

**4. REVIEW OF WORKS OPERATIONS/
PLANT AND BUILDING SERVICES**

RR 9283

Officer responsible City Manager	Author Ian Hay/Mike Richardson
Corporate Plan Output:	

The purpose of this report is to update Councillors on the on-going review of the Works Operations and Plant and Building Services business units and to recommend the setting up of a working party to formally develop and investigate the options to provide full information to the Council as required under Section 247D of the Local Government Act. Much work has now been undertaken and there is a consensus that change is needed. Given this it is now appropriate to formally appoint a working party which will be required to develop the best options for such change and, subject to Council resolution, may progress to an establishment unit to develop a preferred option.

BACKGROUND

At the August 1998 meeting the City Manager advised that he was initiating a review of the current structures and operations to look at opportunities for business growth and to ensure services to Council continue to be delivered in the most effective and efficient manner. The August Council meeting passed the following resolution in response to the report.

“That the Council request the City Manager to investigate and report to the February 1999 meeting of the Council including:

- (a) Retention of the Works Operations Unit*
- (b) The formation of a works LATE*
- (c) Contracting out to private contractors”*

The Council acknowledged the excellent contribution made by the Works Operations and Plant and Building Services Units to the efficiency of the Council’s overall service provision.

DISCUSSION

Following that meeting, a growth strategy team already convened by the City Manager effectively widened its scope to consider aspects of this issue. The team included senior Council officers and also Doug Marsh, Chris Pickrill, Ian McInnes and Bernie O’Brien from outside the organisation to ensure differing points of view. Opportunities and options have been extensively canvassed. Information gathered as part of the review included background on competitors, discussions with Policy Units on current operations, including perceived strengths and weaknesses, and marketing reviews to look at the current market and future opportunities.

It was acknowledged by the team that the future of Plant and Building Services is closely aligned to that of Works Operations and that any future organisational changes should incorporate elements of both operations and also Canroad Construction Ltd. The team has reached the conclusion that the current working environment is unsustainable in the medium term. Transfund requirements and other external change drivers mean that as more of the Council work is opened up to contestable tendering, the inevitable result is the loss of work traditionally undertaken by Council business units. On the other side of the coin, under current legislation a Council business unit is not allowed to compete for private work against outside contractors but Council operations are progressively being subjected to competition through tender.

This Council has met Transfund legislative requirements for roading operations by setting up Canroad Construction to operate in this very competitive area. Work volume is currently declining although overall Canroad is profitable.

KEY OBJECTIVES

Christchurch City has always believed that operating in-house business units has saved money and added considerable value by ensuring competition and contestability with the private sector.

Ensuring that prices for Council's physical Works Services maximise value for money is the key strategic objective on which we must focus in any review process.

Under Civil Defence and disaster scenarios, the Council also must be sure it has an effective and responsive resource available to deal with emergencies. We have also invested considerable time and effort in rural fire fighting capability.

Works Operations teams have considerable intellectual knowledge of the city infrastructure built up over a long period of time, particularly of underground services. This knowledge must not be lost.

These issues need to be taken into account as part of the consideration and reorganisation of resources. Alongside this also is the need for the Council to act as a good employer, as well as achieving the wider aims of its employment creation policies. Provision of as many jobs as possible on a sustainable basis is also a key objective. The outcome of the growth strategy team deliberations is unanimous agreement that a corporate structure or structures needs to be fully considered to ensure the ongoing ability to service the Council organisation, actively look for new work opportunities and to remain competitive, profitable and viable. Team members have differing opinions whether all or parts only of the units need to be put into a corporate structure.

The team believes that strategic issues relating to market attenuation, disaster response capability and quality of service can be satisfactorily addressed and resolved as part of any planning process of forming a Council-owned LATE. A Statement of Corporate Intent could also reflect the key objectives above, in particular the maintenance of a competitive environment by providing cost effective, competitive prices and services to its Council owner.

Discussions have identified a number of possible options for change such as:

- (a) Putting the whole of both units into a LATE, together with Canroad Construction.
- (b) Putting the same group into a number of smaller LATEs.
- (c) Putting part of the same group into a LATE (or LATEs) and keeping the remainder as a business unit (or units) within the main Council organisation.
- (d) Sale of part or all of the group to outside interest.
- (e) Joining forces with other local authorities to form a LATE. Discussions have been held with other Council works LATEs.

Additionally there is seen to be merit in investigating some form of employee ownership in association with majority Council ownership and control and also in the option of management ownership of some components of the current businesses.

While the growth strategy team has no authority to formally recommend any of the above alternatives, it is proposed that a working party be established to advise the Council as required by Section 247D of the Local Government Act. At the same time work will continue on identifying opportunities for diversifying and growing the business as outlined under the original study terms of reference as this will be essential information required for the working party deliberations. Should the Council decide to proceed with a corporate structure or structures, an establishment unit will need to be formed to develop the options identified.

The function of an EU is to prepare and agree upon an Establishment Plan with the Christchurch City Council and in doing so:

- (a) identify with reasonable precision the undertaking or undertakings that are to be transferred to a LATE/s;
- (b) value any such undertaking or determine a method for its valuation;
- (c) determine the price that should be paid or the method for determining the price that should be paid by the LATE for any such undertaking and the extent to which the price should be met by the issue of equity securities and debt securities to the local authority from which the undertaking is to be transferred;

- (d) specify the debt securities required to be issued pursuant to Section 594zi of the Local Government Act;
- (e) prepare in draft a Constitution and Statement of Corporate Intent for each LATE;
- (f) determine the best manner in which, and time within which, any undertaking of the local authority should be transferred to any LATE;
- (g) determine a fair and equitable system for the transfer of appropriate employees from the local authority to the LATE (but without making determinations in respect of individual employees).

The establishment plan, including any divestment plans, must be made public and it should be remembered that the Establishment Unit does not have the power to form LATEs and make investment/divestment decisions. Rather, it makes plans and recommendations to the Council on the formation and establishment of an efficient local authority trading enterprise.

- Recommendation:**
1. That a working party be formed to progress this issue and to advise the Council on the setting up of a Corporate structure/structures or other options to deliver cost-effective, efficient services to the Council while operating as a successful business.
 2. That the working party be advised that the City Council's key strategic objectives include:
 - (a) certainty of competitive prices over the long term without compromising on the quality of services provided for the maintenance and development of Council assets;
 - (b) sustainable jobs;
 - (c) certainty as to the availability of resources in the event of civil defence events and for rural fire fighting;
 - (d) maintenance of intellectual capital of value to the city's infrastructure.
 3. That the working party report back in April to the Strategy and Resources Committee.

4. That the following people be appointed to the working party:

Chairs of Strategy & Resources Committee, City Services Committee and Projects and Property Committee

Chairman of Canroad Construction (subject to legal advice)

Doug Marsh

David Spence

Bernie O'Brien (Amalgamated Workers Union)

City Manager

Director of Business Projects and Relationships