

## Integration of Hutt City, Wellington City and Wellington Regional Councils' Water Supply Operations

### 1. The Purpose of the Report

The Chief Executive Officers of Hutt City Council ("HCC"), Wellington City Council ("WCC") and the Wellington Regional Council ("WRC"), have given further consideration to the most effective and cost efficient manner to deliver water in the Wellington sub region.

Various studies undertaken by councils in the Wellington region have identified savings from the co-ordination and full integration of water supply. To deliver these savings to customers and ratepayers it is recommended that the three councils begin a programme of collaboration and co-operation to deliver the benefits of a fully integrated water supply to consumers and ratepayers.

### 2. Background

Since 1997, the water supply arrangement of the WRC (bulk supply) and the Four Cities (HCC, WCC, Porirua CC and Upper Hutt CC) has undergone considerable scrutiny and debate, by both officers and elected members.

### Assumptions

Key assumptions throughout the above reviews have been:

- All water supply assets to remain under public ownership;
- That existing standards of quality and security of water supply are to be maintained under any option.

Such assumptions remain valid and are fundamental to this Report.

### What the region wants

Recent reviews have sought to ascertain what the region wants from its water supply. Joint and individual Council workshops have concluded that the key factors required of a water supply arrangement (by region's suppliers and customers) are:

1. **Efficiency:** demonstrate savings over the existing arrangement, operating as efficiently as possible and delivering optimum value for money to consumers;
2. **Quality:** provide high quality service, focus on its customers and deliver a safe and secure supply;
3. **Flexibility:** meet the demands of the future, and incorporate other services when need be;
4. **Accountability:** retain the public interest in the supply of water;
5. **Implementability:** technically and legally feasible, with reasonable set up costs;
6. **Environmental focus:** meet environmental objectives, and does not degrade the environment;
7. **Sustainability:** ensure a co-ordinated approach to investment and asset planning.
8. **Fairness of pricing:** provide for equity of pricing.

### **Broad options for water supply**

Reviews of the structures for water supply since 1997 have focused on future options in three broad categories. These are:

- **Vertical integration:** where the bulk supply and retail distribution of water supply are combined into a single entity for the Wellington metropolitan area;
- **Partial integration** at the retail level: where the bulk supply remains unchanged and is the continued responsibility of the WRC, whilst only the retail function of the Four Cities is integrated to various degrees;
- **No integration/continuous improvement:** where the structure of each of the 5 organisations remains unchanged, although in some cases process and contractual improvements are implemented.

### **3. Outcome of Studies on Options for Water**

The key findings of the work carried out to date are that:

- Integration of water supply operations at any level generates some degree of savings, as well as improving the quality, flexibility and accountability of water supply;
- Only the integration of the bulk supply and retail operations is likely to generate sufficient savings to justify a change from the current arrangements.

- The integrated option provides the flexibility to integrate wastewater and stormwater.

#### **4. Benefits of an Integrated Approach**

Integration of bulk water supply and retail distribution across the Wellington sub region would provide the following **benefits**:

- A collaborative and co-operative approach to water supply across the region;
- Significant savings for the Wellington region. Although things have changed since 1997, consultants' reports advised savings in the order of 24% of total 1997 operating expenditure, which equates to NPV savings of \$55m over a fifteen-year period.
- Creation of a single entity, which has a direct relationship with the customer and a focus solely on water;
- A flexible arrangement which can:
  - a) be linked to wastewater and stormwater at any time,
  - b) incorporate other cities, if they wish to participate.
- The ability to pass on savings directly to users and ratepayers, in the form of reduced charges;
- Providing a more efficient service that is better able to respond directly to customer requirements, now and in the future.

#### **5. Conclusion**

The CEOs of WRC, WCC and HCC believe that it is time to make a concerted effort to work together to set about implementing a workable integrated water supply solution. The participation of both Upper Hutt and/or Porirua City Councils would be encouraged.

Clearly, there needs to be a political underpinning of the initiative and this Report and its recommendations seek support from the three councils.

#### **6. Recommendations**

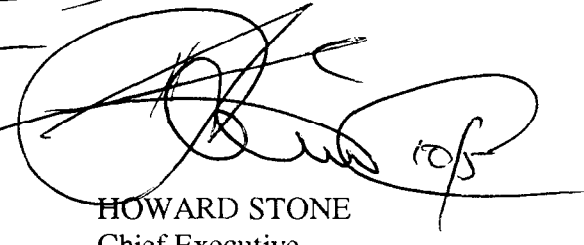
It is recommended that HCC, WCC and WRC:

1. **Agree** in principle to an integrated approach to water supply across the three Councils which will:

- Target significant savings over the current arrangement;
  - Retain all the water supply and distribution related assets under public ownership;
  - Allow for the existing standards of quality and security of supply to be maintained; and
  - Provide a system that is flexible enough to meet the future requirements of the region;
2. **Direct** the CEOs of HCC, WCC and WRC to develop a template for achieving an integrated water supply and on completion to seek approval from each Council for its implementation.



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