in addition to the "standard" legislative obligations on Councils to give effect to Treaty of Waitangi obligations and the principles of the Treaty of Waitangi. These are
  - the requirement to consider whether knowledge of tikanga Māori is relevant to governance of the CCO and
  - provisions requiring a water CCO, when making decisions that significantly affect land or a body of water, to consider "the relationships between Māori, and their culture and traditions, with their ancestral land, water, sites, wāhi tapu, valued flora and fauna and other taonga."
- Statutory obligations of Councils would be, at a minimum, passed through to the CCO through the Constitution, Statement of Intent, Statement of Expectations and Shareholder Agreements.
- The CCO structure does provides opportunity to embed a new approach. For example, the existing water CCOs in New Zealand have embedded the following
  - Wellington Water has just updated its approach so that 'mana whenua partnership entities' can be appointed to the Wellington Water Committee. The Committee's role, amongst others is to appoint the Directors of Wellington Water and provide oversight.
  - Watercare – Independent Māori Statutory Board
    - statutory responsibility to promote Issues of Significance to Māori
    - oversight of projects, planning through to implementation and 'call in' powers.

To provide services through a model that has the value of water at the centre

Environment

- Increased national regulatory standards assumed to have affect and lead to better environmental outcomes.
- Dedicated regional asset owning CCO with sole focus on three waters expected to lead to better ability to meet expectations and standards across the region. Bring consistency of approach and services across the region.
- Single point of accountability for the regulators.

Community

- Mixed points of accountability for the community across the basket of council services. Three waters services delivery comes from the CCO and the remainder from council and key decisions still made by each council.
- All communities have access to the strategic capacity required to inform good decision making.
- Communities should remain able to choose individual services levels that may be over and above the 'standard' e.g. unchlorinated water provided that is set out in the Statement of Intent.
- Requires community to engage with both the CCO and the council.

Cultural

- Mixed points of accountability for the community. Three waters services delivery comes from the CCO, yet the ultimate responsibility lies with the decisions made by each council.
- Requires Māori to engage with both the CCO and the council.
- Opportunity with the change created with a CCO to develop a new approach to embed Te Ao Māori principles, noting the high degree of similarity between the new Local Government Act provisions relating to CCOs and the principles developed during this review through discussions with the Māori committees.

To provide three waters services in a way that supports our urban and rural communities

Social and economic impacts

- Three waters services are vital to the social and economic viability of towns and cities. Mitigating expected future increases in costs of these service is important to regional growth and the growth of Hawke's Bay. Under this model the cost reduces giving the biggest reduction in future costs for both Central Hawke's Bay and Wairoa from a level that is considered unaffordable.
- The regional asset owning CCO option would retain the existing operational, technical and strategic roles that currently exist within each council as
  - under all options the operational roles in the rural and regional communities will continue to exist
  - both Wairoa and Central Hawke's Bay already largely outsourced the three waters service so the location of the roles is arguably already outside of their control and already at the level that could be expected if the service were aggregated.
- Growth planning is shared between councils and the CCO. Councils have control over broader growth planning and infrastructure provision for their areas but for three waters that transfers to the CCO. Local priorities would need to be recognised by the CCO through a prioritisation framework in the Statement of Intent and Shareholders Agreement. However, some change can be expected from the current full council control given the broad regional mandate of the CCO and the need to balance regional priorities with local in order to achieve best overall outcome for the region.
- Development of a single set of standards and a consistent approach to their application for all across the region will simplify things for developers and community.

Local connection to three waters service provider

- A regional asset owning CCO governed by a board of professional directors may disconnect the community from the service provider.
- Customer service will be through a different organisation and the CCO will need to ensure that services and service levels for the small communities are at least maintained at the same level or increased in order to be successful.

To provide three waters services that builds enduring capability and capacity

Technical and operational

- The regional asset owning CCO provides an opportunity to train operators to be interchangeable between locations, plants and attract and retain new staff. The regional asset owning CCO still will be at a relatively moderate scale compared with the private sector with national and global reach including comprehensive training programmes, processes and systems.
- There will be major benefits with this option as the regional asset owning CCO can make operational decisions regionally.
- The creation of a dedicated asset owning CCO will provide increased opportunity for advancement, professional development, a variety of locations and job enrichment for the staff working in it.
- There will be no competition between the councils for resources and the scale, while modest, will better allow them to compete with the private sector, the regulators and other utilities for those resources.
- The asset management systems and processes will be harmonised with the regional asset owning CCO. However, experience is that the regional harmonisation will take time as experienced in the Auckland Region amalgamation (with Watercare and Auckland Transport).

Strategic capacity
▪ Strategic capacity will be able to be built more effectively with the regional asset owning CCO. It will have the moderate scale and smarts of a dedicated water utility of modest scale with wider industry experience, noting though that it remains small when compared across NZ or internationally for dedicated water authorities. ▪ Crucially for the region this option allows all four councils to benefit from the increase in strategic capacity and capability as that is shared regionally under this model. ▪ There will be less reliance on consultants for low level project work as they will be used as specialists or for peer reviews. ▪ There is a window of opportunity post Covid-19 to attract talent to the regions and away from the cities as people re-assess priorities and the job market tightens.

How does this option incorporate or respond to the seven principles developed by Māori?

- A regional three waters CCO provides an opportunity to develop a model that better incorporates and responds to the principles developed in this review than the status quo.
- Engagement with the Chairs of the Māori committees indicated that the status quo does not meet expectations of Māori and Asset Owning CCO was the preferred option.
- A new approach would better accord with the post Treaty of Waitangi settlement structures considered in the commercial case of this report where examples of co-governance are set out. There is also the Regional Planning Committee of the Hawke's Bay Regional Council where co-governance is already currently in action. We note the recently announced reform the health sector accepted by the government34 also proposes a co-governance model for Health NZ with 50:50 representation of Māori and Crown. Sitting alongside that recommendation was one for a Māori health authority that "ensure that mātauranga Māori (Māori knowledge) and Māori health issues are appropriately incorporated into all aspects of the system". This echoes similar sentiments expressed throughout this review around the need for any new model to recognise Te Ao Māori and Te Mauri o Te Wai.
- A new structure, the business and operating models required to implement them all provide an opportunity for a step change and reflect a trend toward co-governance models. There is an opportunity to create a Hawke's Bay specific structure that incorporates the principles of mana motuhake and enabling of Te Tiriti o Waitangi.
- Developing the structure itself is an opportunity to show this in action by providing for a co-design approach which helps establish the governance structure. Developing a values-driven approach would likely need to be the first step in co-design process. The Chairs of the Māori committees articulated an expectation that the councils would, like Māori, define their values for three waters service delivery.
- Development of a three waters focussed entity allows for managing water in its widest sense to be at the core of the obligations, values and approach of the organisation such that it is responsive to Te Ao Māori. Reflecting not just wider community desires but incorporating Te Ao Māori principles of water management throughout the organisation.

[34] https://www.stuff.co.nz/national/health/300035515/halve-number-of-dhbs-drop-elected-boards-sweeping-health-system-reform-plan-accepted-by-govt?rm=a