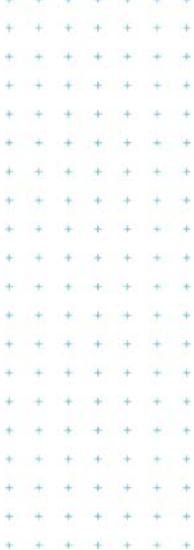


Service Review - Innovative Waste Kaikōura

Prepared for
Kaikōura District Council
Prepared by
Tonkin & Taylor Ltd
Date
June 2019
Job Number
1010911.v2.0



Document Control

Title: Service Review - Innovative Waste Kaikōura					
Date	Version	Description	Prepared by:	Reviewed by:	Authorised by:
27-5-19	1.0	Draft for client review	CHP	CR	CR
04-06-19	2.2	Final	CHP	CR	CR

Distribution:

Kaikōura District Council

1 electronic copy

Tonkin & Taylor Ltd (FILE)

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1 Introduction

Following the November 2016 earthquake, Kaikōura has been in a period of recovery and rebuild. Like many smaller territorial authorities, it continues to face pressures around maintaining infrastructure, service delivery and quality of life for its residents. The significant damage caused by the earthquake has intensified this pressure. The Kaikōura District Council (also referred to in this report as KDC and ‘the Council’) is working hard to become an effective and modern council. Part of this is ensuring its long-term financial and corporate sustainability.

The Financial and Corporate Sustainability (FCS) Workstream is governed through a partnership between the Council and the Department of Internal Affairs. Budget 2018 provided new policy initiative funding within Vote Internal Affairs for “Additional Crown Support” to Kaikōura for “Supporting Local Authorities’ Post-Earthquake Statutory Activities”. This funding supported this review.

The FCS Workstream has focused almost solely on its own internal operations. Kaikōura solid waste services and three waters operations are delivered by a Council Controlled Organisation (CCO) called Innovative Waste Kaikōura Limited (or IWK). IWK is owned by the Kaikōura Enhancement Trust, that is turn fully owned by Council. IWK was initially excluded from the workstream. However, it was subsequently agreed by the Kaikōura Recovery Steering Group, which oversees the workstream, that this Review of IWK was warranted. The scope of the review is a short overview or stocktake of the performance of IWK.

The primary question for the review was whether the IWK’s model and performance matches the needs of a post-earthquake, fit for purpose Kaikōura District Council. The (transitional) directors of IWK are also aware of the review and have contributed to the review process.

The objectives of the FCS Workstream are to consider:

- Opportunities to maximise revenue
- Investments, divestments and building financial reserves
- Development of the long term plan (the Council’s long term plan was deferred after the 2016 earthquake)
- Corporate sustainability
- Service delivery options

The purpose of this project, set out in the Statement of Work (Appendix A) was to review IWK with a focus on:

- A. Company Performance
- B. Management and Governance Framework
- C. Future Options

These matters are covered in Sections 3 – 6 of this report.

2 Approach

The approach adopted is summarised below.

1 Project inception

The review process started with a discussion with Jane Parfitt and confirmed timing for interviews and meetings with key stakeholders in Kaikōura. At this stage a range of material was provided regarding current operations and agreements for service delivery.

2 Preliminary (desktop) review

Prior to meeting with stakeholders the material provided was reviewed alongside relevant information available in the public domain. This provided factual information for this report and highlighted key questions to be addressed in discussions with key stakeholders.

3 Site visit and interviews

Chris Purchas, Consultant at Tonkin + Taylor, spent a full day in in Kaikōura meeting with Council and IWK staff, visiting operational sites and reviewing information. The schedule of meetings was developed with assistance from Council and included meetings with IWK staff and directors and Council staff (GM Engineering, Chief Executive Officer).

People interviewed for this project include:

- Jacki Remihana – General Manager, IWK
- Craig Smith – Team Leader, 3-waters at IWK
- Chris Gregory – GM, Engineering, KDC, Interim Director, IWK
- Matt Hoggard – District Planner, KDC
- Kate Hunt – Biosecurity Office, KDC
- Angela Oosthuizen – Chief Executive Officer, KDC
- Winston Gray – Mayor, KDC
- Neil Pablecheque - Director, IWK
- Geoff Harmon- Director, IWK
- Glen Hughes - Director, IWK
- Jane Parfitt – Special Advisor, KDC, Interim Director, IWK

During this phase of the project discussions were also held with the FCS Workstream team (Jane Parfitt and Bruce Robertson). This included a discussion immediately prior to the day in Kaikōura and a discussion covering our preliminary conclusions.

4 Reporting

Following the desktop review, site visits and interviews, this report has been drafted summarising key factual information and conclusions regarding the performance of Innovative Waste Kaikōura including commentary on current governance and management arrangements.

3 Key information

The history of the formation and operation of Innovative Waste Kaikōura is not well documented but from information available, the following can be established:

- The operation was established in 2000 with strong links to other community based resource recovery organisations (Ashburton, Wanaka, Raglan);
- The original shareholders were the Wastebusters Trust Kaikōura and Kaikōura District Council;
- Kaikōura District Council took full ownership in 2006;
- The ownership was shifted to Kaikōura Enhancement Trust on Council's behalf in 2009.

IWK manages the landfill and resource recovery operations, delivers recycling services, and is contracted to provide both public toilet cleaning services within the district and maintenance for Three Waters. The documentation for providing services is variable, with documentation for the long standing services (landfill, resource recovery and recycling services) incomplete.

IWK has a board comprising a mix of transitional and permanent directors. In principle board members are from the Kaikōura District, although in practice one of the permanent directors is Christchurch based. IWK is owned by the Kaikōura Enhancement Trust, which is in turn owned by Kaikōura District Council. This structure was intended to minimise the potential for Council involvement in the day to day operations of IWK.

The General Manager reports to the board with the remainder of the organisation structured into three groups. These are Resource Recovery, 3-waters and Compliance & Risk.

4 Company performance

4.1 Rationale

The initial formation of Innovative Waste Kaikōura appears to have been related to a strong community desire to reduce the disposal of waste to landfill. In discussions with stakeholders for this review, the connection to tourism (itself reliant on the local environment) and a desire to be innovative in managing waste were mentioned as factors important to the community.

The rationale for investing in waste minimisation was also informed by declining landfill capacity. At the time of establishment the proponents put forward the argument that investing in resource recovery would pay dividends in extending the life of the Kaikōura landfill. The charts below illustrate the argument – upfront investment will result in lower cost longer term.



Figure 1 Innovative Waste Kaikōura illustration of investing in resource recovery

The 3-waters maintenance operations were historically delivered by commercial contractors but with the same team carrying out the delivery (under a range of employers). The rationale for transferring this contract to IWK is difficult to determine, but a desire to avoid incurring contractors’ overheads was mentioned by the stakeholders interviewed for this review as a potential driver.

In both cases the rationale remains reasonable. We consider that there may be benefit in testing the approach in the context of broader consultation with the community given IWK started as a collaboration between Council and the Kaikōura community. For waste and resource recovery this could be as part of the development of a Waste Minimisation and Management Plan. For 3-waters services this may be as part of the development of the Council's next long term plan.

It is important to note that in larger centres it is often argued that the private sector is able to deliver services more efficiently than public sector organisations. In smaller centres it can be difficult to attract specialist contractors (such as 3-waters or solid waste and resource recovery service providers). The use of a CCO structure, with an associated business management approach, can provide some of the benefits of private sector delivery while retaining profits within the community. For Kaikōura this approach also mitigates the risk of a potential lack of efficient or sustainable private sector options.

A CCO structure allows for the delivery of services on a commercial basis. This may be to participate in a profitable market and make a return to Council. For Kaikōura the motivation may also be to offer services that would otherwise be unavailable, for example waste and recycling collections for businesses. It is not clear from the information considered for this review whether this was a benefit expected from the formation of IWK or inclusion of 3-waters services.

This provision of commercial services is occurring on a limited basis and there may be opportunities to expand this aspect of both solid waste and 3-waters activities to improve IWK's financial position and provide services to the business community. Examples include provision of a refuse and/or organic waste collection services for businesses.

4.2 Current performance

4.2.1 Delivery to specification

There is very limited information available on the scope of services agreed between IWK and Council for the various services that are performed. This clearly makes it difficult to determine whether IWK are delivering according to Council expectations.

Our review has identified that the regular change in Council contract managers has also contributed to the lack of clarity. Specifically, the lack of a well documented scope of services is compounded by limited institutional knowledge about the agreement in Council.

In addition to lacking clear requirements for the activities being delivered there is limited information on key systems / aspects that are important for the services being delivered. This includes:

- Expectations for the management of health and safety (this is being addressed in response to a review of H&S completed in 2017).
- Expectations for environmental management, particularly in relation to the landfill operations.
- Asset and Activity Management Plans (to be addressed in 2019 through a consultancy for Council to develop these plans).

All of these aspects are now managed across the waste and resource recovery sectors in materially different ways compared to the point in time that IWK was established.

For solid waste and resource recovery there is also a lack of strategic direction from Council on solid waste and minimisation. This would normally be provided in a Waste Minimisation and Management Plan (WMMP). The WMMP sets the strategic framework for waste management and resource recovery including key focus areas, goals and in many case targets or KPIs to measure

progress. It is difficult for IWK to deliver effective services on behalf of Council (or offer advice on new or changed services) without clear strategic direction from Council.

For solid waste and resource recovery the IWK team has worked in relative isolation from similar operations and those operating at a significantly larger scale. This is in contrast to many operations around New Zealand where operations contractors have access to colleagues working on similar sites and specialist support staff. There would be benefit in providing key IWK staff with the opportunity to interact with staff on similar operations elsewhere to understand current practices and to discuss issues and opportunities for the Kaikōura site. Obvious opportunities include linking to Canterbury Waste Services (Kate Valley Landfill), EcoCentral (Christchurch), Metallic Sweepings (Blenheim Transfer station and Sorting Centre) and Marlborough District Council (rural transfer stations, Blue Gums Landfill).

With respect to the 3-waters maintenance activity, the earthquake rebuild has created a significant workload for the team. This activity has been via the Council rebuild but IWK indicated that there is a significant amount of activity yet to commence. With the initial rebuild workload dropping the 3-waters team indicated they are light on workload with just reactive maintenance work currently progressing.

The context for delivering 3-waters services is also changing in New Zealand. A detailed discussion on proposed reforms is beyond the scope of this review, but some aspects are relevant when considering IWK as a future deliverer of 3-waters services. These include:

- The potential to move to aggregation of 3-waters service delivery by combining multiple local government areas.
- Clearer and more robust standards for the management of drinking water supplies.
- Potential economic regulation of 3-waters asset management – raising standards and probably requiring a higher level of maintenance and renewals activity.

The IWK 3-waters team is focussed on practical maintenance and renewals activities. Council sets the strategy for asset maintenance, renewals and new investment. Future regulatory change may require asset management and strategic 3-waters engineering capability, which is currently limited within IWK. If 3-waters delivery continues to be managed locally IWK and Council will need to ensure that appropriate asset management and strategic engineering skills are applied to the 3-waters assets in the District. At a practical level this is likely to involve working with other delivery organisations to access the appropriate capability at both delivery and strategic levels.

The response to the recent Boil Water notice, involving detailed review of the situation and response by Citycare, may provide a potential model. Specifically, specialists from Citycare provided expertise that was not available locally within IWK or Council, to identify key issues and advise on remedial actions. Citycare focussed on the specific infrastructure (Fords #3 Reservoir) and outlined their approach to identifying and the addressing issues. The condition of the reservoir¹ highlighted limited consideration of potential risks to the water stored there. In the scenario of working with other delivery organisations, an organisation like Citycare might provide:

- Advice on key systems and approaches.
- Periodic (proactive) audits of business as usual response, maintenance and renewal activity.
- Access to specialist skills and equipment for more complex maintenance or renewal tasks.
- Support on Asset/Activity Management Planning.

¹ Material accumulated on the roof, multiple holes in the reservoir that had the potential to allow the entry of contaminated material.

We also note that Council has not participated in the Water NZ National Performance Review - an annual performance comparison of drinking water, wastewater and stormwater service provision across New Zealand^{2,3}. Participation in the review would provide council with a simple mechanism for benchmarking current performance.

In summary, while we have not identified a clear specification for the services delivered by IWK, in our view their current delivery is not consistent with industry practice elsewhere in New Zealand. This reflects the lack of a clear specification and the relative isolation of Kaikōura limiting input from waste, resource recovery or 3-waters maintenance specialists. This limitation also applies to Council – we have not sighted any evidence of Council noting gaps in IWK performance compared with industry practice.

For waste, resource recovery and 3-waters maintenance services a contractor or CCO will typically deliver services reflecting a well defined set of services. This is typically documented in the form of a Contract Specification or Service Level Agreement and will cover matters include:

- Services to be delivered, outcomes which are sought (what, when, how many, ...).
- H&S management requirements (plan, reporting, continuous improvement).
- Reporting including H&S, financial, environmental management and any quality or management issues.
- Basis for payment.

This type of detailed documentation of the services to be delivered, along with supporting systems and reporting was not identified in the information obtained for this review.

4.2.2 Contract management

The evidence obtained for this review suggest that historically the waste management/resource recovery and more recently the 3-waters activities have been undertaken with variable contractual oversight from Council.

At a practical level, operations have been delivered by IWK in the same manner that they were prior to the establishment of the IWK contracts⁴. As the national context for delivering each service has changed since this time, IWK operations no longer deliver to industry expectations and norms.

Examples include:

- Health and safety – there have been significant changes in the legislative environment and industry best practice since 2000 and in the last 2-3 years. Significant changes have been put in place by IWK in response to a review of H&S practice in 2017. A detailed follow up review of H&S for IWK is beyond the scope of this review but should be undertaken.
- Landfill management – expectations have changed significantly for the management of small landfills including fill management, daily, intermediate and final cover, surface water management and active tipping area. No updated or detailed landfill management/operations or monitoring plans were sighted or provided to us for this review. While the IWK team have made significant improvements to the landfill operation in the last 12 months the preliminary finding of this review is that more attention is required in this area.
- Asset Management – around New Zealand, asset management involves increasingly sophisticated analyses and management of assets to drive value for money in maintenance

² 2017/18 Report accessed at https://12240-console.memberconnex.com/Attachment?Action=Download&Attachment_id=3696

³ 46 Councils and 2 CCOs participated in the 2017/18 survey. An additional 16 Councils declined to participate.

⁴ While 3-Waters services have only been with IWK since 2015 the team delivering those services have been doing so on behalf of various contractors for a much longer period.

and renewal activity. This does not appear to have been the case in Kaikōura and as a result IWK has had limited clear guidance on what is required for the assets they manage on behalf of Council.

- Financial management – activities are managed (and invoiced) under a conventional contract management framework. Because activities have been added over time this means that the claims process each month is complex. This adds time and cost for the management of the services for both IWK and Council.

4.2.3 Financial performance

This review has not focussed on the financial performance of IWK but historic reporting and current information has been provided to us to inform our analysis. The current statements suggest that IWK is covering costs largely through current revenue (payments by Council) but there are significant gaps in linking 'contracted' activity to payments for various activities.

Until there is a clear link between the services that are being delivered, formal agreements with Council and an understanding of the cost of delivering each service, it is difficult to comment in detail on financial performance.

4.3 Capability

As noted above the IWK team has delivered services over an extended period of time in relative isolation from similar operations across New Zealand. This means that the current operations do not reflect practice elsewhere.

This situation is changing with a new General Manager, new directors and the opportunity to work alongside experienced contractors in the earthquake rebuild. The information considered for this review indicates significant improvements have been made in the last 12 months.

Continued focus on improving operations combined with input from relevant specialists as appropriate will enable IWK to more closely align with practice elsewhere. Ongoing support rather than audit and project based intervention is the method most likely to provide lasting improvements. This could take the form of formal partnerships with similar organisations, or less formal interactions. Sending staff to other locations may be as effective as bringing specialists to Kaikōura.

In addition to technical support, periodic audits of operations against industry practice will help to maintain a focus on remaining consistent with similar operations. These should be proactive rather than reactive and form part of IWK's cost of operations. As noted above, participation in Water NZ's National Performance Review will provide IWK and Council with a benchmark of performance on 3-waters activities.

It is our view that with continuing improvements and ongoing support the IWK team has the capability to:

- Deliver solid waste and resource recovery services.
- Support Council in developing and implementing waste minimisation and management activities.
- Deliver 3-waters maintenance and renewals.
- Provide asset condition and maintenance data to support Council Asset and Activity Management Planning.

These comments regarding access to external technical and operational support also apply if services are to be delivered by Council. Options for service delivery are discussed in Section 6.

5 Management and Governance Framework

5.1 The role of the Kaikōura Enhancement Trust

The current arrangements, with IWK owned by Council through the Kaikōura Enhancement Trust, is consistent with the original intent. Based on the information considered for this review the 'once removed' structure has not delivered the separation intended. Specifically, with Councillors on the Board of IWK and Council staff having a day to day influence on IWK operations, the role or value of the Kaikōura Enhancement Trust is not clear.

5.2 Contract management

As noted in Section 4.2.2, this review has identified significant challenges with the management of the IWK contracts for solid waste/resource recovery and for 3-waters maintenance. For contract management the follow issues have been noted:

- There is no clear specification for the services to be delivered.
- The expectations for key supporting systems are not clearly laid out – for example H&S and Environmental Management.
- Because the range of services delivered by IWK has been added to over time, often in a piece meal fashion, the claims process is complex and time consuming for both IWK and Council.
- The relationship is managed as a conventional Principal– Contractor relationship. This mean it is difficult for Council to access knowledge and capacity within IWK, for example to assist with developing waste policy or contributing to asset data collection and assessment. This also means the focus is on task delivery and detailed checking of claims rather than Council and IWK working in partnership to achieve common (community) outcomes.

The impression gained during discussions with IWK and Council for this project was that the relationship is generally positive but consistent with a Contractor – Principal relationship.

The current structure with a competent General Manager supported by staff experienced in their roles appears to be fit for purpose to deliver the currently understood scope of services. To date the General Manager has been focussed on a number of areas that have required immediate attention including H&S and landfill operations. The intent of the structure is to allow the General Manager to leave daily operations to the team and focus on overall performance and future opportunities.

5.2.1 Innovative Waste Kaikōura Board

The current mix of transitional and permanent directors on the IWK board provides a mix of experienced and new directors. The current group also provides a range of skills that have helped IWK identify material risks and address them, for example H&S management. From discussion with the existing directors this arrangement is not sustainable, with the transitional directors seeking exit and IWK struggling to recruit new permanent directors. Key issues noted during this review include:

- The preference for local directors makes it difficult to secure the range of skills required to oversee the diverse range of services delivered by IWK.
- The inability to pay directors fees (or unwillingness to) limits the pool of directors willing to put time into IWK.
- The current transitional directors are unlikely to continue in their roles once they are no longer involved with Kaikōura District Council.
- The appointment of Councillors to the IWK board maintains the link to Council as an owner but does not address the lack of experienced professional directors on the board. There is also a risk of ongoing changes due to existing directors leaving Council.

Recruitment for permanent directors is ongoing and appears to be making limited headway. The issues noted above may be contributing to this issue. To address this issue consideration should be given to:

- Engaging specialist recruitment support to identify suitable directors.
- Making provision for remuneration of independent directors reflecting their governance experience and any specialist or industry knowledge they bring to the board.

It is important to note that IWK delivers a diverse range of services. This means the board should have knowledge of (or be able to quickly access knowledge on) key issues of relevance to IWK operations. This includes:

- Appropriate governance experience, ideally in the context of Council Controlled Organisations.
- Landfill operations.
- Recycling and recovered materials processing and trading.
- Retail operations.
- Construction (e.g. 3-waters maintenance and renewals, landfill operations).
- Contracting to local government (and to others e.g. household drainage jobs, NCTIR).
- H&S and Environmental Management associated with the above issues.

The KET, or Council, need to consider the requirements of the Local Government Act 2002 (LGA 2002) in appointing directors. Specifically, Section 57 of the LGA 2002 states that:

- 1 A local authority must adopt a policy that sets out an objective and transparent process for—
 - a the identification and consideration of the skills, knowledge, and experience required of directors of a council organisation; and
 - b the appointment of directors to a council organisation; and
 - c the remuneration of directors of a council organisation.
- 2 A local authority may appoint a person to be a director of a council organisation only if the person has, in the opinion of the local authority, the skills, knowledge, or experience to—
 - a guide the organisation, given the nature and scope of its activities; and
 - b contribute to the achievement of the objectives of the organisation.

The current permanent directors cannot provide the specialist knowledge required and may need to consider seeking external advice to address knowledge gaps. Governance experience is required on the board (as opposed to the specialist advisors) and this is likely to be a gap once the current transitional directors are no longer on the board. Without the current transitional directors the board will need to secure one or more directors with appropriate governance experience to meet the LGA requirements in appointing directors.

6 Future Options

6.1 Options for delivery

6.1.1 Options for service delivery – preliminary analysis

There are a number of options for the delivery of solid waste, resource recovery and 3-waters maintenance services in Kaikōura. Drawing on the framework set out in Section 17A of the Local Government Act 2000, these include:

- a Funding, governance and delivery by your local authority.
- b Responsibility for funding and governance is undertaken by your local authority and delivery is undertaken by another local authority.
- c Responsibility for funding and governance is undertaken by your local authority and delivery is undertaken by a CCO, wholly owned by your local authority.
- d Responsibility for funding and governance is undertaken by your local authority and delivery is undertaken by a CCO, where your local authority is a part owner (the other owner or owners might be a local authority or other organisation).
- e Responsibility for funding and governance is undertaken by your local authority and delivery is undertaken by some other person or agency (such as a private or community sector agency).
- f Responsibility for funding and governance is delegated to a joint committee or other shared governance arrangement, and delivery is undertaken by some other person or agency.

Based on the information considered for this review, option b, d and f are unlikely due to the physical separation of the Kaikōura District from neighbouring districts. Each option is discussed briefly in Table 6.1 below.

Table 6.1: Options for delivery

Option	Comment	Consider further
1 Delivery by Kaikōura District Council	<p>This is a potentially viable option for Kaikōura.</p> <ul style="list-style-type: none"> • Remove the additional costs associated with maintaining a CCO (audit, business systems). • Remove the ability of the waste and 3-waters operation to deliver other commercial services. • Would bring new capability into Council (existing IWK team) for both service delivery and policy/activity management. • Would require establishing full service delivery capability within Council including management systems, retail (tip shop) and construction management. • Would rely on effective Council and senior management oversight of solid waste, resource recovery and 3-waters operations. 	Y
2 Delivery by another local authority	<p>This is unlikely to be a viable option for Kaikōura.</p> <ul style="list-style-type: none"> • Kaikōura is physical separated from neighbours to the north and south making this option impractical (there would still be an effectively standalone operation in Kaikōura). 	N

Option	Comment	Consider further
3 Delivery by a Kaikōura District Council owned CCO	<p>This is the current arrangement and remains a potentially viable option for Kaikōura.</p> <ul style="list-style-type: none"> • IWK has capability gaps in both solid waste and 3-waters operations (potentially addressed through partnerships or contracting in specialist support as required). • Governance for IWK relies on transitional directors who are unlikely to remain available. The existing permanent directors do not have the governance experience or industry knowledge required to provide effective governance for IWK. • Potential to expand commercial service offerings. • Current contract structure and management limits the ability of Council to fully utilise the capability within IWK to support Council activities. This could be addressed through a more collaborative relationship between Council and IWK focussed on outcomes rather than detailed activities specification. 	Y
4 Delivery by CCO owned by Kaikōura District Council and another.	<p>This is unlikely to be a viable option for Kaikōura.</p> <ul style="list-style-type: none"> • Kaikōura is physical separated from neighbours to the north and south making this option impractical (there would still be an effectively standalone operation in Kaikōura). • Kaikōura is will be a small partner in any joint CCO and will therefore have limited control over priorities, spending and standards. Experience elsewhere suggests that a joint CCO will adopt the highest standards from across the owning Councils resulting in cost increases for other owner Councils. For Kaikōura this risks very high standards at an associated high cost to ratepayers. 	N
5 Delivery by another party (private or community sector)	<p>This is unlikely to be a viable option for Kaikōura.</p> <ul style="list-style-type: none"> • Kaikōura is physical separated from neighbours to the north and south making attracting private sector suppliers difficult. This is an issue for much larger local authorities across New Zealand. • IWK was originally a combined community sector and Council organisation that was ultimately taken into full Council ownership. 	N
6 Joint committee/shared governance with delivery by other party.	<p>This is unlikely to be a viable option for Kaikōura.</p> <ul style="list-style-type: none"> • Kaikōura is physical separated from neighbours to the north and south making this option impractical (there would still be an effectively standalone operation in Kaikōura). • Kaikōura is will be a small partner in any joint governance arrangement and therefore will have limited control over priorities, spending and standards. Experience elsewhere suggests that a joint arrangement will adopt the highest standards from across the participating Councils resulting in cost increases for other owner Councils. For Kaikōura this risks very high standards at an associated high cost to ratepayers. 	N

The commentary summarised in Table 6.1 suggest delivery by Council or via a Kaikōura District Council CCO are the two most viable options. Both options have benefits and challenges. These are discussed in more detail below.

6.1.2 Delivery by Council

Delivery of solid waste, resource recovery and 3-waters maintenance services by Council is a potentially viable option for Kaikōura.

Advantages of this approach include:

- Avoids the cost of maintaining a separate organisation (IWK) with associated business and compliance costs.
- Brings solid waste and 3-waters maintenance capability into Council. This assumes that IWK staff would transfer to Council and needs to be considered in light of the existing capability gaps within IWK. In this scenario Council would need to secure ongoing access to specialist advisors (operational and governance) to ensure services are consistent with industry practice and there is appropriate oversight of waste, resource recovery and 3-waters activities.
- Avoids the need to develop contract and associated management systems documentation.
- Avoids the need for management of one or more service contracts or Service Level Agreements for the delivery of services.

Disadvantages of this option include:

- There is no established service delivery capability within Council – systems and capability would need to be developed from the ground up.
- There would need to be clear documentation of the scope of services to be delivered.
- Key management systems would need to be developed – H&S, Environmental.
- An internal service delivery unit is unlikely to offer commercial services.
- There is limited capability to provide effective oversight of waste and 3-waters activities within Council.
- Effective service delivery is reliant on having the appropriate staff in place from operations management through to site/operations staff.
- There is risk associated with any change process, in this case looking to transfer IWK delivery teams into Council. Specifically change process is likely to have a short term impact on productivity and may result in some staff turnover.

This option would be most attractive if key drivers included avoiding additional compliance/management costs associated with maintaining a CCO. Continuing failure to attract suitable directors for IWK will also make this option more attractive.

From a financial perspective, it is difficult to comment on costs and savings in detail without developing a detailed proposal for bringing service delivery into Council. Savings will relate to the business systems and audit costs that are currently incurred by IWK and avoided contract management costs into the future. Key costs will include establishing a service delivery unit within Council and securing ongoing specialist advisors for operations and governance/oversight of service delivery (also recommended for IWK).

6.1.3 Delivery by a CCO (IWK)

Delivery of solid waste, resource recovery and 3-waters maintenance services by IWK (a Council CCO) is the current arrangement and continues to be a viable option for Kaikōura.

Advantages of this approach include:

- There is existing capability for core service delivery functions within IWK. In this scenario IWK will need to secure ongoing access to specialist advisors to ensure services are consistent with industry practice.
- There is potential to deliver commercial services for financial return and benefit of the local commercial sector.
- Delivery by a community focused organisation with historic links to the community (and perceived separation from Council) is supported by the community.

Disadvantages of this option include:

- There is a cost for maintaining a separate organisation (IWK) with associated business and compliance costs.
- The current contract documentation and management is challenging for both Council and IWK.
- It is difficult for Council to access key waste and 3-waters capability within IWK for activities outside IWK key activities.
- Governance arrangements are not robust due to the difficulty of attracting suitable permanent directors.
- Effective service delivery is reliant on having the appropriate staff in place from operations management through to site/operations staff.

This option would be most attractive if key drivers include community support and building commercial services (additional revenue). Securing appropriate governance skills for the IWK board would support this option.

As noted above, it is difficult to comment on costs and savings in detail without developing a detailed proposal for bringing service delivery into Council. Retaining IWK for service delivery will avoid the cost of establishing a service delivery unit within Council. Key costs, similar to delivery by Council, will include securing ongoing specialist advisors for operations, recruiting and remunerating directors. The IWK business systems⁵, audit⁶ and contract management costs⁷ are relatively small compared to the overall cost of services delivered⁸. Any director remuneration costs are likely to be similar to the cost of securing appropriate advice on maintaining oversight of Council delivery.

6.2 Addressing capability to deliver

This review has identified a number of challenges in delivering waste, resource recovery and 3-waters services. These issues need to be addressed - whether services are delivered by a CCO or by Council directly.

Key issues are:

- H&S Management.
- Environmental Management (particularly relating to landfill operations).
- Lack of clearly defined scope of services.
- Lack of appropriate specialist skills (Council and IWK).
- Lack of appropriate specialist knowledge within the IWK Board.

⁵ Administration is noted as approx. \$0.5M for IWK's 2018/19 budget in the April 2019 Management Report. Much of this line item will be required if services are delivered by Council, for example operations management, business tools on site, materials and works management systems.

⁶ \$20,000 - \$30,000 based on annual reporting.

⁷ For example 2 - 3 days per month for IWK and Council, estimate \$20,000 - \$25,000 per year combined.

⁸ \$2 - \$3M based on management reports.

- The inability of IWK and Council to collaborate on solid waste, resource recovery and 3-waters activities and outcomes outside the perceived contracted IWK services.
- Lack of strategic direction on waste management and resource recovery.

The development of a Waste Minimisation and Management Plan (WMMP) is a statutory process that involves data collection, strategy development, identifying and evaluating options to develop a draft plan. The plan then needs to be presented to the community for comment through the Special Consultative Procedure. With local government elections to be held in October a Kaikōura WMMP is unlikely to be presented for consultation until late 2019. A draft Council paper setting out activities and timeline for the development of WMMP was provided for this review.

Any change in delivery approach for solid waste and 3-waters services or move to disestablish IWK is likely to be considered significant. This means community consultation would be required. Given the link to waste minimisation and management services addressing service delivery options would most sensibly be addressed in the context of the development of a WMMP. As a significant change to current arrangements community consultation would be required but could be combined with consultation on the draft WMMP.

As noted in Section 4.3, IWK would benefit from access to specialist expertise to drive continuous improvement across landfill operations, H&S, community water supply and risk management. A regular 'internal' audit programme and exposure of key staff to similar operations elsewhere would also assist in keeping IWK abreast of current practice in the waste, resource recovery and 3-waters sectors in New Zealand. If services are to be delivered by Council staff similar arrangements should be put in place.

The other gap in expertise for IWK is in governance. The LGA requires that CCO directors have appropriate skills in governance and access to specialist knowledge of the services to be provided by the CCO. If suitable directors cannot be attracted to the board Council will need to consider their options to address the current gap in governance capability.

The information presentation in Section 6.1 suggests that many of the core challenges apply whether services are delivered by a CCO or Council. This means that these should be addressed regardless of the ultimate delivery approach selected. It is difficult to complete a detailed evaluation of the costs and benefits of the two models without have a detailed understanding of the scope of services to be delivered, supporting system required (and their current state) and supporting specialist skills required. In the context of a small, remote community like Kaikōura the reality is that the same group of people are likely to deliver the services. This is reflected in the movement of the 3-waters maintenance/renewals team who worked for at least two contractors before joining IWK.

On this basis, addressing capability to deliver through addressing core systems, scope of services and access to specialist skills should progress immediately. This can take place in parallel with confirming Council's strategic direction for waste minimisation and management (through the development of a WMMP, about to commence). This capability work should be completed in a way that the results can be adopted by IWK and/or a Council service delivery unit. In addition to clearly documenting services, performance expectations and supporting system requirements this capability work should provide a basis for IWK to develop a clear cost estimate for delivering the required services.

The issue of Council accessing waste and 3-waters capability within IWK to support the delivery of waste and 3-waters management outcomes can also be addressed under the current structure. This would require a move to a more collaborative way of working with the ability to recompense IWK for contributing to Council outcomes. This review has identified opportunities to test this approach through the development of the WMMP (data collection, strategy development with specialist support) and asset condition and data collection to support Asset/Activity Management Planning.

7 Next Steps

7.1 Concluding comments

This review of Innovative Waste Kaikōura (IWK) has considered:

- Company performance.
- The management and governance frameworks for current service delivery.
- Future options for service delivery.

Our conclusion is that IWK is working with unclear expectations about what is to be delivered, how good performance is defined or measured and what supporting management systems are required. A new management and governance structure for IWK has enabled IWK to make progress on addressing some core business and management systems issues, with plans to continue to improve these practices. The current management of the relationship between IWK and Council is characteristic of a conventional Council/Principal and Contractor arrangement. This prevents Council and IWK from collaborating on achieving waste, resource recovery and 3-waters maintenance and renewals outcomes as much as they might otherwise do.

Council delivery of the services currently managed by IWK is a potentially viable option. Any proposal to make a change would need to be informed by a significantly more detailed understanding of the scope and cost services and supporting management systems required. If one of the key benefits sought is integration of key capability into Council, then working collaboratively with IWK to deliver Council outcomes should be actively explored as an alternative approach. We note that the risk / disruption associated with organisational change and the benefits of the flexibility of the CCO to deliver with more agility than Council should not be underestimated.

Without detailed analysis of Council delivery it is difficult to provide conclusive comment on any differences in costs. The comments in Section 6.1 note that there will costs involved in establishing in house delivery capability including establishing or transferring operational systems and developing appropriate oversight arrangements. Savings will be related to CCO compliance costs (audit, directors) and contract management and reporting. These are a relatively small component of overall of total costs.

Regardless of the delivery structure, modern and effective delivery of solid waste, resource recovery and 3-waters maintenance activities in Kaikōura requires ongoing specialist input and periodic independent audit. This will enable local staff to deliver services consistent with approaches elsewhere in New Zealand and remain abreast of current and emerging issues and opportunities. Key areas of focus should include management of H&S, landfill operations, managing community water supply (quality) and overall risk management.

The current permanent directors lack the governance experience and specific industry knowledge that is required for the effective oversight of IWK. This issue needs to be addressed urgently, before the current transitional directors leave the board. Our view is that the board should consider appropriate remuneration for directors recognising the governance and industry experience they bring to IWK. With the recruitment of directors proving challenging, the board should also consider allowing for directors from outside the Kaikōura District and engaging specialist recruitment support to identify and attract suitable directors.

7.2 Recommended next steps

Action	Timeline
<ul style="list-style-type: none"> Document in detail the current scope of services in a form suitable for a Contract Specification or Service Level Agreement. <i>Initial scope of services to be developed by IWK, to be reviewed by Council and agreed between both parties.</i> 	June 19
<ul style="list-style-type: none"> Document supporting management systems expectations and then implement. <i>Management systems (H&S, Environmental, Financial Management, Reporting) requirements can be adapted from similar Contract Specifications or Service Level Agreements.</i> 	June 19, then Jul -
<ul style="list-style-type: none"> Review independent director recruitment and remuneration approach. <i>Consider using recruitment specialists to identify and attract suitable director(s)</i> <i>Consider developing a remuneration policy that recognises each directors governance and industry specific knowledge and experience.</i> <i>Allow for professional directors from outside Kaikōura.</i> <i>Review progress on director recruitment</i> 	June 19 Aug, Oct, Dec
<ul style="list-style-type: none"> Specialist support and external audit <i>Develop a summary of external support requirements – H&S, Landfill operations, community water supply management, risk management.</i> <i>Secure one or more agreements to provide specialist support and external audit.</i> 	June 19 July 19 -
<ul style="list-style-type: none"> Collaboration – Council/Community outcomes <i>Identify where IWK has capability to assist Council on strategic planning and asset management</i> <i>Agree on approach to sharing capability in the short-term.</i> 	July 19, then Aug -
<ul style="list-style-type: none"> Compare detailed costs of IWK vs. Council delivery of waste, resource recovery and 3-waters maintenance services. <i>Incorporate scope/cost for delivery of services, required management systems, governance arrangements (IWK only) and specialist support and audit.</i> 	July or Aug 19
<ul style="list-style-type: none"> IWK Strategic Plan/Statement of Intent <i>Develop strategic plan in response to WMMP and scope (commercial services, collaboration with Council, ...) and 3-waters reforms.</i> OR Integration Plan (services to be delivered by Council) <i>Develop integration plan in response to WMMP, reflecting scope of services to be delivered and use of capability for other Council activities. Linked to LTP and the outcomes of the 3-waters reforms.</i> 	Early 2020 Early 2020

8 Applicability

This report has been prepared for the exclusive use of our client Kaikōura District Council, with respect to the particular brief given to us and it may not be relied upon in other contexts or for any other purpose, or by any person other than our client, without our prior written agreement.

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Appendix A: Scope of work

