

21 December 2022

Margaret Devlin
Chair
Watercare Services Limited

By email

Tēnā koe Margaret

Letter of Expectation for Statement of Intent for 2023 - 2026

This letter of expectation sets out the council's priorities and expectations to inform the development of the draft Statement of Intent (SOI) 2023-2026 of Watercare Services Limited (Watercare).

It sets out common expectations across all council-controlled organisations (CCOs), and expectations specific to Watercare.

These expectations build on the workshop of the Governing Body held on 30 November 2022 and discussions with you as Watercare Board Chair and Chief Executive Jon Lamonte. The content of this letter was approved by the Governing Body on 15 December 2022, with delegation to me and the Deputy Mayor to finalise and issue this letter of expectation.

The Governing Body also approved extensions of the statutory deadlines for the SOI process, as is allowed in the Local Government Act 2002, Schedule 8, section 4. This means the due dates for the process are:

- date of submission of the draft SOIs is on or before 1 April 2023
- date when the boards must have considered shareholder feedback is on or before 1 June 2023
- date for final submission of SOIs is on or before 31 July 2023.

Please liaise with CCO Governance staff about ensuring these dates can be met. Council will likely consider its shareholder feedback on Watercare's draft SOI at the CCO Direction and Oversight Committee meeting of 11 May 2023.

Part 1. Expectations of all CCOs

Mayor's proposal for the 2023/24 annual budget

Auckland Council is currently facing a financial challenge related to a budget shortfall for the 2023/2024 financial year. The annual budget for the current financial year (2022/2023) included forward projections of \$90 million to \$150 million of operating cost pressures, however with the latest assessment of operating pressures we now estimate a shortfall of \$295 million.

As Mayor I have proposed items for consultation as part of the annual budget 2023/24 which at a high level include:

- a base budget package proposal based on the third year of the 10-year Budget 2021-2031, taking into account current economic conditions
- a package of further actions in addition to the base budget proposal to reduce operating cost pressures:
 - Auckland Council - \$60m in operational savings on top of an existing savings target of \$90m per year
 - Auckland Transport - \$25m of operational cost savings without making further cuts to public transport services
 - Tātaki Auckland Unlimited - \$25m of operational cost savings with a further \$2.5m by reducing some economic development and destination activity.
 - Eke Panuku - \$5m of operational cost savings from delaying capital investment, reducing the direct costs of undertaking urban regeneration and a look to deliver urban regeneration activity in a way that provides for local project governance.

Under the Mayor's proposal, the Expenditure Control and Procurement Committee will be asked to identify a further \$7.5 million from Auckland Transport, and \$5 million from Auckland Council and other CCOs, in operational cost savings.

While Watercare is not included in the above package, you are expected to exert a strong focus on your operating costs, so you can keep water charges as low as possible.

General expectations

i) Concise SOIs with meaningful performance measures

Your 2023-2026 SOIs must enable proper accountability and direction of Watercare.

I expect the Watercare SOI to be concise and informative. This will enable the council and public to clearly understand your proposed activities, any proposed changes, and the proposed benefit and financial impact of your activities. Please avoid superfluous information and marketing.

I expect you to work with council to ensure your SOI includes clear, meaningful performance measures. I seek fewer measures in most cases, but they should provide useful information, measure what matters and be objectively quantifiable wherever possible.

ii) Be more transparent and accountable

I expect all entities in the Auckland Council group to be transparent in their approach to working with each other, the council and the community.

We require CCOs to abide by the expectations of the group as set out in the Statement of Expectations of substantive council-controlled organisations (July 2021), which includes:

- the relationship with the council as shareholder
- making operational decisions that are aligned with the council's expectations and strategic directions
- working within the Auckland Council's shared governance model and the decision making role of local boards
- delivering services effectively in a way that displays prudent use of resources and assets and provides value for money for Aucklanders.

The Mayor, Councillors and the council's Chief Executive are to receive timely, meaningful and candid information about the activities of the CCO, especially any matters that are potentially contentious or of high public interest. This includes frankly identifying options and risks and reporting more granular financial information for specific items as requested.

CCOs are expected to provide financial and other information that is broken down into significant activities, cost centres or assets according to the nature of the operation. For example, specific activities, events, facilities, or projects.

CCOs are expected to operate openly, including meeting in public wherever possible. This means only undertaking items in a confidential meeting where the requirements of the Local Government Official Information and Meetings Act 1987 are met.

Council staff, working with you and Councillor Turner, Watercare Lead Councillor will monitor and report on compliance with the above requirements on a quarterly basis.

iii) Implement shared services

The use of shared services should be accelerated to eliminate duplication and deliver more efficiencies within the council group. By 2023/2034 arrangements should be implemented for ICT, insurance, fleet, corporate accommodation costs, HR, procurement, call centres and other "back office" functions that should be shared across the council group.

CCOs that procure relevant services outside the shared services model will be required to report to the Expenditure Control and Procurement Committee with reasons.

While Watercare is not part of the council shared services work currently, you should expect to fully participate if the government's three waters reform does not proceed.

Part 2. Key expectations of Watercare

General expectations

The council's key expectations of Watercare are detailed below. In summary they are:

- Progress as required on Government's Three Waters programme (with government funding), but to the extent possible, preserve ability to implement alternative water reform arrangements if legislation is repealed
- Develop local growth charges
- Maintain low water costs for ratepayer users
- Continue to meet targets relating to climate, drought resilience and supply

Improve performance on resource consent report delays and reduce the costs of development

i) Progress as required on Government's Three Waters programme (with government funding), but to the extent possible, preserve ability to implement alternative water reform arrangements if legislation is repealed

The focus of Watercare and its board should be on delivering safe drinking water and wastewater services to Auckland at minimum cost.

The Government will have various legislative transition requirements under its proposed Three Waters Reform. The costs of meeting these requirements should be fully paid for by central government, not by Auckland water users, so that no resources are diverted from your agreed delivery priorities.

Any risks to your programmes from transition requirements must be raised with council.

It is important that Auckland Council responds as a group to the Government's reform. Our model is unique with Watercare delivering water and wastewater services and the council group responsible for delivering stormwater. Separate to the Statement of Intent, I seek your advice on how stormwater assets should be defined in the reform.

We also expect that all information that Watercare provides to the Department of Internal Affairs within the reform transition period will be shared with council at the same time. Watercare and its board need to be completely transparent with council about any work being undertaken on Three Waters.

This includes but is not limited to anything that may materially affect your balance sheet, contingent liabilities or estimated future debt requirements, and any engagement by directors or staff with central government or other water companies on consolidation of water assets aligned with but not necessarily legislatively required by the Three Waters legislation.

In parallel, we request you provide regular updates to council on progress implementing the efficiency programme recommendations established from your work with Water Industry Commission for Scotland.

As you know, Auckland Council disagrees with many aspects of the structural and governance arrangements within the government's Three Waters Reform. Watercare should preserve its ability to implement alternative arrangements with the council, including a return to the present position, if the reform does not proceed or is reversed by central government.

ii) Develop local growth charges

We support the work initiated to develop a fairer and more equitable system to fund investment to increase local network capacity, including through a local growth charge option. Please keep us informed as this approach is developed.

iii) Maintain low water costs for ratepayer users

We are in the midst of a cost of living crisis. In the face of cost escalations, the council group needs to have a strong focus on reducing costs and ensuring services are affordable for Aucklanders.

Watercare should maintain low costs for ratepayer users by ensuring cost effectiveness of your operations and infrastructure programme and demonstrate to Aucklanders and the council that you are delivering value for money.

Watercare should continue to measure the percentage of household expenditure on water supply services relative to average household income.

iv) Continue to meet targets relating to climate, drought resilience and supply

Watercare should plan to continue implementing its climate change initiatives and targets. This includes:

- Specific climate targets to reduce greenhouse gas emissions by 50 per cent by 2030 and achieve the long-term goal of net zero emissions by 2050
- Actions to monitor and prepare for climate impacts
- Performance measures relating to greenhouse gas emissions (GHG)

Council also requests that in its SOI 2023-2026 Watercare continue to emphasise drought planning and resilience following the approval of the Drought Management Plan by the Planning, Environment and Parks Committee, including:

- Clarifying and publishing Auckland's available water supply at regular intervals

- Developing and implementing a strategy to address the capacity Auckland's water supply system should have to manage weather-related events
- Addressing whether Auckland requires new or expanded water treatment plants, and/or further diversify water sources
- Encouraging wise water usage and continuing the proactive leakage detection programme.

v) Improve performance on resource consent report delays and reduce the costs of development

The 2020 Review of Auckland *Council's council-controlled organisations* (p 44-47) recognised that:

- Decisions of Auckland Transport and Watercare about where to prioritise efforts and invest capital have a substantial impact on where and when Auckland grows, because development cannot happen without transport and water services
- The development sector is gravely frustrated by the extraordinary time it can take Auckland Transport and Watercare to provide technical assessments needed to process resource and building consent applications.

It appears that the position with consent delays has worsened in 2022, with concern that Auckland development consent applications are taking 3 to 6 months to process, even where council staff time amounts to less than a week.

Watercare must assist the council to address this handbrake on Auckland's development. In its 2023-2026 SOI Watercare should set out the minimum performance levels Watercare will meet in reviewing resource consent applications. These should be clear and contain measurable expectations, and Watercare should report its performance of these quarterly to the council.

Watercare must also work with council to implement a mechanism to allow objections to the way Watercare enforces its code of practice and design manuals.

Council looks forward to receiving a concise draft of the Watercare Statement of Intent no later than 1 April 2023.

Staff are available to expand aspects of this letter if required. Please contact Alastair Cameron, Manager CCO Governance and External Partnerships (alastair.cameron@aucklandcouncil.govt.nz) to discuss.

Ngā mihi



Wayne Brown
MAYOR OF AUCKLAND

Copy to:

Desley Simpson	Deputy Mayor
Councillor Wayne Walker	Chair CCO Direction and Oversight Committee
Councillor Shane Henderson	Deputy Chair Direction and Oversight Committee
Councillor Ken Turner	Watercare Services Limited Lead Councillor
Jon Lamonte	Chief Executive, Watercare Services Limited
Alastair Cameron	Manager CCO Governance and Oversight