

21 October 2022

Mayor Wayne Brown
Mayor of Auckland
Auckland Council
Council Building
135 Albert Street
AUCKLAND

By email

Tēnā koe Mayor Brown

Thank you for your letter of 17 October 2022. Congratulations on your election win – I look forward to working with you.

You raised three areas in your letter, and I address each of those as follows:

1. An update on the Central Interceptor

Watercare provides the Governing Body with updates on the Central Interceptor programme via our quarterly reports to Council – our next formal update will be sent to Council on 1 November 2022.

As requested, a detailed update is set out in **Attachment 1**. From this update, you will note that while financial performance remains on track, the timeline has shifted out by six months due to the impact of Covid-19, with completion now scheduled for June 2026. This has been communicated to Council via, as mentioned above, the quarterly reports. The scope has also been changed to include additional associated projects, the objective being to optimise the delivery of the capital programme.

Please accept my assurances that should there be any further changes to the programme delivery, I will advise you directly.

With respect to the challenging project delivery environment for the Central Interceptor project and indeed all other capital projects, the Board has made it very clear to all our staff and contractors that while our expectations are to deliver projects on time, in budget, and in scope, our teams must always operate in a way that does not compromise the quality of the project or risk their personal safety, health, and wellbeing, or that of their colleagues.

Should you wish to visit the Central Interceptor project site at Māngere, please do let me know.

Thank you also for your offer of assistance in removing any barriers to the successful completion of the Central Interceptor project. It is very much appreciated.

2. Efficiency

The Watercare Board and management share your concerns around the cost-of-living pressures on our customers.

We agree that Watercare must deliver for Auckland efficiently and legislation requires us to keep the costs of water supply and wastewater services to our customers at minimum levels while effectively managing the long-term integrity of our assets.

One of our SOI performance targets requires us to keep the percentage of household expenditure on water supply services below 1.5% of the average household income (refer page 27 of the SOI). Last year, we achieved this target, with the percentage being 0.85%.

Of course, a single SOI performance measure does not measure efficiency or future affordability for our customers. For this reason, Watercare has a focus on sustainable cost efficiency including the express commitment around “Efficiency Savings” included in our most recent SOI (refer page 26).

Sustainable efficiency is an ongoing focus for the Board and management of Watercare. Well before water reform, Watercare has been working with national and international water organisations, including Water NZ, Water Services Association of Australia (WSAA) and the Water Industry Commission for Scotland (WICS). This work has helped us scrutinise our performance and efficiency. These engagements, which have included extensive analysis and benchmarking, have identified various efficiency opportunities for Watercare.

To deliver sustainable efficiency, we are reviewing what we do and how we do it, to ensure we will provide the agreed level of service to Aucklanders over the long term, while reducing our controllable costs. This programme of work is ongoing and has already helped focus Watercare on our ‘core’ services and has identified cost reduction opportunities.

That said, managing controllable costs is but one element to be considered as part of the price path. A fundamental issue for Watercare is a sustainable funding and financing model that works for Aucklanders. At the appropriate time, I would welcome the opportunity to discuss this with you further.

The new Governing Body will be kept up to date on developments regarding our efficiency focus via our quarterly reports.

3. Three waters reform

One of the key priorities in the agreed Statement of Intent is to continue to prepare our business, in collaboration with Auckland Council, for water reform by ensuring the company is in the strongest shape for reform should it occur (refer [Statement of Intent 2022-2025](#) page 1).

Watercare has been proceeding on that basis, which has included the following workstreams. It is important to acknowledge that much of this work has also been necessary to deliver on our statutory obligation to manage our operations efficiently, with a view to keeping the overall costs of our services to customers (collectively) at the minimum levels, while maintaining the long-term integrity of our assets.

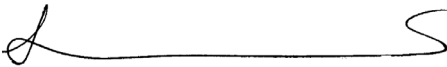
- The first pillar of water reform – the establishment of a dedicated water service regulator, Taumata Arowai – is already in place, with new drinking water regulations coming into effect next month. Our team has therefore been working to ensure we have the necessary systems in place to meet these new regulations. As this law is in place, we need to continue this programme of work.
- We have been working with our colleagues at Auckland Council to provide information and expertise to the DIA as requested. For example, we have provided support in the development of a draft National Asset Management Plan framework and guidelines. The cost of this work was recovered from the DIA.

Should water reform not proceed, the work done on this framework and guidelines will continue to be utilised by Watercare as part of the asset management process.

- We have had up to six staff working on water reform amongst their other duties, including liaison with Northland councils, defining IT requirements, establishing common customer processes, and providing advice on property and other issues.
- We have had 6-9 staff seconded to DIA at various times, providing programme management expertise, technical support, Iwi relationship advice and other roles. Some have resigned from Watercare and moved into permanent roles with DIA. All secondments are fully cost reimbursed by Government.

Please do let me know if you have questions in respect of the information provided. I look forward to working with you.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Margaret Devlin', written in a cursive style.

Margaret Devlin

Chair

Watercare Services Limited

Attachment 1: Detailed update on the Central Interceptor Programme

Project Scope

The original scope of the Central Interceptor was a 13km long 4.5m diameter wastewater tunnel running from Western Springs to the Māngere Wastewater Treatment Plant, along with two smaller connecting wastewater tunnels from Mt Roskill towards New Lynn, and from Mt Albert to Chamberlain Park. It included 14 deep shafts to connect the existing network to the tunnels, and construction of a 6m³/s pump station at the Māngere Wastewater Treatment Plant, which will convey the sewage into the plant for processing.

Since the original Central Interceptor programme was approved by the Board, two changes have been made to the programme:

- First, the extension of the tunnel 1.7km from Western Springs to Grey Lynn (approved by the Board of Watercare on the 28 November 2018).
- Second, additional works that form part of the Western Isthmus Water Quality Improvement Programme. These are works are being delivered in conjunction with Auckland Council/Healthy Waters and have been incorporated into the main Central Interceptor contract with Ghella Abergeldie Joint Venture (JV) for delivery efficiency purposes.

The scope of the Central Interceptor programme is shown in Figure 1 below.

In addition, it is proposed to extend the Central Interceptor tunnel a further 1.5km from Grey Lynn to Pt Erin as a more economic option than the alternative of extensive stormwater/sewage separation in the Herne Bay and St Marys Bay areas, while delivering on the promise to significantly reduce wet weather overflow discharges into the Waitemata by 2028.

Watercare and Healthy Waters have commenced community engagement with the communities in St Marys Bay and Herne Bay in recent months, and work is underway to prepare a resource consent application.

Progress to Date

The Central Interceptor project has made steady progress across the previous year – the project was granted an exemption by government to operate a skeleton crew during the Level 4 restrictions implemented in late 2021.

Work has gathered momentum and is now in the peak construction period:

- Shaft and connection works are now underway at 13 construction sites across the isthmus.
- The main tunnel boring machine is currently passing under the Manukau Harbour before breaking through into the first shaft in Hillsborough. It is 3.1km into the first leg of its journey from Māngere to Grey Lynn.
- The micro tunnel boring machine is making excellent progress in tunnelling the link sewers that connect into the main wastewater tunnel.
- Work is progressing well on the terminal pump station and connection into the Māngere Wastewater Treatment Plant.

Current progress on Central Interceptor is also shown in Figure 1 below.

Changes in scope from the original contracts

There has been no reduction in scope. As noted above, the programme scope has expanded. By extending the tunnel to Grey Lynn (and potentially Point Erin), there will be further reduction in wet-weather overflows in the catchment area. Each of these changes will have a positive impact on swimming beach water quality in the Western Isthmus, as illustrated in Figure 2 below.

Changes in timeline

The original date for completion of the works was September 2025. This involved the tunnel terminating at Western Springs.

The timeline was changed to December 2025 with the extension of the tunnel from Western Springs to Grey Lynn.

Settlement of all Covid claims to 30 September 2022 has been negotiated between Watercare and the JV resulting in a total six month delay due to Covid-19, and an updated completion date for the tunnel through to Grey Lynn of June 2026. This limited movement in completion date reflects that Watercare and the JV worked collaboratively over this difficult period to minimise the impacts on the project. This date has been previously communicated to Council via our FY22, Quarter 4 report.

If the extension to Pt Erin proceeds, there will be an extension of time to the contract completion date. We will keep Council and Local Boards up to date with developments in this regard.

Changes to costs/budgets

The Business Case was signed by the Board of Watercare on 23 May 2017 for a value of \$1.181B to deliver the original scope of works. With the two major changes in scope (Grey Lynn Tunnel and Western Isthmus Water Quality Improvement Programme) the current approved budget is \$1.298B.

Settlement of Covid-19 claims has not resulted in an increase in project budget, and there have been no requests to the Board for additional funding to deliver the agreed scope of works.

If the extension to Pt Erin proceeds, there will be an increase to the approved project budget. We will keep Council up to date with developments in this regard.

Current expectations around final delivery, key milestones, and costs

In summary, the Board and Central Interceptor programme team are focussed on delivering the programme to budget. The timeline has shifted due to Covid-19, and this has been communicated to the Council.

There continues to be project impacts from the global supply chain, international shipping delays and the tight labour market.

The project delivery team is regularly reviewing the total outturn cost, and reports to the Watercare chief executive and Watercare Board monthly.

FIGURE 1 – PROGRAMME SCOPE & PROGRESS

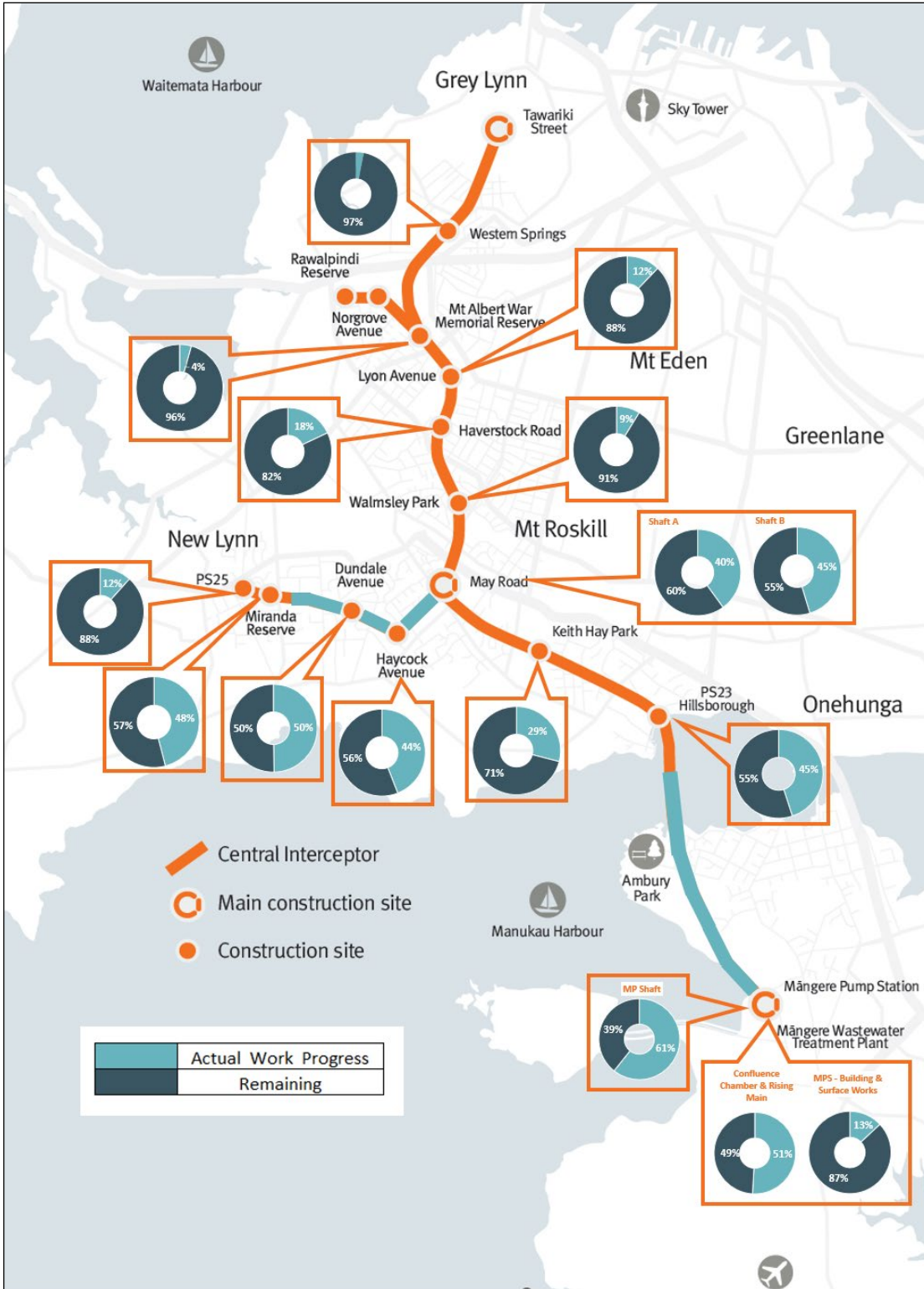


FIGURE 2 - REDUCTION IN OVERFLOWS

