



CONFERENCE 16/17th April 2007 Duxton Hotel Wellington

CASE STUDY

Nelson Regional Sewerage Business Unit

Nelson City Council
Tasman District Council

Presenter

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Presented By



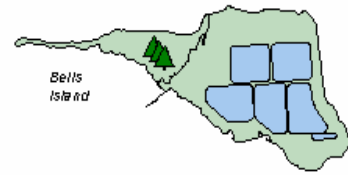
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Nelson Regional Sewerage Business Unit



Executive Summary

The Nelson Regional Sewerage Scheme is a joint venture between Nelson City Council and the Tasman District Council. The scheme was proposed in the 1970's to resolve environmental issues arising from a number of point source discharges of partially treated trade waste and effluent into the Waimea Estuary. A joint committee of the participating councils was set up in 1981 and the scheme was eventually commissioned in 1983.

In the 1960s and early 1970s three councils; Nelson City Council (NCC), Richmond Borough Council and Waimea County Council, bordered the Waimea estuary and discharged treated effluent into its waters.

When the water classification for the Waimea Estuary and adjacent Tasman Bay was upgraded it soon became apparent to the Nelson City Council that their Stoke treatment plant would not be able to achieve the required effluent standards. At the same time the Richmond Borough Council was also considering an upgrade of its treatment facility in Beach Road. Four major industries in the Waimea County also discharged untreated effluent into the Waimea Estuary.

This case study describes the creation of a joint committee in the Nelson/Tasman regions reflecting the evolution of the original Nelson Regional Sewerage Authority into a Business Unit (NRSBU) in July 2000, following a critical report from Audit New Zealand in 1998. The advantages and disadvantages of the shared services arrangement will also be discussed.

The success of the business unit can be attributed to a combination of clear guidelines via a memorandum of understanding between the two authorities, good governance and innovative customer contracts, specifically developed for the NRSBU and its five customers.

Description of the Project / Response

The development of the Regional Sewerage Scheme can be split into two stages; the first was driven by environmental considerations and the need for a cost effective sewage treatment solution, and this resulted in the creation of the Nelson Regional Sewerage Authority, which was comprised of members from the three local authorities concerned and the industrial customers.

The second stage was driven by legislation and the need for a more professional approach to managing local authority infrastructure, and this resulted in the establishment of the Nelson Regional Sewerage Business Unit.

The Nelson Regional Sewerage Authority

The Nelson Regional Sewerage Committee was set up in 1973, with representatives from NCC, Richmond Borough Council and Waimea County Council. It considered a report from consultants, Beca, Carter, Hollings and Ferner, on strategies to deal with the wastes flowing into the estuary and decided to pursue a recommendation to construct a single scheme to collect, treat and dispose of all effluent discharges to the estuary. In the following five years a number of proposals were investigated.

The committee took responsibility for the planning of the scheme and details, such as; land purchase, loan raising and deciding on a cost sharing formula. On 30 March 1981, the Nelson Regional Sewerage Authority (NRSA) was formed and a formal agreement defined the terms of each council's membership, how the scheme should be administered and how the costs would be shared.

The Waimea County Council administered the scheme from its inception and when the scheme was officially formed in 1981 the Council's executive officer became secretary to the Authority. NCC engineers were responsible for the supervision and day-to-day running of the scheme. This structure was modified slightly when the Waimea County and Richmond Borough Councils were amalgamated into Tasman District Council in 1989. The role of NCC remained the same but the administrative and secretarial responsibilities of the former Waimea County Council were assumed by the TDC. This was the *modus operandi* until a report on the NRSA in 1998 by Audit NZ prompted a major review.

The Nelson Regional Sewerage Business Unit

The report from Audit NZ identified a number of opportunities for improvement for the NRSA, as follows:

Management Control Environment

- Communication of authority objectives and the measurement of achievement of objectives
- Processes and systems for planning, budgeting and performance monitoring
- Formal processes to monitor and report on legislative compliance

Local Government Amendment Act (No 3) 1996

- Policies on funding, investment and borrowing management
- Preparation of a Long Term Financial Strategy
- Enhancement of the draft Asset Management Plan
- Appropriate approach to the calculation of Loss of Service Potential
- Revaluation of assets at least every three years
- Policies and systems to account for transactions in respect of infrastructural assets

Identification of Authority Commitments

- Reconsider the use of reimbursement systems for the payment of Authority creditors

Year 2000 Compliance

- Assurance that the year 2000 issue has been adequately addressed

Loans

- Ensure that necessary approvals are obtained from the Owners (NCC and TDC) prior to raising loans

Non-Financial Performance Measures

- Suggest future reports to Councils include non-financial performance measures

In October 1998 advice was sought from Consultants Duffill, Watts and Tse Ltd (DWT) about the affordability of a proposed treatment plant upgrade. Issues were also raised about the charging formula and risk management. DWT were then invited to address a Joint Council Committee in July 1999 to discuss NRSA ownership issues. Following this meeting, DWT presented a report in October 1999, with contribution from Audit NZ, on ownership and governance issues for the Nelson Regional Sewerage Scheme.

DWT findings were that:

- The scheme was being run by a “customers group” and not by the Owners of the scheme i.e. NCC and TDC
- The financial risks of ownership of the scheme were not considered in the method of charging
- The form of contract for the supply of services to Industry and to the Councils did not appear appropriate
- There should be a clear separation between the Owners of the scheme and the Customers of the scheme

DWT then made a number of recommendations, which included;

- Separating the Owners and Customers of the scheme,
- Identifying the Owners responsibilities,
- Principles to be included in a new contract for waste discharges,
- Future upgrades to increase the capacity of the scheme should only be constructed to meet requirements formally requested,
- Discharge rights are tradable provided that the Owners have first option,
- The Owners will pay for the ownership of any surplus capacity,
- Recovery of annual operating costs is based on an assessment of the proportion of use made of each component of the combined scheme, and
- Service for new customers would not be at a lesser cost than that provided to existing customers.

Following this report from DWT, the Chief Executive Officers (CEOs) of the NCC and TDC drew up the “Memorandum of Understanding in Respect of the Establishment and Operation of the Nelson Regional Sewerage Business Unit” (MoU). The Mayors and CEOs of the two Councils formally signed this document in March 2000. The Nelson Regional Sewerage Business Unit was formally established as a Joint Business Unit of the two Councils and came into being on 1 July 2000.

The MoU defines the requirements for governance, funding, capital expenditure, business planning, accounting, reporting, asset ownership, establishment of a Customer’s group and finally a mission statement and key engineering and financial objectives.

The MoU also provided guidelines for systems and procedures, which have now been put in place to ensure effective governance, asset management and financial control.

Actions Following Establishment of the NRSBU

Under the NRSA the NCC reported to the Board on engineering matters and the TDC reported on the administration (refer Figure 1) with the annual budgets being presented to both the NCC and TDC for adoption. This was unsatisfactory as there was little co-ordination between the service providers and no one person took control of the activities of the NRSA. Annual budgets were presented to the two Councils for approval but there was little if any other information provided to the Owners about the operation and performance of the sewerage scheme.

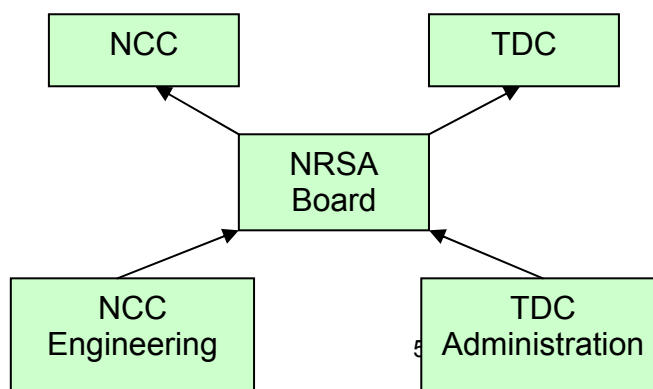


Figure 1: Structure of the NRSA

The NRSBU Board comprises two representatives from each of the Councils one of whom has to be a Councillor, and one independent Director who is appointed by the Councils, from a list of suitable candidates. As a consequence of the Customer contract negotiations there is now an additional member on the Board who represents the three major industrial customers but who does not have a voting right.

A General Manager was appointed and he is responsible for all activities of the NRSBU. One of the first tasks of the General Manager was to tender out the engineering and administration services, which ensured competitive rates. NCC won the engineering service tender and a joint bid from TDC and NCC won the administration / treasury services. Not only were these bids more cost effective than other bids but appropriate financial and accounting systems were already in place. Having easy access to the service providers in-house makes management easier for the General Manager.

After the last local body elections, in 2004, a workshop was held with staff and the Board to undertake a SWOT analysis of the NRSBU. The outcomes from this workshop, with the guidance of the MoU and Asset Management Plan, were used to write a 3-year business plan. It is the intention of the Board to hold such a workshop after each local body election, once the membership of the Board is confirmed, to set the direction of the Business Unit for the following three years.

The business plan is reviewed each year and once adopted by the Board is presented to the NCC and TDC Combined Shareholders Group for approval (refer Figure 2). The Combined Shareholders Group is comprised of the Mayor, Deputy Mayor, Chair of Finance, Chief Executive and Corporate Services Manager of each of the participating Councils and is a body set up to govern the activities of joint ventures between the two Councils, such as; NRSBU, Port Nelson, Nelson Airport, Latitude Nelson and Museum, and they have the delegated authority to make decisions in respect of these joint operations on behalf of the Councils.

At the end of each financial year an annual report covering compliance with levels of service, including resource consents, and feedback on financial and non-financial performance measures is presented by the Board to the Combined Shareholders Group. As of this year, the General Manager will present the business plan and the annual report to the engineering services committee of each Council, for information. Quarterly meetings are held with the board throughout the year and special meetings are called as the need arises. The format of the quarterly report is similar to the annual report with the addition of an operational report by the General Manager advising of health and safety and other operational issues which may impact on the Board's decision making, risk management or compliance responsibilities.

An Activity Management Plan (AMP) is key to effective management of infrastructural assets. The NRSBU has recently produced its third AMP, the contents of which are consistent with best practice around the country.

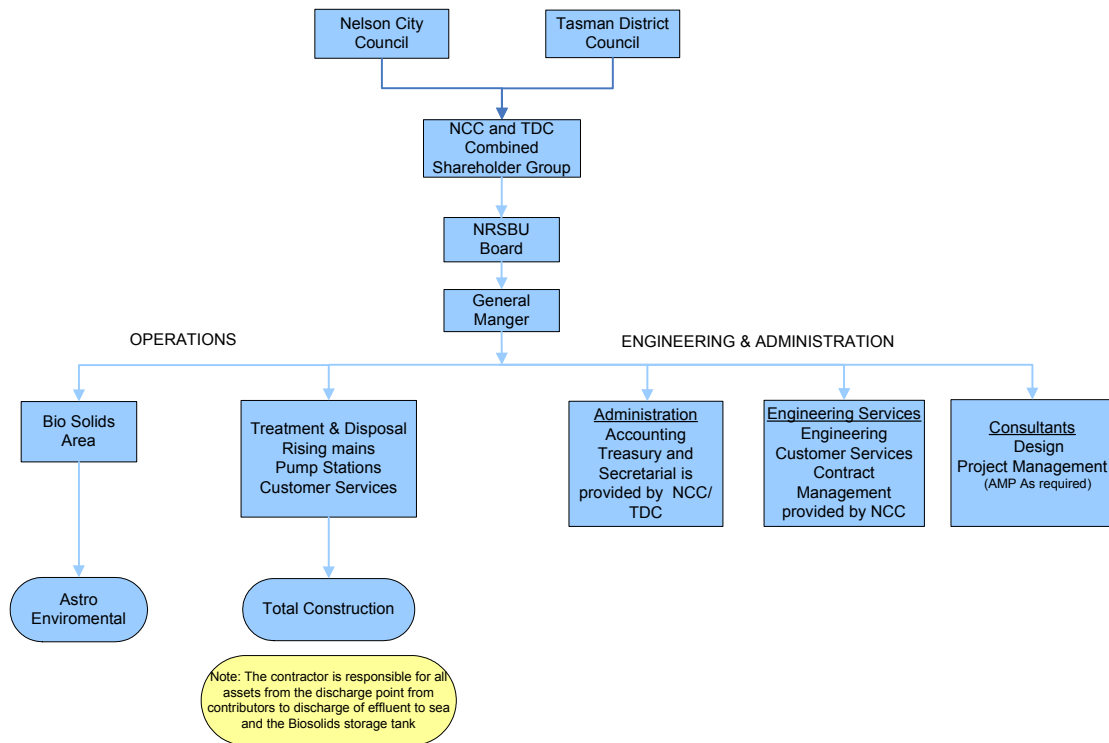


Figure 2: Structure of the NRSBU

The most challenging aspect of the new structure has been the Customer contracts. After the principles were established DWT produced a draft Customer agreement and legal advisers were commissioned to review this document and produce an enforceable contract. After three years of negotiations the Customers eventually agreed to the wording. The Industrial Customers employed an independent business consultant to act on their behalf, which actually proved quite helpful and we were able to thrash out many of the inconsistencies and inequities in the draft. The most difficult part of the contract negotiations was the charging formula as compromises were made on both sides to achieve a pragmatic solution, which did not unfairly advantage the Customers or the Owners.

However, the NRSBU now finds itself in a situation that the customers require more treatment capacity in the plant, which means that the charging formula needs to be altered again. This invariably becomes an iterative process as the customers want to know the costs of upgrade before providing their requirements for loads and flows, which are needed to enable a suitable system to be designed and then to allocate fixed (upgrade capital) and variable (operations and maintenance) costs. As the principles have been established this process should not be as protracted as previous negotiations.

The need for reporting to the Board and to the Councils has been discussed but the NRSBU also has systems in place to communicate with the Customers. A quarterly meeting is held with the Customers prior to every Board meeting and feedback from this meeting, and the minutes, are presented to the Board.

A Customer survey is undertaken each year but the timing of these surveys, currently at financial year-end, has not been ideal and the feedback has

tended to be biased by issues being faced at the time. In future the surveys will be held in March and the format, content and process will be refined in discussions with the Customers and Owners.

Results – Financial and Service Level Impacts

A review of the results achieved is probably best reflected by comparing the advantages with the disadvantage of operating a joint venture.

Advantages:

- Cost effective use of resources because of economies of scale derived from a single larger scheme (if this was not in place there be multiple site and multiple discharges and secondly as this is a green fields project there is nothing similar to compare it with)
- Efficient collection and treatment of sewage and trade waste which complies with all conditions of resource consents to discharge to air, land and sea.
- Much improved receiving environment (the estuary) with a co-ordinated regional solution, which is confirmed by 5 yearly receiving environment surveys undertaken in the estuary and commented on by the Cawthron Institute. Much of this is subjective observation including pictorial evidence rather than statistical data.
- Allows the Board to focus on a very specific area of responsibility without having to balance a number of Council priorities and concerns.
- Opportunity to bring on board commercial or other expertise not available among Councillors by using an independent Director.
- Commercial sensitivities of industrial Customers can be addressed outside of the council environment.
- Opportunities to work closer with the industrial sector as they are represented on the Board.

Disadvantages:

- Councillors can feel disenfranchised, as the Memorandum of Understanding between the two Councils only requires one Councillor from each council to be nominated for the board and the remaining three council appointed Board members and industrial Customer's representative may be independent from the Councils.

The lesson learnt was not to underestimate how much time is required to set up a shared services organisation. From the start consultation was open and honest and the NRSBU strived to achieve a win-win for all concerned, as a result the relationship was generally very good and all parties were able to work through their differences during the final negotiation phase.

Prospects / the Future

There are a number of areas that can still be improved and will form the basis for future business plans

- Timing of the NRSBU AMP cycle is not consistent with the Councils' Long Term Council Community Plan processes.
- Customer surveys need to be focussed on areas of interest to the Management, Customers and Owners of the NRSBU and there is also room for improvement in the type of surveys conducted.
- Although there is an improvement in the level of reporting to the Owners there is little, if any, regular feedback to the NRSBU from the Owners.
- A review of the treatment processes has noted that with modern treatment technology, if it were not for the sunk costs of the regional sewerage scheme, it would be more cost effective to treat the industrial waste streams on site and discharge only their treated waste streams through a combined outfall.

The arrangement is sustainable into the future and there are other infrastructure options that are currently under consideration:

- On a much smaller scale the region is considering setting up a single liquid waste receiving facility for Septic Tank and other Liquid Waste Operators to gain control of liquid waste discharges in the Nelson and Tasman region to protect the freshwater environment.
- There are also investigations underway to set up a joint venture between NCC and TDC for landfill operations and to use a single landfill for the region, based on the success of the NRSBU.

Adaptability / Transferability

This utility model would be transferable to other areas provided there is an obvious joint source, as in the case of a water supply, or end point, as in the case of a landfill or sewerage treatment plant and outfall. The terrain largely determines these factors but there must also be a political will to co-operate between the local authorities involved.

Conclusions

Overall the NRSBU has been a success based on the following observations:

- The high level of autonomy provided by the MoU enables the Board to operate without political interference or pressure.
- Compliance with levels of service has been good and over the past five years compliance with conditions of resource consent has been excellent, which can be attributed to a co-ordinated approach to the management of the scheme.
- Financials are presented in a manner that is easy for the Board, Owners and Customers to follow the income and expenditure for the scheme.

- Effective management and financial control systems are in place to ensure that all relevant legislation is complied with.
- The charging formula is equitable and allocation of cost is transparent to all Customers.
- Governance responsibilities are clearly defined and communication between the Board and Management is good.
- A system of regular reporting to the Board, Owners and Customers of the scheme is in place meaning that all are kept well informed.

It is essential that time is taken to set up such an organisation and that good quality consultation is undertaken with all parties at an early stage. There needs to be a clear, high level vision of what the parties are trying to achieve and this should be accompanied by clear direction of what is expected in each of the key service areas, as detailed in the NRSBU Memorandum of Understanding.

The following quote is from the Chair of the NRSBU:

“I think that it (the NRSBU) is working well for a number of reasons:

- *good governance*
- *good management*
- *good administration, and*
- *good financial reporting.”*

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