



**SOUTH WAIRARAPA
DISTRICT COUNCIL**

Kia Reretahi Tātau

AGENDA

Public Excluded Strategy Working Committee Meeting Wednesday, 30 April 2025

**I hereby give notice that a Public Excluded Strategy Working Committee Meeting
will be held on:**

Date: Wednesday, 30 April 2025

Time: 10:00 am

**Location: Supper Room, Waihinga Centre, Texas Street
Martinborough**

**Janice Smith
Chief Executive Officer**

Order Of Business

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14.2 TRANSITIONING WATER SERVICES UPDATE

Author: Stefan Corbett, Group Manager, Infrastructure and Community Operations

Authoriser: Janice Smith, Chief Executive Officer

File Number:

The Council is satisfied that, pursuant to s48(1)(a)(i) of the *Local Government Official Information and Meetings Act 1987*, the information to be received, discussed or considered in relation to this agenda item is:

s7(2)(h) the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities.

PURPOSE

To update the Council on the possible options for water services delivery post-expiration of the current Management Services Agreement with Wellington Water Limited on 30 June 2025 and seek direction on which option should be implemented by officers.

EXECUTIVE SUMMARY

As per Council Resolution DC2024/83PE, officers have been exploring options on contractual arrangements to manage our three waters services from 30 June 2025. As it currently stands, our Management Services Agreement with Wellington Water Limited expires on 30 June 2025 and upon expiration certain clauses within the agreement will be triggered unless we extend the end date (providing WWL agrees).

It is important to note that the WWL agreement is for performance of management services and is a comprehensive agreement wherein WWL amongst other things, acts as our network operator and where its CEO has been delegated the powers to act as an Officer of Council to exercise certain powers on Council's behalf.

Key operational areas currently provided through the existing agreement include:

- Operation and maintenance of the reticulation networks - currently provided by Fulton Hogan under an Alliance contract with WWL
- Operation and maintenance of treatment plants – currently provided by WWL
- Capital renewals and capital projects – currently managed by WWL
- Engineering services and ancillary services such as land development approvals – currently provided / managed by WWL

Since the workshop on 18 December 2024 three significant developments have occurred related to the options officers were asked to explore. These are that:

1. WWL has been placed under additional scrutiny because of the release of a report indicating they have not been delivering value to their shareholders, nor have their systems and processes been fit-for-purpose for a professional water utility organisation. The Minister of Local Government stepped in on the release of this report and accelerated

the LWDW regulatory regime for the Wellington region bringing in the Commerce Commission to investigate WWL's practices. [Government addresses Wellington Water concerns | Beehive.govt.nz](#)

2. [REDACTED]

3. The three Wairarapa and the Tararua councils have all entered consultation processes for LWDW with a preferred proposal being the delivery option of a multi-council CCO (Wairarapa – Tararua) against their respective existing delivery approach. SWDC is leading the consultation processes being some two weeks ahead of the other three councils due to the timing requirements of our LTP delivery.

The option of contracting [REDACTED] directly to provide a defined scope of work has been investigated to the point of agreeing on scope of service, the potential form of contract, a possible organisational structure, development of a high-level transition plan, and a price to deliver defined services within agreed scope.

[REDACTED]

Service delivery outside of the scope of the proposed [REDACTED] contract however would need to be delivered by Council, including the capital works programme for FY25/26 and FY26/27. Skills and resource requirements for Council to deliver these services have been identified and scoped at a high level. Council would need to recruit suitably skilled staff to provide these services. Some services may warrant keeping with WWL until they can be safely transitioned to a new entity as part of an overall establishment plan, meaning that WWL would remain involved (primarily in the SCADA controls systems and data areas).

The LWDW project is currently entering a very important phase as each council receives and analyses the submissions received on its consultation document. If all councils agree to continue to develop the multi-council CCO option councils will need to quickly move into the design phase of the new entity which will require negotiations on several important matters such the board appointments process, transfer agreements (assets and debt) and the details of the shareholder agreement (share allocations and rights). Discussions held with CDC and MDC officers have indicated a preference to minimise the risks to the LWDW project and although willing to assist SWDC to a limited extent in potentially assisting SWDC to deliver its three waters services, are wishing to minimise any risks to their BAU operations in this critical phase to transition themselves. A collaboration with CDC or MDC would require workshops and decisions from councillors at the same time they will be being asked to make critical decisions on the multi-council CCO entity.

An important aspect of LWDW is the imposition of additional regulatory oversight in the delivery of water services across the motu. The Commerce Commission is being established as the economic regulator of the new regime, the purpose being to ensure public accountability to the consumers of water services. By bringing forward early economic regulation Wellington Water will

now be under additional disclosure and reporting requirements and will be monitored by an independent agency. The government anticipates that this will include the development of indicators that provide a view of value for money, review of procurement practices, and plans to address the shortcomings outlined in the published reports. By doing this, the government has provided South Wairarapa an opportunity to consider staying in the WWL relationship for a further period until all WWL shareholder councils decide on an orderly exit as externally validated assurances via accelerated regulation will be in place. South Wairarapa's risk of poor performance and lack of value has been reduced and officers have already seen improvement in some aspects of WWL delivery, for example, pricing for capital works projects.

Based on the new developments, officers propose that in addition to the three options specified by councillors after the 18 December workshop, the options of Do Nothing, and an option of contracting out OPEX and renewals but bringing the CAPEX and ancillary services inhouse also be assessed.

RECOMMENDATIONS

That *the Strategy Working Committee*:

1. Receive the Transitioning Water Services report.
2. Notes that allowing the WWL agreement to expire on 30 June 2025 will trigger the Obligations at End of Agreement and Termination Transition clauses of the agreement.
3. Resolves to continue the development of a Water Transition Plan, as set out below:
 - 3.1 Option 1 - continue with WWL for OPEX and bring CAPEX in house (or)
 - 3.2 Option 2 - carry on with an external party for OPEX only and bring all CAPEX in house (or)
 - 3.3 Option 3 - carry on with external party for OPEX and CAPEX renewals and retain other CAPEX in house (or)
 - 3.4 Option 4 - exit WWL and work with CDC/MDC for service delivery between the three councils (or)
 - 3.5 Option 5 - remain with WWL by extending the current agreement.
4. Instruct Officers to begin implementation planning on the preferred option.
5. Note that this report and associated minutes stay in public excluded until the Chief Executive determines there are no longer any reasons to withhold the information under the Act.
6. Note that the withholding of information under the Local Government Official Information and Meetings Act 1987 is necessary to: Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – S 7(2)(h)

BACKGROUND

The relationship between Council and Wellington Water Limited has been fraught and officers have been directed to explore options to exit the relationship by councillors (refer to Appendix 1 – Wellington Waters Options and Strategy Report from The *Integral* Group Limited – 9 December 2024) and Council Resolution DC2024/83PE where councillors resolved to:

1. Agree in principle to exit the relationship with Wellington Water Limited at the point our Management Services Agreement with them expires on 30 June 2025.
2. Request Officers start preliminary ‘without prejudice’ discussions with Wellington Water Limited and other parties as required to explore options for interim arrangements. Note these discussions must remain confidential.
3. Instruct Officers to prepare and present a detailed paper in early 2025 on options for contractual arrangements to manage our three water services from 30 June 2025 until the formation of a new Water Services Entity.
4. Notes that options will be developed as follows:
 - (i) We deliver OPEX with CDC and/or MDC and procure our CAPEX programme.
 - (ii) Procure both the OPEX and CAPEX programme externally.
 - (iii) Remove several key CAPEX items from WWL and run them ourselves and stay in the CCO while trying to improve relationship and WWL performance
5. Approve funding for the analysis be taken from the remaining Better Off Funding allocated to Local Waters Done Well (to a value of \$50,000).

SWDC elected to exit the Wellington Regional option for water services delivery under LWDW on 13 November 2024 (Resolution DC2024/59). The other five WWL shareholders have all remained engaged in the Wellington Regional option development and are currently taking that option (preferred) alongside an enhanced WWL option to their public. Without pre-determining anyone’s consultation outcomes, it is likely that within 24 months WWL as it currently stands will no longer exist.

Alongside the dissatisfaction that SWDC has had with WWL’s performance, the LWDW process had provided additional impetus to consider an early exit from WWL by SWDC. Earlier exit carries the potential for upside in terms of both improved levels of service in the short to medium term, and for being better prepared for the transition into the new entity, if well executed. There are also risks to an earlier exit including being able to procure sufficient resources to replace WWL and the distraction from the LWDW transition work that managing an early transition could cause.

In January 2025 CE Janice Smith and Deputy Mayor and Wellington Water Committee representative Melissa Sadler-Futter met with Wellington Water Board Chair Nick Leggett and CE Pat Dougherty and gave them informal notice that SWDC intend to exit the relationship 30 June 2025 on expiration of the current agreement, but that this could be extended depending on practicality. Officers have subsequently met with WWL and requests for information to assist transition were issued at CEO level and officer level. Disappointingly, WWL staff have been

particularly slow in responding, in part because our requests distract WWL resources from other matters such as planning for the new Wellington Regional entity / enhanced WWL.

As directed, Officers have been developing the options identified through a review of all practicable options in workshops held with staff and with councillors in late 2024.

The identified options to further develop were:

1. Shared service with CDC/MDC for OPEX, internally procure CAPEX
2. Contract out all services (OPEX and CAPEX) externally
3. Stay in WWL and bring key CAPEX projects inhouse

Since the December workshop, a further option has emerged being an option to:

4. Contract out operations and maintenance and capital renewals, and bring the remainder inhouse ([REDACTED] direct engagement)

And in addition, because of the acceleration of regulation in the Wellington Region, officers believe that the 'do nothing' of staying with WWL until the conclusion of the Wellington Regional transition should be reconsidered.

Discussions started with [REDACTED] in early March 2025 as a possible partner to replace WWL, either a full service or partial service with in-house capability. As noted above, [REDACTED]

[REDACTED] they approached Council to discuss the options for contracting these services directly to SWDC.

To make sure [REDACTED] are a fit for purpose solution for consideration, Council posed several questions to them based on what would typically be in a Request for Proposal (resources, track record, methodology). Officers have also had workshops with [REDACTED] to go through the following key areas:

- Functions in/out of scope
- Contract form – based on a comparable contract [REDACTED] had with [REDACTED]
- Pricing models
- Staffing

DISCUSSION

Initially, officers were asked to look at a full-service external provider option taking both OPEX and CAPEX away from WWL. Council must satisfy themselves whether the time and effort of an interim

fully external step is worth doing if SWDC is going to transition all water services to a new entity around 1 July 2026 as per the LWDW proposal currently in consultation with the community.

Since the complete service is contracted to WWL, SWDC is behind the other Wairarapa councils regarding being ready to transition to a multi-council CCO entity, if confirmed as the preferred water delivery model after consultation. As such, potentially an interim step could mean that SWDC would be in a better position from a network point of view, availability of data and systems, and access to operations and maintenance staff to provide the services than we would be if we do nothing at this point.

However, in negotiations with an external provider (see option 1 below) it became apparent that the short notice and limited term of any interim arrangements would be a negative factor in negotiations. It would be unlikely we would find a full-service provider to do all the same services as WWL without a far longer and more comprehensive tender process ourselves.

The various options have therefore been recast as those related to partially involving an external party, those that involve continuing to work with WWL in some way, and that of a shared service type arrangement with our neighbouring councils (CDC or MDC).

Option 1 - Continue with WWL for OPEX and bring CAPEX in house

This option means we would need to have some confidence that the WWL performance in delivering OPEX is improving because of the additional scrutiny, and we would need to build a team to deliver our full CAPEX programme for at least the next two years.

Over the first two years of the LTP 2025-2034 the capital investment programme totals \$10.85M and \$18.31M respectively (uninflated). Key projects can be seen in Appendix 6.

Preliminary thinking on what resources would be required internally to manage CAPEX would be like that developed for the option described in Option 1 but this needs to be more fully scoped.

It appears upon initial legal review that there is an avenue to pursue this option further under the existing agreement and this will be clarified and confirmed if this option is pursued.

The expected benefits of us managing CAPEX in-house are anticipated to be more cost control, cost efficiency, on-time delivery, local contractor delivery and optimisation of the programme leading into the new entity in which our forward investment programme will be a factor for negotiations.

The risks are that there might be some delay while we source resourcing, and this may impact on relationships with the community and the regulator, but this should be able to be managed with proactive and comprehensive communications.

We would have the same list of tasks to bring this to reality as option 1, office accommodation, recruiting, transitioning etc.

A preliminary organisation chart and budget for internal hires is presented in Appendix 2. As resourcing is primarily related to capital work it will be capitalised.

Option 2 - Carry on with an external party for OPEX only and bring all CAPEX in house

This option differs only in that CAPEX renewals would not be in-scope for the external party and would instead be managed in-house.

In the short period available, it would be unlikely that an external partner who does not already have 'feet on the ground' as [REDACTED] does through their alliance, would be able to easily step up. They would also have to find resources or recruit them away from [REDACTED] and WWL.

This means a re-scoped [REDACTED] contract would be the only viable short-term option.

Option 3 – External OPEX and CAPEX Renewals, Internal other CAPEX and Ancillary Services (the [REDACTED] proposal)

To date WWL have been less than helpful with respect to how an early transition might take place and providing information as requested has taken months (requested under the terms of the existing agreement). In sharp contrast [REDACTED] have been able to provide focus and attention to making a transition for 1 July 2025 possible. They have provided:

- answers to all our questions in an extensive proposal
- a base contract that is fit for purpose (ex. [REDACTED])
- pricing models
- input into workshops on scope and services
- asset information
- staffing options
- transition plan

Internal staff have also provided timely information and assistance on:

- contract drafting
- scope and functions reviews
- developing a staffing model for out-of-scope functions under the contract with [REDACTED]

Key considerations for a direct engagement with [REDACTED] include:

- [REDACTED]
- A direct engagement (rather than indirect through WWL) could give SWDC greater control and visibility of activities and costs. This presupposes having a fit for purpose contract
- A test of the fit for purpose aspect by reviewing the proposal against the questions put to [REDACTED]
- Pricing and costs will be transparent and can be compared against existing costs through WWL
- The short term of the contract would be less attractive to non-incumbent suppliers
- The procurement policy allows the Chief Executive to make this decision provided they report it to Audit and Risk Committee
- A significant number of existing services would be out-of-scope and would require council to develop a structure and engage resources directly

The contract proposed by [REDACTED] has been reviewed by the project team and inhouse legal counsel. It is based on one that was developed by [REDACTED]. It is a fair and reasonable contract based on Building and Civil Engineering - Fixed Term, NZS 3917:2013.

The contract clearly sets out scope and requirements. It also has protection regarding managing performance and dispute management.

The contract would have a Contract Governance Team made up of senior representatives from each party. This group will meet regularly and provide governance and guidance to the contract teams.

The contract is a mix of measure and value and cost reimbursement with agreed overheads, costs and margins.

Performance is managed through a performance framework with key performance indicators.

The [REDACTED] proposal, including pricing, can be seen in Appendix 3.

Internal team roles have been developed to cover out-of-scope services. Estimates are in the order of 5 FTEs with specialist advisory support in specific areas. Tasks required to set these up include:

- role descriptions
- advertising and recruitment
- induction and training
- office accommodation
- implementation – taking over roles from WWL

Timing is achievable provided the process starts immediately. Closely working with HR and Finance will be critical.

These roles will be required by the new entity in the initial period of to ensure a smooth transition, and the tasks will be required by the new entity going forward, therefore, it is likely the skills will be able to be utilised in the new entity.

Details for roles and operating budget estimates for these roles are set out in Appendix 4. A draft transition plan is attached in Appendix 5.

At the same of setting up this new relationship, officers would need to be working on transitioning out of the WWL shareholding relationship (sale of shares) and providing input into the future water services entity.

[REDACTED]

Option 4 – Exit WWL and work with CDC/MDC for service delivery

The LWDW project is currently entering a very important phase as each council receives and analyses the submission received on its consultation document. If all councils agree to continue to develop the multi-council CCO option councils will need to quickly move into the design phase of the new entity which will require negotiations on several important matters such the board appointments process, transfer agreements (assets and debt) and the details of the shareholder agreement (share allocations and rights). Discussions held with CDC and MDC officers have indicated a preference to minimise the risks to the LWDW project and although willing to assist SWDC to a limited extent, are wishing to minimise any risks to their BAU operations in this critical phase to transition themselves. A collaboration with CDC or MDC would require workshops and

decisions from councillors at the same time they will be being asked to make decisions on the multi-council CCO entity.

Option 5 – Remain with WWL for both OPEX and CAPEX (the ‘do nothing’ option)

The release of a report indicating high costs and unsound financial management at WWL precipitated the Minister for Local Government to announce the Government would accelerate Local Water Done Well for the Wellington region to provide greater transparency at Wellington Water and ensure it is delivering value for money for ratepayers.

[Government addresses Wellington Water concerns | Beehive.govt.nz](#)

The announcement has promoted Option 3 and 5, staying in WWL while trying to improve the relationship and performance and removing key or all CAPEX items to run internally, as council would receive externally validated and economically regulated advice which has never been a characteristic of the WWL relationship before.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] move for either this option or option 1 above (WWL for OPEX, internal CAPEX delivery).

FINANCIAL CONSIDERATIONS

Council is currently in the Hearings and Deliberations phases of the LTP consultation process. The budget for delivery of water services was included in the consultation document as a ‘big decision’. Feedback was sought on the level of investment in water services from a red, orange or green option. Any significant deviation from the level consulted upon would need to be considered.

Pricing as received by [REDACTED] with the addition of out-of-scope services, utilities, chemicals (for a start) indicate a total price similar to or slightly more than the current WWL option preferred by council in the LTP consultation document.

Councillors approved funding for the analysis of transition options up to a value of \$50,000 to be taken from the remaining Better Off Funding allocated to LWDW. Up to the end of March the analysis has cost \$39,603.

LEGAL CONSIDERATIONS

There is not a specific requirement/obligation relating to the removal of capital works from Wellington Water in the existing agreement, however, preliminary legal advice is they believe we

can remove these services under clause 4.4 variations to managed services because this is where the capital projects sit.

4.4 Council may from time to time need to vary the Management Services provided by Wellington Water. In these circumstances council will outline the proposed variation (including the need and outcome sought) in writing.
4.5 Council and Wellington Water can then partner (refer to schedule 5) to determine the most effective and efficient method of achieving the outcome sought.
4.6 If the variation results in a change in the Management Services provided or cost incurred, Wellington Water will adjust the One Budget Charges as agreed with Council.

Once the agreement is terminated under clause 19.1.2(a), we can request that Wellington Water continue to provide all or part of the Management services.

CONCLUSION

It is important to note that there is not a true 'do nothing' option as the current agreement with Wellington Water is scheduled to expire as of 30 June 2025. At a minimum, council would need to negotiate an extension with WWL. The acceleration of the economic regulation and the learnings that should flow from this would give South Wairarapa justification to pursue this option if they chose.

Therefore, there are five options to consider putting in place before expiration and time will be of the essence to implement a plan.

Next steps are for councillors to provide direction to officers on the preferred option and to direct staff to begin implementation.

COMPLIANCE SCHEDULE

Full consideration has been given to the provisions of the Local Government Act 2002 S77 in relation to decision making, in particular:

1. A Local authority must, in the course of the decision-making process,
 - a) Seek to identify all reasonably practicable options for the achievement of the objective of a decision; and
 - b) Assess the options in terms of their advantages and disadvantages; and
 - c) If any of the options identified under paragraph (a) involves a significant decision in relation to land or a body of water, take into account the relationship of Māori and their culture and traditions with their ancestral land, water sites, waahi tapu, valued flora and fauna and other taonga.
2. This section is subject to Section 79 - Compliance with procedures in relation to decisions.

Compliance requirement	Staff assessment
State the level of significance (high or low) of the issue or proposal as determined by	This is a matter of low significance. It will not require consultation. All practicable options have been considered through a series of Officer and Councillor workshops.

the Council's Significance and Engagement Policy	
State the relevant Council policies (external or internal), legislation, and/or community outcomes (as stated in the Long Term Plan) that relate to this decision.	This report complies with community outcomes as detailed in the LTP.
State the possible implications for Māori and how Māori have been provided with an opportunity to contribute to decision making if this decision is significant and relates to land and/or any body of water.	There are no implications for Māori.
Chief Financial Officer review	The Chief Financial Officer has not reviewed this report.
State the possible implications for health and safety	No Health and Safety implications

APPENDICES

- Appendix 1** **Wellington Waters Option and Strategy Report from The Integral Group Limited - 9 December 2024**
- Appendix 2** **Details for roles and operating budget estimates for Continue with WWL for OPEX and bring CAPEX in house**
- Appendix 3** **[REDACTED] Proposal to support Council Decision - Presentation**
- Appendix 4** **Details for roles and operating budget estimates for External OPEX and CAPEX Renewals, Internal other CAPEX and Ancillary Services (the [REDACTED] proposal)**

