

01-15-227\02
RDC-1031943

AGENDA

NOTICE OF A MEETING OF THE

STRATEGY, POLICY & FINANCE COMMITTEE

Wastewater Services - Long-Term Plan 2018-2028 Amendment - Deliberations

Date: Thursday 23 July 2020

Time: 12.30 pm

Venue: Council Chamber

MEMBERSHIP

Chairperson

Cr Raukawa-Tait

Deputy Chairperson

Cr Kai Fong

Members

Mayor Chadwick

Cr Bentley

Cr Donaldson

Cr Kumar

Cr Macpherson

Cr Maxwell

Cr Tapsell

Cr Wang

Cr Yates

Mr Thomass (Lakes Community Board member)

Mrs Trumper (Rural Community Board member)

Ms Marks (Te Tatau o Te Arawa Board member)

Mr Berryman-Kamp (Te Tatau o Te Arawa Board member)

Quorum

8

STRATEGY, POLICY AND FINANCE COMMITTEE DELEGATIONS

Type of Committee	Committee
Subordinate to	Council
Subordinate Committees	n/a
Legislative Basis	Schedule 7, clause 30 (1) (a), Local Government Act 2002.
Purpose	The purpose of the Strategy, Policy and Finance Committee is to have oversight and make recommendations to the Council on the adoption and development of all Council's strategic, policy, planning and regulatory frameworks.
Reference	01-15-227
Membership	<p>Councillor Raukawa-Tait (Chair) Councillor Kai Fong(Deputy Chair)</p> <p>The Mayor and all councillors 2 Te Tatau o Te Arawa members 1 Lakes Community Board member 1 Rural Community Board member</p> <p>Full voting rights for all members</p>
Quorum	8
Meeting frequency	Monthly
Delegations	<p>The Committee's function is recommendatory only.¹ It is authorised to take actions precedent to the exercise by the Council of its statutory responsibilities, duties and powers, by:</p> <ul style="list-style-type: none"> • Receiving, considering, hearing submissions and making recommendations on draft plans (except the District Plan), strategies and policies (such as the Long-term Plan, Annual Plan; funding and financial policies; reserves management plans and asset management plans); • Considering and making recommendations on the development of the Council's rating policy; financial strategy and budgets; • Considering and making recommendations on the development of Council bylaws, including hearing submissions in relation to making, amending and revoking bylaws; • Considering and making recommendations on Council's strategic direction to ensure efficient and effective delivery of Council's objectives and District Vision; • Receiving and considering reports from working/strategy groups; • Considering and making recommendations on the development of guidelines for decision making to assist Council in achieving its strategic outcomes; • Considering and making recommendations on the establishment of levels of service across Council services to ensure alignment with strategic goals and priorities; • Considering and making recommendations on the development of Treasury and funding functions; • Considering and making recommendations on proposals for the establishment of Council controlled organisations (including the appointment and remuneration of Directors, formation of constitutions and shareholder agreements);

¹ Council is authorised to delegate anything precedent to the exercise of Council's powers, duties and functions - Schedule 7, clause 32, Local Government Act 2002

	<ul style="list-style-type: none"> • Considering and making recommendations on proposals for the sale and purchase of land; • Considering and making recommendations on issues relating to Council leases; • Considering and making recommendations on draft Council submissions/responses in relation to: <ul style="list-style-type: none"> ○ Central government policies, plans and proposed legislative reform; ○ Proposals by other organisations/authorities (Local and Regional). • Performing such other functions as the Council may direct from time to time.²
Relevant Statutes	All the duties and responsibilities listed above must be carried out in accordance with the relevant legislation.
Limits to Delegations	<p>The Committee does not have the delegated authority to make decisions for and on behalf of the Council. All matters requiring a decision of Council must be referred, by way of recommendation, to the Council for final consideration and determination.</p> <p>In the event that the Council resolves not to approve or adopt a Committee recommendation, the item shall be returned to the Committee via the Chief Executive for review and subsequent referral to the Council for further consideration and determination.</p>

² A committee is subject in all things to the control of the local authority, and must carry out all general and special directions of the Council given in relation to the committee - see Schedule 7, clause 30(3), Local Government Act 2002.

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1 Opening karakia - Karakia whakapuaki

2 Apologies - Ngā whakapaaha

The Chairperson invites notice from members of:

1. Leave of absence for future meetings of the Rotorua Lakes Council; or
2. Apologies, including apologies for lateness and early departure from the meeting, where leave of absence has not previously been granted.

3 Declarations of interest - Whakapuakitanga whaipānga

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

4 Urgent items not on the agenda - Ngā take whawhati tata kāore i te rārangi take

The Chairperson will give notice of items not on the agenda as follows:

Matters Requiring Urgent Attention as Determined by Resolution of Rotorua Lakes Council

The Chairperson shall state to the meeting.

1. The reason why the item is not on the agenda; and
2. The reason why discussion of the item cannot be delayed until a subsequent meeting.

The item may be allowed onto the agenda by resolution of the Rotorua Lakes Council.
Minor Matters relating to the General Business of the Rotorua Lakes Council.

The Chairperson shall state to the meeting that the item will be discussed, but no resolution, decision, or recommendation may be made in respect of the item except to refer it to a subsequent meeting of the Rotorua Lakes Council for further discussion

5 Confirmation of Minutes – Te whakaū i ngā meneti

5.1 Strategy, Policy & Finance Committee Meeting Minutes 9 July 2020

01-15-227\02
RDC-1031387



Minutes

**Strategy, Policy & Finance Committee meeting
held Thursday 9 July 2020 at 9:30am
in the Council Chamber, Rotorua Lakes Council**

MEMBERS PRESENT:

Cr Raukawa-Tait, (Chairperson)
Cr Kai Fong (Deputy Chair), Mayor Chadwick, Cr Bentley,
Cr Donaldson, Cr Kumar, Cr Macpherson,
Cr Maxwell, Cr Wang, Cr Yates,
Mr Berryman-Kamp (Te Tatau o Te Arawa), Mrs Trumper (Rural
Community Board)

APOLOGIES:

Cr Tapsell, Mr Thomass, Mr Berryman-Kamp

IN ATTENDANCE:

Andrew Wilson, Rotorua Economic Development Ltd

STAFF PRESENT:

G Williams, Chief Executive, C Tiriana, CE Office; O Hopkins,
Manager Corporate Planning & Governance; J.P Gaston, Group
Manager Strategy; S Michael, General Manager Infrastructure; T
Collè, Chief Financial Officer; J Mikaere, Group Manager Operations;
G Rangī, Manahautū Māori;
I Tiriana, Manager Council Communications; R Dunn, Governance
Lead; I Brell, Governance Support Advisor

The meeting opened at 9.35am.

The Chair welcomed Councillors, media, staff and members of the public.

1 KARAKIA WHAKPUAKI OPENING KARAKIA

Cr Kai Fong opened meeting with a Karakia.

2 NGĀ WHAKAPAAHA APOLOGIES

RESOLVED

That the apologies from Cr Tapsell, Ms Marks, Mr Thomass and Mr Berryman- Kamp for early departure be accepted.

Moved: Mrs Trumper

Seconded: Cr Donaldson

CARRIED

3 WHAKAPUAKITANGA WHAIPĀNGA DECLARATIONS OF INTEREST

No conflicts of interest were declared

4 NGĀ TAKE WHAWHATI TATA KĀORE I TE RĀRANGI TAKE URGENT ITEMS NOT ON THE AGENDA

There were no urgent items.

5 TE WHAKAŪ I NGĀ MENETI CONFIRMATION OF MINUTES

5.1 STRATEGY, POLICY & FINANCE COMMITTEE MEETING – 11 JUNE 2020

Resolved

“That the minutes of the Strategy, Policy & Finance Committee meeting held 11 June 2020 be confirmed as a true and correct record”, with the following correction page 2, item 6 – Karen Vercoe.

Moved: Cr Donaldson

Seconded: Cr Wang

CARRIED

It was noted that Rotorua Lakes Council, Kainga Ora and Ngati Whakaue Tribal Lands Inc. signed the Draft Housing and Thriving Communities Strategy Memorandum of Understanding, 8 July 2020.

5.2 STRATEGY, POLICY & FINANCE COMMITTEE MEETING – 25 JUNE 2020

Resolved

“That the minutes of the Strategy, Policy & Finance Committee meeting held 25 June 2020 be confirmed as a true and correct record”.

Moved: Cr Yates

Seconded: Cr Bentley

CARRIED

5.3 STRATEGY, POLICY & FINANCE COMMITTEE MEETING – 30 JUNE 2020**Resolved**

“That the minutes of the Strategy, Policy & Finance Committee meeting held 30 June 2020 be confirmed as a true and correct record”.

Moved: Mrs Trumper

Seconded: Cr Wang

CARRIED

Cr Kumar, Cr Bentley and Cr Macpherson requested their votes against this decision be recorded.

6 PRESENTATIONS – NGĀ TĀPAETANGA**6.1 BUILD BACK BETTER**

JP Gaston and Andrew Wilson spoke to a Powerpoint presentation (Attachment 1 page 5-10)

**7 KA MATATAPU TE WHAKATAUNGA I TE TŪMATANUI
RESOLUTION TO EXCLUDE THE PUBLIC****RESOLVED**

That the Committee move into Public Excluded session.

Moved: Cr Wang

Seconded: Mrs Trumper

CARRIED

The meeting adjourned at 10.28am and resumed at 10.35am

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987, for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for passing of this resolution
Build Back Better Exchange of Reserve Land – Utuhina Stream	Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).	Section 48(1)(a) Section 7(2)(i)
Disposal of Land – Manawahe Road	Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities.	Section 48(1)(a) Section 7(2)(h)

This resolution is made in reliance on Section 48(1) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Sections 6 or 7 of the Act or Sections 6, 7 or 9 of the Official Information Act 1982, as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as shown above (in brackets) with respect to each item.

To be confirmed at the Strategy, Policy & Finance Committee meeting on 23 July 2020

.....
Chairperson

Rotorua Lakes Council is the operating name of Rotorua District Council

The meeting closed at 11.58am

Note 1: Rotorua Lakes Council is the operating name of Rotorua District Council

Note 2: Attachments to these minutes are available on request or on Council’s website www.rotorualc.nz

6 Staff Reports – Pūrongo Kaimahi

File No: 01-65-009-04
RDC-1022736

ROTORUA LAKES COUNCIL

Chair
Mayor and Members
STRATEGY, POLICY AND FINANCE

6.1 Wastewater Services – Long-term Plan 2018-2028 Amendment – Deliberations

Report prepared by: Stavros Michael, Group Manager Infrastructure

Report approved by: Geoff Williams, Chief Executive

1. TE PŪTAKE PURPOSE

The purpose of this report is for elected members to consider the statement of proposal alongside feedback received, and to make a recommendation to Council on the preferred option with which to proceed.

2. TE TUHINGA WHAKARĀPOPOTOTANGA EXECUTIVE SUMMARY

Council has a statutory requirement to provide essential/core services to the community. In doing so, when making decisions under the Local Government Act 2002 (LGA02), Council needs to consider many factors including the views of residents affected by the decision, the costs and benefits of what is proposed, the extent of Council's resources, the interests of current and future communities, prudent stewardship and the efficient and effective use of resources.

Regarding an alternative method to deliver wastewater services, Council has used the special consultative procedure to inform the community and seek feedback, to enable it to progress a proposal that meets current and future requirements for the management and delivery of wastewater-related services for the Rotorua district.

Council has identified a number of objectives in considering the proposal, all of which are required to be met before Council enters into any formal contract.

Council ownership/control – Council will continue to own all of the assets and will retain the direct control of the levels of service, the funding decisions for the service, and primary accountability for the reliability of the service.

Cost certainty – Entering into a commercial agreement via the proposed performance-specified contract will ensure network operations, network maintenance and critical assets renewals are managed holistically and effectively, within a well-defined cost envelope that provides certainty to the ratepayer during the course of the contract term. Council retains decision-making regarding any wishes to accelerate rejuvenation of network assets beyond the level currently considered critical.

Employment and career growth for local people – Locals will, predominantly, be employed to deliver the service. Current operations staff at the wastewater treatment plan will be offered full employment under conditions accepted by them and their union representatives. The proposed contract will provide opportunities for ongoing training and development that do not currently readily exist.

Qualified engineering capability maintained by Council – Council’s approach is based on the premise that there will always be a demand and need to maintain suitably qualified engineering capability to undertake all strategic services planning, asset management decision-making, growth master planning, asset policy development, oversight of the contract compliance and service performance monitoring.

Opportunities and access to the latest science, research and technology - Due to Rotorua’s size, this type of knowledge and expertise is scarce. A partnership, via a commercial contract, with specialised companies who work in the sector and have direct links to the latest international innovations, best practice, and science and technology developments, will improve the ability to deliver leading edge core services.

The review of the wastewater services delivery model, and the options available, have been underway for the last five years. The review has been grounded in evidence within Council’s 30-year Infrastructure Strategy. Council’s 2015-25 and 2018-28 Long-term Plans signalled that challenges driven from many network legacy issues and a range of external factors would require the organisation to look at alternative methods of service delivery.

The Government’s already-stated objectives under the freshwater review (part of the 3 Waters review) and more recent announcements are not in conflict with Rotorua Lakes Council’s objectives. The Government’s preference (as stated) relates to the future ownership and management of water services through consolidated regional entities and out of the direct control of councils. The form, structure, funding and local implications of these proposed changes remain ambiguous and unresolved. Council has yet to consider such options and to carefully evaluate the many aspects that will need to be considered under these proposals.

Due diligence and careful evaluation, and any subsequent transition to new entities, is expected to take some years. In the meantime, Council must address identified risks and this proposal is designed to do that. If after careful consideration, Council resolves to follow the government’s intention and eventually transfer its water assets and its asset management capacity into a consolidated regional entity for water services, this proposed contract can be novated.

Due to the significance of the sewerage and sewage (wastewater) network infrastructure, Council committed to undertaking a special consultative procedure to seek community feedback. The identified risks and risk mitigation options, with supporting information, has been shared with the community and feedback has been received.

Council’s ability to initiate and manage services procurement is demonstrated through current outsourcing of various wastewater services with 70-90% of all services contracted to other providers. Council’s internal and residual engineering resources are in a position to provide assurance that the proposed consolidated contract can be effectively and efficiently managed to deliver outcomes sought.

The objectives sought, as listed above, have all been addressed through the review, procurement process and drafting of a commercial contract. Based on this, staff consider that Option 1, a single consolidated contract with Trility NZ Ltd to delivery wastewater services, is in the best interests of the community.

3. HE TŪTOHUNGA RECOMMENDATION

1. That the report 'Wastewater Services - Long-term Plan 2018-2028 Amendment - Deliberations' be received.
2. That the Committee recommends to Council that it agree to entering into a 10-year contract with Trility NZ Ltd for the delivery of Rotorua wastewater services.

4. TE TĀHUHU BACKGROUND

Council adopted a Statement of Proposal on 19 May 2020 and undertook a special consultative procedure to consult the community on an alternative method of delivery for Rotorua district wastewater services.

The basis for the Statement of Proposal and the use of a special consultative procedure follows years of review and assessment of the challenges and risks to the network, followed by a comprehensive procurement process.

Councils across the country have been required to develop 30-year infrastructure strategies since 2015. Rotorua Lakes Council infrastructure strategies have sought to assess various infrastructure services and their supporting networks' ability to meet targeted levels of service, the relevant statutory requirements to be complied with, currently known and emerging risks and challenges, and to chart improvement and/or risk mitigation actions against each of these.

Rotorua Lakes Council Infrastructure Strategies

The objectives in Rotorua Lake's Council Infrastructure Strategies have set out to achieve and ensure, amongst other objectives, that:

1. Council continues to own the infrastructure assets and all related data;
2. Council is the lead agency that defines levels of service through its LTP processes;
3. Council's in-house engineering resources have the capability to construct networks master plans, identify risk management priorities, undertake probity in service procurement, control the delivery of services, monitor service performance and report to Council against agreed KPIs;
4. Council decides the district's growth direction and leads future networks master planning to enable sustainable growth;
5. The service specialist sector provides, via contractually binding commitments, the resources, know-how and required expertise to achieve Council-defined levels of service and networks performance objectives.

The last two Infrastructure Strategies have clearly identified risks within all infrastructure activities/services networks. The identified risks have been matched with risk mitigation action plans that have been systematically implemented since 2015.

The table below highlights the identified risks and the mitigation actions taken to date.

WASTE COLLECTION & MANAGEMENT ACTIVITY	
RISKS/ACTIONS	STATUS
<ul style="list-style-type: none"> • Significant HSE risk from the old bag based collection methodology. • Poor levels of service & resource recovery outcomes. • Transition to a wheelie bin collection system through a 15 year contract for a mechanised system of collection. 	15-Year Term contract

<ul style="list-style-type: none"> Upfront capital for bins and specialist vehicles provided by contractor approximately (\$10 -12 m). Recovery of resource improved by 70% - Satisfaction rate in the 90%. 	operating in year 4.
LANDFILL MANAGEMENT ACTIVITY	
RISKS/ACTIONS	STATUS
<ul style="list-style-type: none"> Significant HSE/health risk from open tip face methodology. Poor levels of service and poor gas capture and management. Significant environmental and statutory compliance risks. Upfront capital for capping and sealing and construction of transfer station provided by contractor (\$4.0 m). Royalty based income to Council and mitigation of \$10m for cell development/much improved environmental outcomes. 	15-Year Term Contract Operating in year 4.
TRANSPORT ACTIVITY	
RISKS/ACTIONS	STATUS
<p>State Highways</p> <ul style="list-style-type: none"> Dormant REA designation for 60 years creating poor land development opportunities and leading to extended grievance on the part of iwi land owners. Progression of improvements to three SH corridors and lifting REA designation. Eastern Stage 1 \$18m in progress now/Stage 2 to progress from September 20 - \$35-40m. Central Revocation \$15 m to be funded and commence in 2021. West Ngongataha \$14 m to commence from Sept/Oct 2020. <p>Cycling/walking</p> <ul style="list-style-type: none"> Poor cycling environment high risk to safety. 30 Kms of shared paths created \$6.0M with 70% funded by government. 80% increase of school children using active modes. <p>LED Lighting</p> <ul style="list-style-type: none"> Conversion of street lights to LED. 50% energy savings and capital funding at 85% FAR from NZTA. (10 year term contract). <p>Corridors maintenance</p> <ul style="list-style-type: none"> Holistic outcomes and design build contract to ensure stable asset condition and resilient corridors. Condition equal or better than peers. 10 year term contract worth \$137M with 55% FAR from NZTA 	<p>In progress</p> <p>Completed and improving</p> <p>Awarded and commenced</p> <p>10-year contract awarded and operating</p>
3 WATERS	
RISKS/ACTIONS	STATUS
<p>Sewerage</p> <ul style="list-style-type: none"> Lakes water quality deteriorating. Demand and regulations increasing. Rotoiti/Rotoma 75% completed following failed earlier efforts and significant trust deficit with local communities from poor relationships. City WWTP ageing and lacks treatment capacity for future demand. New design completed and tendered and in resource consent process. 	In progress

<ul style="list-style-type: none"> • Tarawera reticulation required to minimise adverse effects on lake. Preferred option identified, Mfe funding obtained and in final consultation with Iwi. • Network ageing risk and unpredictable performance/costs. Focus onto critical components stability and risk reduction. 	<p>This current SOP.</p> <p>Completed and tested</p>
<p>Drinking water</p> <ul style="list-style-type: none"> • Insufficient certainty on water quality assurance and community protection for all sources of supply. • All sources and lines continuously tested and monitored with UV treatment on all sources. Water quality standards met by all supplies now. • New master plan constructed for next 50 years of demand based on spatial plan 	<p>Master Plan in 2021-31 LTP</p> <p>In progress to meet LTP timeframes</p>
<p>Stormwater</p> <ul style="list-style-type: none"> • Insufficient capacity to address modern demand and climate change effects. Adverse impacts on land development proposals. • Master planning for next 50 years to be completed by September 2020 and considered in 2021-31 LTP. 	

All risk mitigations and the implementation of actions outlined above have a common theme. Council owns the assets, leads the community direction, maintains oversight of effective services through its infrastructure group and partners with specialists for each service sector delivering to agreed outcomes, through effective commercial contracts.

The district's wastewater services and networks have a history of progressive development dating back to the 1890s, progressing to a modern reticulated wastewater systems and treatment plants with a current replacement value of approximately \$400m. Wastewater system assets have taken over a century to develop and continuously evolving performance and statutory standards require highly technical and expert management to meet current and future challenges.

Wastewater services

Within the Infrastructure Strategy (2018-48) it was identified that a significant portion of the wastewater network (67%) was now classified to be in poor or very poor condition. This has been the result of sub-optimum investment in asset renewals within the network across many years. This is not unique to Rotorua but is a nationwide issue in New Zealand.

The Infrastructure Strategy recommended a range of risk mitigation approaches, including an appropriate financial allocation to ensure the systematic maintenance of assets, and to meet an asset renewal profile consistent with the requirements of the critical parts of the network. These are the treatment plants, pumping stations, pressure mains and collector gravity pipelines. Council agreed and adopted the new investment profile for the life of the strategy plan.

It was proposed, at the time, that alternative methods for the delivery of the wastewater maintenance service be investigated to address risk allocation as effectively as possible. When the 2018-28 Long-term Plan was adopted in June 2018, investigations had just begun and at that stage, Council was unable to quantify precisely what an alternative or alternatives could look like.

A lengthy review of the service followed, with key objectives to find a delivery solution that met the complex requirements and challenges facing wastewater, with the least possible risk to ratepayers. The procurement process involving early sector workshops and discussions led to a much better

understanding of wastewater service issues, emerging challenges and how the service could be delivered more effectively and with better future risk and cost predictability.

The conclusions reached by the Council's Infrastructure Strategy are similar to the Government's conclusions that generated the 3 Waters Review and the establishment in late 2019 of a National Regulator to oversee approaches towards improved performance of 3 Waters utilities.

Having agreed to a new wastewater services investment programme, Council was also advised that there was a need to explore the best way to manage operational risk arising from the unpredictability of the performance of ageing assets, the emerging demands of new regulations and the scarcity of technical operational resources.

Current management approach

The current management approach is based on the service provision being led by the Council's Infrastructure Group, overseeing the services and stewarding the supporting assets. Alongside the engineers, a small contingent of operational personnel are undertaking treatment plant operations monitoring. The majority of all specialised services are obtained through many different supply and contract agreements of varied duration and terms. Approximately 70-90% of the overall costs of the service are currently delivered through a dispersed outsourcing approach.

Under this service delivery framework, Council carries all the statutory performance compliance and financial risk. This risk is escalating with the assets ageing, new demand, climate change and higher statutory standards.

Investigations into alternative methods of delivery/procurement

In line with what was signalled in the 2018-28 LTP to investigate alternative service delivery methods, Council set a number of goals that underpinned the investigation and started a procurement process to see if those goals were achievable. The high level goals were that:

1. Council maintains asset ownership, sets strategic direction and determines levels of service;
2. An end to end responsibility for the network stability, service reliability and safety could be provided;
3. Reliable and commercially enforceable risk management approach is applied;
4. Council secures access to technological and scientific research and innovation in the service;
5. Reliability of cost prediction minimising cost fluctuations within the network could be secured;
6. The condition of the critical assets would be improved by the end of any delivery model.

The procurement process started with early sector involvement and progressed towards receiving sound proposals from five consortia (partnerships between service providers). All consortia had the common characteristic of comprising an international wastewater treatment specialist entity and local partner(s) specialising in works and operations delivery.

Council was appraised regularly on the progress of the procurement process through:

- The 2018-28 LTP process in October 2017;
- In November 2018 on the preferred consortium supplier;
- In March 2019 when a long term contract proposal was signalled in the Annual Plan 2019/20;
- In November 2019 during the new elected council induction process;
- In March/April 2020 when the current Statement of Proposal was to be consulted;
- Through regular Operations & Monitoring Committee reports since 2018.

The procurement process was very carefully managed to ensure local requirements can be met, in particular the special relationship with Te Arawa, our natural environment and the need to provide training opportunities and skill transfers through apprenticeships and education programmes.

Following a Council decision on 19 May 2020, Council agreed to take the preferred option (Option 1) out for public consultation. Public consultation was open for four weeks (21 May-17 June).

5. TE MATAPAKI ME NGĀ KŌWHIRINGA DISCUSSION AND OPTIONS

Recent Government Policy on 3 Waters

Central Government signalled its intention to overhaul 3 Waters services three years ago on the basis that historical approaches have failed to provide stable, reliable and safe services across the country. This government intention was one of the external drivers for Council's proposed infrastructure risk reduction actions. The Government made further policy statements on the current and future management of 3 Waters. This contract proposal is not in conflict with Government's objectives.

Through its 3 Waters review the Government identified that billions in investment is urgently needed to ensure that drinking water supplies are safe, wastewater is not damaging the environment and to replace ageing and leaking pipes. The government is now driving through reforms that during the next three years will see tighter regulation and major changes to the way water services are managed.

Councils currently own and manage most treatment plants and provide drinking water to almost 90 per cent of the population. It is proposed that water services provision is taken over by a small number of publicly owned super-regional entities.

The government is offering cash incentives to help councils pay for "maintenance and renewals" but councils will only get funding if they agree to the Government's reform plans – and even if they do not, councils will still have to meet strict new drinking and wastewater standards.

Government recently announced that "This \$761 million investment will kick start much-needed work to bring our drinking, waste and storm water infrastructure up to scratch."

The asset replacement value of wastewater treatment plants alone is estimated at \$20 billion, while the drinking and wastewater pipe network is about \$80b. In total then, the two networks have a replacement value of some \$100b.

The offer from government to inject \$761m in this sector, therefore currently represents about 0.7% of the replacement value of the assets. It is half the nominal annual level of renewals of around 1.5% and it seems improbable that such a low level of investment would make any material difference to the condition of the national water services assets.

Instead, Councils will have to consider many factors before they accept the government's proposals, including but not limited to;

- Agreeing to divest service control to new regional entities;
- Agreeing the methodology of establishing such entities;
- Agreeing the methodology of establishing levels of service for each local community;
- Agreeing the governance and funding process/mechanisms for these entities;
- Agreeing to the transfer of assets worth \$100b in exchange for one-off cash equating to 0.7% of assets' value.

While Council may wish to consider such options, the process will take a significant amount of time to be finalised and would involve consolidation of each council's infrastructure assets and infrastructure management human resources into new regional entities. The service delivery to operate, maintain and renew these networks is highly likely to be through contracts with the specialist sector. For any

such regional entities to develop internal service delivery capacity/capability would take intergenerational effort and resources.

In terms of Rotorua's wastewater service delivery, this proposed contract would be novated under the control of any new regional entity that eventuates. In the meantime, Council must meet its statutory performance standards for wastewater and do so under the least possible risk exposure.

The Statement of Proposal canvassed public feedback on three options:

Option One:

Finalise and enter into a 10-year service delivery contract with an external provider for the provision of all wastewater services across the Rotorua District.

The proposed contract framework

Council would enter into a 10-year term contract with Trility NZ Ltd (New Zealand registered company) that utilises the services of specialist personnel to plan and manage wastewater, in compliance with all currently known statutory requirements and includes a principal relationship with one of New Zealand's largest contracting firms, Fulton Hogan, to undertake all physical network operations.

The key deliverables are the operations, maintenance and renewal of wastewater network assets under a specified set of performance indicators and for a set fee. The fee will be payable monthly, subject to Council's Infrastructure Group engineers/personnel being satisfied that all contract tasks have been delivered to the agreed level of quality.

Trility NZ's parent company is Trility Group Ltd (Australia registered company). Trility Group is servicing some 600 water-related facilities in Australia and will be providing the NZ Company with a \$15.0m guarantee in terms of meeting all its proposed contractual obligations with Rotorua Lakes Council.

In addition, a \$2.0m Bank Performance Bond (in favour of Rotorua Lakes Council) will be provided to meet the cost of any bridging of services in the event Trility NZ fails to meet its contractual obligations.

Rotorua Lakes Council will also be able to enter into a direct contract with Trility NZ's main sub-contractors at the same rates/fees as per main contract, in the event of Trility NZ being unable to meet its contractual obligations.

Trility NZ will employ all but one of the current operations staff (11) at the wastewater treatment plant, as agreed with union conditions and terms.

Council's Infrastructure Group will maintain, through its engineering staff, overall responsibility for managing the contract and verifying that all contractual obligations have been met before authorising fee payments. There are various remedies in the contract to address unsatisfactory performance or omissions, including withholding payments, seeking remedies, or terminating the contract for persistent non-performance.

Option Two:

Continue to deliver wastewater services based on current practice (a mix of in-house service management by Council's infrastructure group, a small operations staff contingent with the vast majority of the balance (70-90%) being delivered through a variety of external contracts).

Under this framework;

Council infrastructure staff will coordinate and plan maintenance and asset renewal activities. These activities and work tasks will be delivered through a range of different service providers, including

biosolids management, energy contracts, and a range of different types of maintenance and installation of renewal component contracts.

Council will continue to directly employ, manage and replenish a small team of 10-15 operational staff to monitor wastewater treatment plants and the operations of pumping stations.

The framework will concentrate all statutory compliance and asset performance/repairs cost risks under full council responsibility.

Option Three: Do nothing and wait for Government to intervene. Under this option Council could manage the network as it is, reduce spending on asset renewals and wait until Central Government determines the direction of local government in terms of the future management of wastewater. Option Three is not considered viable, as it does not address any of the issues that face the service at this time.

Some 27 submissions were received (of 27,000 households). This report highlights (below) the main themes and issues identified within the submissions received and commentary in response to these issues/comments.

SUBMISSIONS THEME/ISSUES	ROTORUA LAKES COUNCIL RESPONSES
Theme/Concern for loss of control by Council	
<p>Rotoua Lakes Council should retain ownership and management of all aspects of effluent management within the District.</p>	<p>The principal guiding strategy of this proposal is that Council remains the consent holder and all treated effluent specifications/conditions must be met by the contractor.</p> <p>The proposed contract requires the contractor to meet the costs of any prosecution by the consent authority for failure to meet consent specifications and to carry the cost of all remedial actions to address the cause of any failure. Council currently carries all that risk.</p> <p>A principal objective of the proposed contract is to incentivise the contractor to implement robust risk management controls so all statutory requirements are constantly met. Therefore reliable and consistent compliance with influent treatment and consent conditions will safeguard Council from losing control of this critical service to the government or some other entity.</p> <p>Council infrastructure staff are focused onto the contract and network performance management level, where they are in a better position to monitor and ensure delivery of the level of service required by our communities; ensuring that community expectations and wellbeing is upheld to a high-standard into the future.</p>

SUBMISSIONS THEME/ISSUES	ROTORUA LAKES COUNCIL RESPONSES
Desire for localism	
<p>Following COVID-19 we must encourage people to support local and New Zealand businesses.</p> <p>Local people are trained and employed</p> <ul style="list-style-type: none"> • Training and internships should go to local people to deliver the service. • There are experts here in New Zealand and we should be utilising the best experts possible. 	<p>Council will continue to resource its infrastructure group with the appropriate level of skills and competencies to oversee and monitor the network performance and the contract outcomes.</p> <p>Trility NZ will manage the delivery of services within the scope of the proposed contract. The company is collaborating with Fulton Hogan (a local Rotorua company for over 17 years) to undertake all physical works for network maintenance and asset renewals.</p> <p>Fulton Hogan has operated in Rotorua for 17 years and currently employs more than 50 staff. All but 3 (1 from Taupo and 2 from Te Puke) are local Rotorua people, 75% of them are Māori and 55% of those identify as Te Arawa. They plan (for this contract) to expand that workforce with additional staff from the local market.</p> <p>Trility will employ 10 staff currently working in the Treatment Plant. They are all local people. Any new staff to help with the treatment of sewerage and management of assets will reside in Rotorua.</p> <p>The primary sub-contractor Fulton Hogan has a supply chain for materials and services here in Rotorua and the vast majority of materials and services are sourced from some 50 local suppliers. With the exception of specialised plant such as membranes/presses etc that must be imported from overseas, all materials and services will continue to be sourced from local businesses.</p> <p>Current and new staff would be residing in Rotorua. It would not be logical to have workers for these services living far away from their place of employment.</p> <p>Trility NZ and Fulton Hogan both have extensive apprenticeship programmes for career development and succession planning and there is a draft MOU with Te Arawa Collective to facilitate local Māori training in this critical service.</p>

SUBMISSIONS THEME/ISSUES	ROTORUA LAKES COUNCIL RESPONSES
Trust in Council	
<p>The public needs to trust the claims made in the proposal, but they appear too good to be true; alongside this, suitable management and competence within Council has been questioned – there is scepticism on Council’s ability to negotiate a good contract and appropriately manage and monitor the performance of a contractor.</p>	<p>Council has the overall and ongoing responsibility to provide governance and stewardship for wastewater services. The Council has consulted with the community and agreed to adopt the 30-year Infrastructure Strategy; this clearly articulates the current condition of the sewerage network, the challenges and risks and risk mitigation options.</p> <p>One risk mitigation action is appropriate investment in maintenance and renewal of critical wastewater assets. The proposed contract is about getting the best experts to give effect to that and to protect the Council through a robust and legally binding contract.</p> <p>The contract contains safeguards and remedies to compel the service provider to meet all contract conditions and specifications. In actual terms the proposed contract provides a much higher assurance that Council will adhere to the risk management plan because it binds both parties, financially and legally, to meet their respective commitments.</p> <p>The Council has utilised, the peer review of external expert legal, engineering, accounting and business advice, including the Auditor General to ensure that the proposed contract is factually robust.</p> <p>It is correct that in general infrastructure assets, not just in Rotorua but at a national level, have not received the appropriate investment in their systematic renewal across many years. This is the result of many factors but broadly because utility and local authorities as well as government have to balance many different considerations in their investment decisions, for example the provision of social services, community services, infrastructure and affordability.</p> <p>It will take some time to claw back asset condition but the purpose of this proposed contract is to both ensure expert technical knowledge is available to apply modern asset interventions on the critical assets and to contractually and legally hold the contractor responsible for applying these techniques to ensure a stable, reliable and safe system operates.</p>

SUBMISSIONS THEME/ISSUES	ROTORUA LAKES COUNCIL RESPONSES
Innovation Focus	
<p>A new mindset is required. We need to adopt a more proactive position in funding innovative solutions to solving Rotorua’s wastewater management long-term.</p> <p>Current wastewater treatment practices are driving a paradigm shift within forward thinking communities with regard to their wastewater solutions. More innovative solutions propose a transition from pollutant removal towards resource recovery.</p> <p>We need a new model with different management thinking – service delivery needs to be about outcomes not outputs.</p>	<p>Council agrees that ongoing investigation into more innovative solutions to delivering wastewater services and managing its undesirable effects is required for the future. There is a technological explosion in this direction internationally.</p> <p>However, Council currently has limited resources to invest in high-risk research and development which would be required to inform a completely new wastewater management model.</p> <p>A substantial benefits of collaborating with the national and international sector in these services is the opportunity to gain access to international expertise, research, science and innovation.</p> <p>This partnership will set Rotorua Lakes Council apart from other New Zealand local authorities. There is a greater chance Council will have access to and be in a position to adopt new solutions without incurring the testing risk before becoming early adopters of new technology and systems.</p> <p>The proposed contract enables and incentivises the contractor to find ways for alternative use of the treated wastewater as they will be responsible to manage the undesirable outcomes of wastewater treatment within their contract.</p> <p>An example would be the use of biosolids and treated effluent. If they arrive at other viable alternatives to composting or diverting effluent then it will be to their benefit and they will need to provide for any costs associated with alternative consents requirements and environmental standards.</p> <p>There is a benefit for both Trility and Rotorua Lakes Council to find more sustainable and innovative ways to deliver the service, so with their expertise it is Councils aspiration that we will be able to deliver a much greater level of service to the community in the future.</p>

SUBMISSIONS THEME/ISSUES	ROTORUA LAKES COUNCIL RESPONSES
Perceived Risks	
<p>Submitters state that there might be more risk to Council and ratepayers by entering into this partnership and in particular:</p> <ul style="list-style-type: none"> • Cost of the contract • Challenges of ageing network • Outsourcing management • Addressing non performance 	<p>Cost of contract The proposed contract targets risk containment as it assigns operational and performance risks to the party managing these risks operationally. The contract contains those risks within an envelope defined by the fee payment, and specifies the penalties to be incurred if these are not managed effectively.</p> <p>Challenges of ageing network Consolidating currently diverse services in wastewater under one contract will not immediately address the challenges of an ageing network. However, it will significantly reduce the risk of critical parts failure because the proposed contract requires the provider to take responsibility for reliable service provision and includes financial remedies for their failure to do so, unlike the current situation where Council carries an open-ended fiscal risk.</p> <p>Out-sourcing The current model operated by Rotorua Lakes Council is based on a series of individual short term delivery/operational contracts, managed by Council.</p> <p>Approximately 70-90% of the costs to deliver the service are through a range of contractors. The exception is the treatment plant operation which it is currently delivered by a small in-house team.</p> <p>A partnership with Trility NZ means consolidation of the management of all contracts into a “one network” approach to delivery and holistic management. This will also include the operations of the treatment plant.</p> <p>Addressing non-performance – community feedback in terms of service satisfaction is very high (90% satisfaction ratings in customer surveys). Comparative data of local authorities of similar scale and complexity indicates Rotorua Lakes Council services are in line with, or better than, peers. To ensure these standards are maintained, Council has clearly defined step-in rights. The contract allows Council to dismiss Trility NZ for non-performance and to enter into separate contracts with other parties if that occurred.</p>

SUBMISSIONS THEME/ISSUES	ROTORUA LAKES COUNCIL RESPONSES
Network expansion and other options	
There need to be opportunities for network expansion, which provide benefits to the environment, improve lake quality and the local economy with a better and increased network.	Investing in and expanding current networks will always be a Council decision and this proposed contract does not constrain those decisions. Instead, the contract should give Council confidence that it has a reliable arrangement in place to manage existing network challenges effectively so it can consider network expansions where deemed necessary.
Ownership	
Wastewater service delivery should be under improved management and governance but still under ownership of local people. If it is possible to consolidate contracts for Trility it should be possible to consolidate them within Council. Council should consider moving operations under a Council Controlled Organisation (CCO).	Ownership of the wastewater networks and related services will remain with the Council on behalf of the community. Council will maintain at appropriate level of engineering skills and capacity to manage the proposed contract through the Infrastructure Group.
Establish Council-controlled organisations	The potential to move all wastewater operations to a CCO has been considered. However, the risk in terms of statutory compliance, skills and resources, and the cost of unplanned repairs would remain fully with Council as the sole shareholder of a CCO.

6. TE TINO AROMATAWAI ASSESSMENT OF SIGNIFICANCE

The decisions or matters of this report are considered significant in accordance with Council's Policy on Significance and Engagement. To this end, Council proceeded with a special consultative procedure to ensure that the proposal was communicated to the community and that the views of the community were obtained and reviewed alongside the proposal.

7. NGĀ KŌRERO O TE HAPORI ME TE WHAKATAIRANGA COMMUNITY INPUT/ENGAGEMENT AND PUBLICITY

Public consultation on the wastewater Statement of Proposal opened on 21 May 2020 and closed on 17 June 2020 with 27 submissions received and considered.

The opportunity for the public to provide feedback was promoted through a number of channels, including:

- Social media via Rotorua Lakes Council's Facebook page;

- Radio advertising;
- A flyer delivered to approximately 27,000 households with Council's *Tatau Tatau* magazine;
- E-newsletter to Council contact database, including featuring in Council's weekly e-panui;
- Inserts in community newsletters;
- Two information sessions held at Rotorua Lakes Council Civic Centre on Tuesday 9 and 16 June 2020;
- Council's online engagement platform Let's Talk/Korero Mai which hosted information, questions and answers, the Statement of Proposal and council presentation slides and online submissions form.

8. HE WHAIWHAKAARO CONSIDERATIONS

8.1 Mahere Pūtea

Financial/budget considerations

The full costings of the options are provided in the statement of proposal. Council adopted an Annual Plan on 9 July 2020 which provides for all options to be accommodated and implemented.

8.2 Kaupapa Here me ngā Hiraunga Whakariterite

Policy and planning implications

The decision is consistent with the Rotorua Lakes Council Infrastructure Strategy 2018-48.

8.3 Tūraru

Risks

The risks to the Wastewater services are well outlined in the statement of proposal. The final decision will need to consider all of the risks and determine which outcome will best meet the needs of the district and mitigate the risks.

8.4 Te Whaimana

Authority

The role of the Strategy, Policy and Finance Committee is to consider the wastewater services proposal in conjunction with the feedback and to make recommendations to Council on which proposal Council should proceed with.

7 Resolution To Go Into Public Excluded - Ka Matatapu Te Whakataunga I Te Tūmatanga

(to consider and adopt confidential items)

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987, for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for passing of this resolution
CONFIDENTIAL MINUTES of previous meeting held 9 July 2020	Please refer to the relevant clause/s in the open meeting minutes.	Good reason for withholding exists under Section 48(1)(a).

This resolution is made in reliance on Section 48(1) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Sections 6 or 7 of the Act or Sections 6, 7 or 9 of the Official Information Act 1982, as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as shown above (in brackets) with respect to each item.