# Manawatu-Wanganui Local Authority Shared Services
# STATEMENT OF PROPOSAL
# TO ESTABLISH
# A COUNCIL CONTROLLED ORGANISATION (CCO)

# FOR THE PROVISION OF LOCAL AUTHORITY SHARED SERVICES

## Introduction

The Local Authorities within the boundaries of the Manawatu-Wanganui Region have for some time undertaken a number of joint activities with the purpose of reducing the cost of performing those activities to the community at large. For example, the local authorities have undertaken the joint purchase of aerial photography.

The Manawatu-Wanganui local authorities (with the exception of Palmerston North City Council) are now proposing setting up a Council Controlled Organisation (CCO) in terms of the provisions of the Local Government Act 2002 (LGA).

This Statement of Proposal is required under s56 and s88 of the Local Government Act 2002 ("the LGA"). It is concerned only with the proposal to establish a CCO. It also includes information on associated matters such as proposed governance of the CCO.

We welcome your feedback on our Statement of Proposal to establish a CCO by 5pm Friday 2 May 2008. Further information is provided at the end of this proposal.

## Description of Proposal

The Local Authorities of the Manawatu-Wanganui Region (excluding Palmerston North City Council) are proposing to establish a new CCO which will be used as an umbrella company for the future development and delivery of shared services.

The specific objectives of the CCO will be decided each year in accordance with the constitution of the CCO and the Statement of Intent to be agreed between the board of the CCO and the shareholders.

Shareholding

It is proposed that each local authority in the region, including the Manawatu-Wanganui Regional Council, will have a single share in the umbrella company.

Participating Councils will be able to access particular shared services by way of an agreement providing appropriate obligations and benefits relating to each of those services.

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| Horizons Regional Council is proposing to become a shareholder in the Manawatu-Wanganui Local Authority Shared Services (Manawatu-Wanganui LASS) CCO. |

# Reasons for the Proposal

There are a number of services provided by local authorities, particularly involving information collection and management, where improved services at lower aggregate cost can be achieved by having a number of authorities participate in purchase or development of the infrastructure for the service, and ongoing operation of it.

Historically those have been addressed by one Council developing the service and sharing it with others on an agreed basis. Aerial photography purchasing is an example of this. This has shown significant benefits to all the Councils involved and it is considered similar benefits could be obtained through the sharing of other services.

An appropriate structure is required to do this for the following reasons:

- It will provide for a more transparent governance structure that involves the local authorities in the region in deciding what the priorities should be for shared services, and in the management of such shared services.
- It will provide an entity that can enter into commercial arrangements with suppliers and partners on behalf of the participating local authorities.
- It will ensure there is focus on ensuring the services do add benefit to the community through enhanced services and/or reduced costs, and that opportunities to sell processes and systems to other local authorities to reduce the cost of services to the shareholding local authorities are pursued.

Similar structures have been established by all of the local authorities in the Waikato region and by all of the local authorities in the Bay of Plenty region. After considering their advice and possible options for their structures, their limited liability company structure has been selected as the preferred option. The main reasons for this are the ease of involving different groups of participating local authorities for each type of shared services through the flexibility of this structure, as well as the established commercial rigour and processes around limited liability companies.

The other structures considered included a charitable trust, cooperative, stand-alone business unit, and joint venture (including Private Public Partnerships (PPP)).

Consideration of each of the options, consistent with the requirements of s77 of the Local Government Act 2002, is shown below:

<table>
<tr><td rowspan="2">Option 1<br><br>Council Controlled Organisation as a Limited Liability Company</td><td>Advantages of this Option<ul><li>Transparent governance and management with well established rigour and precedents</li><li>CCO will have limited liability under the Companies Act</li><li>CCO can add new shareholders</li><li>CCO can issue share capital to fund expansion</li><li>CCO will have perpetual succession</li><li>The structure is well understood by third parties</li><li>Flexibility to add new services</li><li>Subject to company law (a disadvantage as well)</li></ul></td></tr>
<tr><td>Disadvantages of this Option<ul><li>Income may be taxable (but note that this disadvantage may be negated through registering the company as a charity under the Charities Act 2005)</li><li>Potential conflict of interest of directors and shareholders. The constitution would allow for directors to take the interest of Councils into account</li><li>Subject to company law</li></ul></td></tr>
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| | **Benefits and costs in terms of the present and future social, economic, environmental and cultural well-being**<br><br>The efficiencies obtained through shared service arrangements should lead to a reduction in the administrative costs of participating Councils (reducing the requirement for rate revenue), and/or an enhancement of services provided to the public. The proposal should therefore have a positive impact on the economic well-being of the community. No social, environmental or cultural benefits are expected to arise from the proposal. |
| | **Extent to which Community Outcomes would be promoted or achieved**<br><br>The proposal is focused on the internal operations of Councils and it is not expected to have a direct impact on Community Outcomes. |
| | **Impact on Councils' capacity to meet present and future needs in relation to statutory responsibilities**<br><br>The development of shared services will provide all participating councils with access to better quality shared information and services, a critical skill base and a collective purchasing power that will allow them to be more responsive to service opportunities. This will facilitate the enhanced provision of information and services (by each council) to the public and participating councils. |
| | **Commentary**<br><br>The established rigour and flexibility of a limited liability company, the ability to issue different classes of shares for different services, the ability to attract additional capital in the future (if needed) and the ease of managing and accounting for different services and their contractual needs are all seen as particularly important to the development of shared service arrangements. These benefits were considered to considerably outweigh any of the disadvantages and it is therefore the preferred option. |

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| Option 2<br><br>Council Controlled Organisation as a Charitable Trust | **Advantages of this Option**<br><br>• Income is not taxable unless the entity is a Trading Organisation (i.e. carried out for the purpose of making a profit). Note that this tax free status may also be achieved with other options such as registration as a charity under the Charities Act 2005<br>• Members have limited liability<br>• Can have perpetual existence<br>• Has separate corporate personality<br>• Structure relatively flexible |
| | **Disadvantages of this Option**<br><br>• Must be exclusively or principally for a legal definition of a charitable purpose being<br>    • Relief of poverty<br>    • The advancement of education<br>    • The advancement of religion<br>    • Activities for the benefit of the community<br>• Potential liability of trustees<br>• Trustees would be totally independent of Councils and must act according to the Trust Deed, rather than always acting in the best interests of the Councils<br>• Limited ability to distribute surpluses to constituent local authorities<br>• Could be regarded as carrying on business for the purpose of making a profit: therefore taxable<br>• Unlikely to be suitable when commercial parties are introduced<br>• Assets need to be vested in trustees' names, which may need frequent changes and is impractical |

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| | **Commentary**<br><br>While the Charitable Trust option could provide some taxation benefits (though this is doubtful) it is not favoured because firstly, it would limit each councils ability to respond to future initiatives; second, it would be less able to deal commercially with third parties; and third, the need for trustees to be totally independent of Councils will negate much of the value of the closeness between the shared services vehicle, services and user Councils. The relative inflexibility of the trust structure could become a limiting factor on the development of shared services. |

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| Option 3<br><br>Council Controlled Organisation as a Joint Venture/ Partnership with commercial interest | **Advantages of this Option**<br><br>• Possible opportunity for Public Private Partnership to provide Capital Funding<br>• Promotes strategic alliances<br>• Relative flexibility in structure |
| | **Disadvantages of this Option**<br><br>• Income will be taxable if the entity is a company or one which carries on business for the purpose of making a profit<br>• Governance issues must be clearly defined in the joint venture document<br>• Conflict of interest and objectives between Councils and a profit seeking commercial partner<br>• Less established governance and management skills available with experience in PPP JVs<br>• Potentially higher risk |
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| | **Commentary**<br><br>While the partnership / joint venture option has some advantages, it is not favoured because there is a potential conflict between the services provision objectives of member councils and the commercial imperatives of a private joint venture partner. A likely partner has not currently been identified |

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| Option 4<br><br>Stand-alone Business unit of Council | **Advantages of this Option**<br><br>• Quickly and easily set-up<br>• Can be formed into CCO or CCTO at later date<br>• Able to compete for external work. |
| | **Disadvantages of this Option**<br><br>• Uncertainty about ability of unit to compete in the open market and win sufficient work at appropriate prices<br>• Would take time to develop critical skill mass<br>• Would not necessarily command strong purchasing power<br>• May be difficult to attract additional investment<br>• May lack market profile<br>• Potentially diffuse accountability and focus<br>• Lack of clear and transparent governance<br>• No robust mechanism for sharing costs / surpluses with partners. |
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Commentary

While a stand-alone business unit would be low cost to form and could support shared services, the lack of transparent governance and management makes it doubtful if such a structure could maintain sufficient accountability and focus to establish the particular market profile necessary for success.

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Option 5

Co-operative

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Advantages of this Option

- Quickly and easily setup
- Able to compete for external work
- Well established "vehicle" and experience on their operations
- Very good means of distributing any surpluses back to shareholders (via rebates) and therefore eliminating or minimising taxation
- Good accountability and governance structure

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Disadvantages of this Option

- May be difficult to attract Councils from outside the region if ever required
- May be difficult to service non shareholder Councils
- Legislation for co-operatives has not been brought up to date
- May be difficult to attract additional investment from non Regional Council entities (eg. Transit NZ)
- Perceived as "old fashioned" and there has been a significant movement to transform co-operatives into limited liability companies to achieve more flexibility

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| | Commentary<br><br>A co-operative would meet most of the criteria for the shared service vehicle and its ability to pass surpluses back to members is good. However, it lacks much of the commercial / corporate flexibility that is required and would make it more difficult to undertake business on commercial terms with non member Councils and other parties. |

# Governance

As the proposed activities are specifically operational or administrative, the CCO will be governed by a Board of Directors comprising the seven Chief Executives of the local authority shareholders. These directors will be appointed on the following basis:

- One appointed by Horowhenua District Council
- One appointed by Manawatu District Council
- One appointed by Manawatu-Wanganui Regional Council (Horizons)
- One appointed by Rangitikei District Council
- One appointed by Ruapehu District Council
- One appointed by Tararua District Council
- One appointed by Wanganui District Council

In addition the board may appoint up to three professional directors to supplement the expertise of the Chief Executives.

The CCO will conduct itself in accordance with its Constitution, its annual Statement of Intent agreed with the shareholders, and with the provisions of the Local Government Act 2002.

# Summary

The proposal is that this Council becomes a shareholder in a Manawatu-Wanganui region Local Authority Shared Services CCO and that the form of the CCO is a limited liability company.

It is expected that improved services at lower aggregate cost will be achieved by all local authorities in the region participating in the purchase, hosting or development of shared administrative and support services. There are a number of these services provided by local authorities, particularly involving information collection and management, where these benefits could be achieved.

# How to Have your Say

The proposed Council Controlled Organisation affects you as a community member in our region. We want you to consider what we are proposing and let us know your thoughts. A submission form will be attached to this proposal for you to use. All public submissions to the draft CCO proposal will be carefully considered before any final decisions are made.

For further information or more submission forms please freephone 0508 800 800 and we will post you out more forms.

Alternatively you can download a submission form from www.horizons.govt.nz, or drop into one of our Regional Houses in either Palmerston North (11-15 Victoria Avenue) or Wanganui (181 Guyton Avenue).

Submissions will be accepted until 5pm Friday 2 May 2008. If you wish to present your submission at a Submission Hearing, please ensure that you provide us up-to-date contact information so we can phone you to arrange a suitable speaking time. Submissions Hearings will be held on 19 and 21 May 2008 possibly at various locations around the Region (depending on submissions received).