

10.3. DECISION Reports Performance



22-29

Title: 22-29 Proposal to Consult on Joining the Regional Shared Services Organisation

Section: Finance & Affordability

Prepared by: Tim Breese - Performance Manager

Meeting Date: Wednesday 16 February 2022

Legal: Yes

Financial: Yes

Significance: **Low**

Report to FINANCE & PERFORMANCE Committee for decision

PURPOSE

The purpose of this report is to seek Council support to consult with the community on joining the Regional Shared Services Organisation operating as a Council-Controlled Organisation.

SUMMARY

The regional sector (New Zealand's 16 Regional Councils and Unitary Authorities) work together on areas of shared interest, but now wish to take this arrangement a step further through the creation of a shared services company.

This comes in response to increased demands from Central Government to deliver a broad range of reform packages; capacity and capability challenges and competition between councils to attract and retain talent; and expectations from our communities for councils to do more with less.

A business case, tabled at the Regional Chief Executives' Group meeting in August 2021, recommended the creation of a Regional Sector Shared Services Organisation (RSSSO), a Council-Controlled Organisation (CCO) that all regional councils and unitary authorities will invest in, fairly sharing the benefits, costs, and risks of the investment.

This change would enable improved outcomes from investment into national programmes of work. It would also improve access to specialist and expensive resources, reducing costs and sharing risk.

It is expected that the management and administrative costs for the new organisation will be funded using existing Council contributions to regional sector programmes. Therefore, joining the organisation is not expected to create any additional costs.

The Local Government Amendment Act (LGA) states that before a local authority may establish or become a shareholder in a CCO, the local authority must undertake public consultation.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Finance & Performance Committee:

- 1. Agrees to consult with the community on becoming a shareholder in the Regional Shared Services Organisation operating as a Council-Controlled Organisation.**

Authorised by:

Nedine Thatcher Swann - Chief Executive

Pauline Foreman - Chief Financial Officer

Keywords: Regional, Regional Shared Services, Council Controlled Organisation

BACKGROUND

1. The regional sector (Regional Councils and Unitary Authorities) is responding to an unprecedented period of challenge and change. Local government and resource management reform is occurring concurrently with implementation of new comprehensive freshwater regulations. Internally, councils are struggling to attract and retain talent, while community expectations are increasing.
2. The relationship between councils in the regional sector is becoming stronger as they seek collective solutions to shared challenges.
3. To assist in managing some of these challenges, the regional sector currently has several resource sharing and collaboration programmes in place. Examples include the Special Interest Group (SIG) Network, EMAR/LAWA, Essential Freshwater Implementation Programme, the Regional Sector Office, the Sector Financial Management System and Regional Software Holdings Limited (RSHL).
4. Regional sector leaders have determined that a pragmatic next step in this process is to consolidate existing collaboration programmes and put in place a fit-for-purpose structure that will enable the sector to respond quickly to shared issues and opportunities, while sharing costs and resources.
5. At the Regional Chief Executives' Group meeting in August 2021, the business case for the creation of a Regional Sector Shared Services Organisation (RSSSO) was tabled for approval. The creation of an RSSSO was considered as a step forward for the sector, and an important foundational building block for future collaboration and delivery of shared services and initiatives.
6. The business case recommended the creation of an organisation that all regional councils and unitary authorities will invest in, fairly sharing the benefits, costs, and risks of the investment.
7. This change would enable improved outcomes from investment into national programmes of work. It would also improve access to specialist and expensive resources, reducing costs and sharing risk.

Existing Shared Services Arrangements

8. Council is a member of an existing shared service CCO, BOPLASS Ltd, which we joined in 2009. BOPLASS was formed to investigate, develop and deliver shared services, joint procurement and communication for councils within and around the Bay of Plenty. Accumulated savings since Council joining BOPLASS is in excess of \$1.5m, mainly arising around better procurement solutions for insurance.
9. The structure of the RSSSO would be expected to be implemented along similar lines, i.e. by operating with other councils to gain efficiencies from shared services and procurement arrangements.

Structure

10. The company will be created by restructuring Regional Software Holdings Limited (RSHL), a pre-existing CCO created by six regional councils for this purpose.

11. A CCO can be a company, partnership, trust, arrangement for the sharing of profits, union of interest, co-operation, joint venture or other similar arrangement in which one or more local authorities, directly or indirectly, controls the organisation.
12. It is intended that the RSSO will be a company, with up to 16 shareholders, being the 16 regional councils and unitary authorities in New Zealand.
13. Depending on the final adopted structure of the CCO, the Council may hold shares or some other form of ownership. The Council will contribute to the operating costs of the CCO through ongoing membership fees. These contributions will replace existing contributions to national programmes and will be at a similar level.
14. The Council will maintain its ownership of the CCO as long as it continues to operate and the Council continues to utilise the services provided by the CCO.
15. It is proposed that the new organisation would have a board of eight directors appointed by the shareholding councils.

Operation and Scope of Activities

16. Once established, the CCO will prepare a statement of intent. This statement of intent will form the basis of key performance targets and other measures by which the performance of the company may be judged.
17. RSHL will provide a framework for collaboration between the shareholders and across the regional sector. It will support the procurement or development of shared solutions in a manner that provides greater consistency in how councils operate their core processes. RSHL will provide a more cost effective alternative than individual councils can achieve on their own.
18. The company will operate by facilitating collaborative initiatives between councils and through managed contractual arrangements.
19. The initial scope of activities for the company is limited to pre-existing shared services programmes.
20. A business case will be developed for any additional service that is not part of the original company. The business case will be approved by the shareholders prior to any new service proceeding. The investigation of any new services will be fully funded by councils that wish to promote that service.
21. Performance targets will be established to ensure that the company will deliver on its stated outcomes. These targets will change as new services are developed. It is envisaged that a starting point may include:
 - Customers will be surveyed annually to ensure that there is at least 75 per cent satisfaction with the services provided.
 - Expenditure shall not exceed that budgeted by more than 5 per cent unless prior approval is obtained from the shareholders.

DISCUSSION and OPTIONS

What are the drivers behind the proposal?

22. There are a number of key drivers supporting the proposal, including:

- Increased pressures from Central Government to input into, implement and deliver a broad range of reform packages.
- Changes to the shape and future of local government. These are posed in the form of the Resource Management Act reform and the Three Waters proposal. The sector must consider how it is best placed to meet these challenges.
- Severe capacity and capability issues and competition between councils to attract and retain talent.
- Expectations from communities for councils to do more with less.
- The need for the sector to demonstrate that it can act cohesively to respond to a changing strategic landscape.

How will this benefit Council?

23. This change will have several benefits to Council, as well as the regional sector, more broadly:

- Through collaboration, the sector can use resources more efficiently, deliver greater national consistency and achieve economies of scale in the implementation of common policies, services and programmes.
- Council can expect improved outcomes from investments in sector shared programmes.
- The change will increase the credibility of the sector as a trusted deliverer with a unified and consistent sector profile.
- The change will also reduce the lead time for the implementation of shared services.
- The new structure would also consolidate all dedicated staff working on regional sector collaboration under one organisation.

24. There are a host of new and existing data reporting requirements and an increasing push for information and data that can be reported nationally and consistently. Given the limitations of resourcing in this area, utilising the support of a shared services initiative could potentially enable improved outcomes in several aspects of our work programme, including:

- Farm environment plans
- Freshwater accounting – allocation and quality (discharges)
- Climate change reporting – emissions (regional and organisational)
- Climate change adaptation planning
- New planning structures/systems – regional planning office and secretariat
- Regional spatial strategies

25. A review by PWC recommended using the current RSHL model, which will be expanded to create an organisation owned by all (or close to all) regional sector organisations. Ideally all Regional Councils and Unitary Authorities will take a nominal shareholding in RSHL.

Cost and Risk

26. It is expected that the management and administrative costs for the new organisation will be funded using existing funding for the Sector Office and the RSHL Management & Administration budget. As such there will be no net increase in costs to Council through participation in the CCO.
27. The GDC contribution to regional sector programmes (through the Sector Financial Management System) was approximately \$85,000 in FY2021 and is budgeted to be the same in FY2022. Assuming, a similar work programme in FY2023, contributions are not expected to increase. The change in structure to the regional rector shared services company is not expected to create any additional costs.

ASSESSMENT of SIGNIFICANCE

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

Overall Process: **Low** Significance

This Report: **Low** Significance

Impacts on Council's delivery of its Financial Strategy and Long Term Plan

Overall Process: **Low** Significance

This Report: **Low** Significance

Inconsistency with Council's current strategy and policy

Overall Process: **Low** Significance

This Report: **Low** Significance

The effects on all or a large part of the Gisborne district

Overall Process: **Low** Significance

This Report: **Low** Significance

The effects on individuals or specific communities

Overall Process: **Low** Significance

This Report: **Low** Significance

The level or history of public interest in the matter or issue

Overall Process: **Low** Significance

This Report: **Low** Significance

28. The decisions or matters in this report are considered to be of **Low** significance in accordance with Council's Significance and Engagement Policy.

TANGATA WHENUA/MĀORI ENGAGEMENT

29. Council has a duty to consult with the community. This will be undertaken in March/April in time to inform the final 2022/23 Annual Plan and will consist of informing, and seeking feedback from, the community via our website and newspaper advertisements. Tangata whenua will have the opportunity to engage with this process through this consultation.

COMMUNITY ENGAGEMENT

30. Section 18 of the LGA Amendment Act 2014 states that before a local authority may establish or become a shareholder in a CCO, the local authority must undertake public consultation.
31. The RSSSO would be a CCO of Council, therefore this section applies, and Council has a duty to consult with the community. This will be undertaken in March/April in time to inform the final 2022/23 Annual Plan and will consist of informing, and seeking feedback from, the community via our website and newspaper advertisements.
32. The principles of consultation are outlined in section 82 of the Local Government Act. This includes the degree of interest, or the persons who will or may be affected by a decision of Council to engage with other councils for the delivery of shared services.

CLIMATE CHANGE – Impacts/Implications

33. There are no significant climate change impacts in this proposal. However, it is expected that if Council proceeds with the recommendation to join the RSSO, we could potentially deliver improved outcomes in terms of climate change reporting and adaptation planning.

CONSIDERATIONS

Financial/Budget

34. The ongoing costs are not expected to increase from what we already contribute to regional sector programmes (through the Sector Financial Management System), which was approximately \$85,000 in FY2021 and is budgeted to be the same in FY2022. Assuming a similar work programme in FY2023, contributions are not expected to increase.

Legal

35. Legal staff have been consulted and have determined that as the new organisation would be a CCO, under the s18 of the LGA Amendment Act, public consultation is required before Council can become a shareholder.

POLICY and PLANNING IMPLICATIONS

36. Council does not have any significant policies or objectives about ownership and control of a company as a vehicle for shared services.
37. Council has a policy on the appointment and remuneration of directors. The constitution of any company structure set up for this project will have the principles according to which the company will be operated and governed. This includes shareholders' rights and the appointment of directors.
38. The annual statement of intent required by the new CCO will identify the activities and intentions of the company for the year and the objectives to which those activities will contribute.

RISKS

39. The CCO model spreads the risks for any shared activities across the participating councils, mitigating and minimising the risk to individual councils. RSHL (as a pre-existing CCO) already has the necessary controls and processes in place to manage risk.
40. There is a risk that the benefits of an RSSSO are not met if delays in decision-making are not undertaken in a timely manner throughout Regional Councils/Unitary Authorities. RSHL will put in place a change management plan and a communication strategy with advance warning to Councils of any key upcoming decisions.
41. There is a risk that an RSSSO will be perceived as a provider for all shared services/sector engagement within Regional Councils/Unitary Authorities and there will be an expectation that they have ownership against all initiatives that will benefit from a collaborative approach. To mitigate this risk, RSHL will develop a road map and evaluation framework to identify and prioritise the initiatives that will become part of the RSSSO and which may be included in future evolution of the organisations (e.g. legislative vs nice to have).
42. It is possible that not all 16 councils in the regional sector will agree to participate as shareholders in the new organisation. This will be mitigated by ensuring that the company structure will not require the participation of all 16 councils.

NEXT STEPS

Date	Action/Milestone	Comments
March/April 2022	Public consultation	
23 June 2022	Council adoption of Annual Plan	If Council and community support the proposal, it could be adopted under the Annual Plan