

20 December 2023

Via email margaret@margaretdevlin.co.nz

Margaret Devlin
Chair
Watercare Services Limited

Tēnā koe Margaret

Letter of Expectations for Statement of Intent 2024-2027

This letter of expectations sets out the council's priorities and expectations to inform the development of the draft Statement of Intent (SOI) 2024-2027 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 joint workshop of Transport and Infrastructure and CCO Direction and Oversight Committees, held on 12 December 2023.

The content of this letter was approved by the Governing Body on 14 December 2023, with delegation to Deputy Mayor, Chair of the CCO Direction and Oversight Committee, relevant Lead Councillor and me to finalise and issue this letter of expectations.

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:

- submission of the draft SOIs on or before 1 April 2024
- final submission of SOIs on or before 31 July 2024.

Please liaise with CCO Governance staff to ensure these dates can be met. Council will likely consider its shareholder feedback on draft SOIs at the CCO Direction and Oversight Committee meeting of 7 May 2024.

Part 1. Expectations of all CCOs

i) Alignment to final 2024-2034 Long-term Plan

Council will commence public consultation on the draft 2024-2034 Long-term Plan in late February 2024. Following consultation and deliberations, a final Long-term Plan will be adopted in June 2024. Once this occurs, final SOIs (including financial information and performance measures) should be aligned with the final Long-term Plan and the strategic priorities contained.

ii) Financial strategy and budget levers

Group budget responsibility and transparency rules

- CCOs are expected to provide better advice to elected members, including:
 - use of cost/benefit analysis for spending decisions. CCOs are expected to work with the council to determine a consistent methodology / approach for estimating benefits, which must outweigh costs.
 - some contestable advice (i.e. we are seeking advice provided to elected members which is separate from the council department or CCO asking to spend the money). This need not require external advice in every instance but can leverage expertise within the council group.
 - a thorough assessment of options against Long-term Plan strategic priorities.

Capital expenditure

- Fix, finish, optimise – CCOs are expected to consolidate, finish what we have started, fix what is broken and get the best out of what we already have. CCOs should slow down growth in capital programmes, look after what we already have, before embarking on big new capital projects.
- Any new CCO capital projects to support growth should be in accordance with the direction of the Future Development Strategy.

Operating savings

- Council group will need to deliver additional cost savings that have not been identified, of at least \$20 million in year one, rising to \$50 million in year three of the Long-term Plan (based on the core scenario). While Watercare is not included in this savings package, you are expected to exert a strong focus on your operating costs, so you can keep water charges as low as possible.

iii) Better, faster, cheaper: cost savings and value for money

- Fit for purpose technology: CCOs should not set up any separate technology functions and share generic technology functions
- CCOs are expected to deliver group shared services and consolidation of service functions (council will set the mandate for this)
- CCOs should work with council to optimise the performance of our significant property portfolio and implement the findings of the Group Property model review
- CCOs are expected to support and actively engage in any S17A, value for money and other reviews the council may commission.

iv) Compliance with Statement of Expectations of substantive CCOs

- CCOs should adhere to the Statement of Expectations of substantive CCOs, which explains how CCOs should conduct their business and manage their relationships with council and other interested groups (including matters such as the 'no surprises' principle)
- Visible CCO chair and board leadership should be provided to elected members on CCO major activities and programmes, and at key project milestones
- Communication on significant public-facing issues should be led as a partnership between the CCO Chair and elected members.

v) Engagement with government

- Work with the new government, only where interests are aligned and messages are consistent with those of Auckland Council
- CCOs should inform council of any conversation with the government on any new proposal
- CCOs are expected to ensure any relevant data and work undertaken on the previous government's proposals are retained and utilised where relevant.

vi) Climate change (mitigation and resilience)

- CCOs should continue to be guided by *Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan* by incorporating climate change considerations (whole of life greenhouse gas emissions and resilience) into work programmes and decisions
- CCOs are expected to continue reducing climate emissions and improving climate resilience, with a focus on cost-effective delivery of climate projects
- CCOs should demonstrate leadership and accountability through measurement and reporting on the climate performance of their decisions
- CCOs are expected to work towards reducing exposure and vulnerability to climate-related risks (Auckland Council Group and Regional risks)
- If there are risks to a CCO's achievement of their carbon emissions targets, these should be highlighted through the CCO's regular quarterly reporting to the relevant committee, and as appropriate, to the council's Audit and Risk Committee.

vii) Local Boards

- CCOs are expected to provide timely, delivery focused, quality, concise advice to local boards.

viii) Māori Outcomes

- CCOs should continue to be guided by *Kia Ora Tāmaki Makaurau* and deliver, monitor and report on each Achieving Māori Outcomes plan
- CCOs are expected to actively work as a partner with Māori, along with central government and external partners
- CCOs should actively seek to maximise opportunities for Māori businesses to participate in procurement processes.

Part 2. Key expectations of Watercare

In summary, the council's key expectations of Watercare are as follows:

- align with Long-term Plan financial parameters
- support council's positions on the Government's Local Water Done Well policy
- prepare for drought conditions
- fully recover the costs of growth
- align with the Future Development Strategy
- implement the Auckland Water Strategy
- demonstrate efficiency programme results
- engage with Group Shared Services
- comply with no surprises principle.

i) Long-term Plan financial parameters

Under the current water services reform legislation, that establishes the water entity for Auckland and Northland, Watercare is not allowed to be included in council's draft Long-term Plan. However, the new Government plans to repeal the reform legislation establishing new water entities which will mean that Watercare will be within the Long-term Plan.

In the context of preparing for Watercare's inclusion in the draft Long-term Plan, the direction for Watercare is that:

- debt to revenue should be maintained at 340%
- it is acknowledged that water charges and growth charges will need to increase
- you should provide advice to us on your capital expenditure programme, which should keep the water charges affordable but recover as much as possible from developers for the costs of growth infrastructure. I expect this to be a core focus for Watercare over coming years.
- you should clarify how much of the water charge increase is a result of failure to separate balance sheets
- you should maximise income from development growth charges (see further information iv. below)

ii) Government's Local Water Done Well policy

I am advocating to Government for a model for Auckland that enables balance sheet separation from council, so that Watercare can make necessary investment without big price increases to customers. Your support on this work will be needed so that we get the best outcome for Auckland. You should not be independently advocating to Government.

iii) Preparation for drought conditions

With the potential for drier than normal weather, Watercare should undertake proactive preparations for drought conditions.

I expect the council to receive early advice of when drought triggers may be reached, and any mitigation or responses that are required

iv) Fully recover the costs of growth

Our expectation is that you recover 100 per cent of growth costs from developers. We want to see your plan to achieve this. If you will not be able to fully recover costs, please provide an explanation to Council. In the first instance, provide this explanation to the Manager, CCO Governance and External Partnerships.

An essential component of this work is our expectation that you will progress local growth charges. We note that your work in this area had been put on hold as the Government's reform transition unit was developing new charging approaches and tools. You should now reactivate your work and at pace.

v) Group alignment with Future Development Strategy

We expect Watercare to demonstrate that your capital and growth programme is aligned with Auckland Transport and the wider council family in accordance with the Future Development Strategy. To be clear - do not invest where we are not planning for growth and supply.

Watercare and Auckland Transport should support Auckland Council in rejecting and/or submitting in opposition to Private Plan Changes that do not conform with the Future Development Strategy.

vi) Auckland Water Strategy

Watercare's collaboration with Auckland Council to achieve the outcomes in the Auckland Water Strategy should continue. We expect that your focus will be on:

- proactively planning for climate change e.g. managing peak demand
- updating current targets to more ambitious targets for per capita water consumption and a diversified water supply (recycled/reused water, rainwater collection), including developing a proactive plan to achieve these targets
- working in partnership with mana whenua in the protection, management, and enhancement of water.

vii) Efficiency programme

Your efficiency programme is of critical importance. We expect your targets and results to be reported to council in your quarterly performance reporting.

viii) Group shared services

While Watercare has not been part of the council group shared services work due to the previous government's water reforms you should now start to engage with this programme.

ix) Importance of no surprises

Watercare should ensure compliance with council's no surprises principle, particularly in the context of the current situation of water reform changes, financial constraints, and potential drought conditions.

Council looks forward to receiving a draft of the Watercare SOI no later than 1 April 2024.

Staff are available to expand aspects of this letter if required. Please contact Alastair Cameron, Manager CCO Governance and External Partnerships to discuss.

Ngā mihi



Wayne Brown
MAYOR OF AUCKLAND

cc:

Desley Simpson, Deputy Mayor

Cr Shane Henderson, Chair CCO Direction and Oversight Committee

Cr Ken Turner, Watercare Lead Councillor

Dave Chambers, Chief Executive, Watercare

Alastair Cameron, Manager CCO Governance and External Partnerships