

## Attachment A: Expanded description of proposed scope, timing and contribution of each CCO accountability mechanism

**Table 1: CCO accountability mechanisms already programmed for review/use.**

Accountability mechanism	Proposed scope and timing of improvement/use
<p><b>1a)</b> The Accountability Policy for substantive CCOs – contained in the LTP. The policy must contain: council’s expectations on contributions and alignment to council objectives and priorities and any additional reporting and planning requirements (over and above normal legislative requirements).</p>	<p><b>Current state:</b> Not comprehensively revised since amalgamation (with the exception of Panuku). Because the accountability policy is contained in the LTP, CCOs must give effect to it.</p> <p><b>Proposed scope of improvements:</b> The expectations council has for individual CCOs should be reviewed to ensure they match current council priorities.</p> <p>Improvement of the transparency of investment decision-making undertaken by CCOs – likely to be in the form of an Investment Policy that will determine when ‘business cases’<sup>1</sup> should be approved by the shareholder (council). An investment policy will also contain expectations on how reporting and accountability of business case projects should occur. This work will improve the linkage of budgeted spend to key outcomes set by council.</p> <p>Also propose to clarify the decision-making parameters around the combined wastewater/stormwater network in the strategic assets/major transactions section.</p> <p>Staff will investigate whether there is any matter that will benefit from additional planning or reporting requirements.</p> <p><b>Contribution to review objectives:</b> increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> a revised policy would need to be ready for consultation as part of the LTP process (workshopped September – December 2017).</p>
<p><b>1b)</b> Section 92(2) of the Local Government (Auckland Council) Act 2009 (LGACA). Explicit direction to CCOs on council plans and strategies that CCOs ‘must act consistently with’.</p>	<p><b>Current state:</b> This mechanism been used in a limited way at this point. Council has a comprehensive array of strategies and policies, some of which CCOs lead the implementation of, some which apply to all entities within the council ‘group’ and some which CCOs contribute to.</p> <p><b>Proposed scope of improvements:</b> since this mechanism has been used in a minor way to date, there is a significant opportunity to communicate the relevant aspects of adopted council policies to CCOs. Given that council has many policies, plans and strategies, it is proposed that this work is carried out in several tranches. The first tranche will cover the policies that councillors and</p>

<sup>1</sup> The term ‘business case’ refers to the council investment decision-making tool that scrutinises investment decisions using five lenses (or cases): the strategic, economic, financial, commercial and management cases.

	<p>staff have indicated can bring the most immediate benefit including the brand identity guidelines, the procurement strategy, and the corporate sponsorship policy. Further detail of the approach and timelines for the roll-out of this direction to CCOs is outlined in Attachment A.</p> <p><b>Contribution to review objectives:</b> increasing the responsiveness of CCOs to the public and council, improving the recognition of ratepayer funding of CCO activity, increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> first tranche of policies considered by end May 2017, second tranche between June and November 2017 depending on available resource.</p>
<p><b>1c)</b> Appointment of the CCO board of directors (including the appointment of the chair and deputy chair)</p> <p>Two elements: review of the process to appoint directors and potentially some additions to the policy</p>	<p><b>Current State:</b> Legislation requires that council has a robust and transparent director appointment policy. The Auckland Council Board Appointment and Remuneration Policy is contained in the Governance Manual for Substantive CCOs (<a href="#">available on council's website</a>). Council updated and approved this policy in May 2016.</p> <p><b>Proposed scope of improvements:</b> An additional update of this policy has been anticipated for the beginning of the new political term to ensure we are attracting the best candidates to apply for board director positions.</p> <p>The procurement process for external recruitment services will begin shortly and will have Mayoral Office input. Council will make use of the Government Electronic Tendering System and will review the procurement brief to ensure it is attracting the best proposals.</p> <p>Review of appointment process to ensure that there is sufficient political input.</p> <p><b>Contribution to review objectives:</b> increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> 4 May 2017 report to Appointment and Remuneration committee which will outline the recruitment programme for 2017; recruitment services will need to be in place by mid-March; potential policy refinements by September 2017.</p>
<p><b>1d)</b> Appointment of councillors to the board of Auckland Transport (AT)</p>	<p><b>Current state:</b> On 10 November 2016, council resolved to use a competitive process to determine whether councillors would be directors on the board of AT. This resolution indicated a change from past practices and was made possible by the May 2016 update to the board appointment policy.</p> <p><b>Proposed scope of improvements:</b> New process underway as per direction of 10 November 2016 Governing Body meeting.</p> <p><b>Contribution to review objectives:</b> increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> The Board Appointment and</p>

	<p>Remuneration Policy will be updated to reflect the decisions of the 10 November meeting once the director appointment process review (above), has been completed<sup>2</sup>.</p>
<p><b>1e)</b> Advice to the Auditor General (OAG) on areas of interest for CCO audits under section 104 of LGACA</p>	<p><b>Current state:</b> At present the OAG canvases council for a range of ideas on things that would be useful to audit. This advice can come from a number of sources in council and are not necessarily well integrated within the wider audit programme.</p> <p><b>Proposed scope of improvements:</b> Integrated advice from both a political and senior executive level should be developed. There is no obligation for the OAG to take this advice.</p> <p><b>Contribution to review objectives:</b> increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> Advice provided by staff by March 2017 for communication to OAG in time to inform their annual planning round.</p>
<p><b>1f)</b> Councillor to CCO board workshops</p>	<p><b>Current state:</b> Pilot programme run in 2016. The 2017 programme will run from 15 February to 22 November.</p> <p><b>Proposed scope of improvements:</b> Feedback on the pilot programme was sought in September 2016 and is being incorporated into the 2017 programme. Lessons learned from each workshop will be incorporated into each successive workshop for continuous improvement.</p> <p><b>Contribution to review objectives:</b> increasing the ability to align CCOs to the direction set by the council, increasing the responsiveness of CCOs to the public and council.</p> <p><b>Proposed timing:</b> continuous improvement but with most significant changes in place ahead of 6 April workshop.</p>
<p><b>1g)</b> Enhanced local decision-making for local boards for CCO activities</p>	<p><b>Current State:</b> On 15 December 2016 the Governing Body considered a report on the process for implementing the Governance Framework Review<sup>3</sup>.</p> <p><b>Proposed scope of improvements:</b> The Governance Framework Review is likely to explore opportunities for increasing local board decision-making about activities carried out by CCOs, in particular AT. The analysis on this matter will be primarily led by the Governance Framework Review but is likely to require a link through to an accountability mechanism listed in this report (e.g. section 92(2) direction) to ensure that new expectations are communicated to the CCO board.</p> <p><b>Contribution to review objectives:</b> increasing the</p>

<sup>2</sup> Although the policy could be updated now to reflect the decisions of 10 November 2016, staff will delay updating until the completion of the director appointment process review, because there may be additional updates to be included to reflect a revised process.

<sup>3</sup> The Governance Framework Review considers the options for improvement of the Auckland Council governance model (governing body and local boards).

	<p>transparency of CCO decision-making, increasing the responsiveness of CCOs to the public and council, improving the recognition of ratepayer funding of CCO activity, increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> It is envisaged that the political working party that has been established to oversee the Governance Framework Review will make recommendations in July 2017.</p>
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**Table 2: CCO accountability mechanisms that are subject to continuous improvement**

Accountability mechanism	Proposed scope and timing of improvements
<p><b>2a)</b> The Long-term plan (LTP) – three year cycle covering a period of ten years.</p> <p>The Annual Plan – annual cycle covering the upcoming financial year (July to June)</p>	<p><b>Current State:</b> Although primarily a budget setting mechanisms the LTP also contains policies which CCOs must give effect to e.g. financial strategies and the CCO accountability policy.</p> <p><b>Proposed scope of improvements:</b> Work has begun on specifying the more detailed level of financial information required of CCOs for budgeting and reporting purposes. Once these more detailed budget envelopes are developed, work will commence on how best to track and report against these areas.</p> <p><b>Contribution to review objectives:</b> increasing the responsiveness of CCOs to the public and council, improving the recognition of ratepayer funding of CCO activity, increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> Specification of more detailed CCO financial budgeting and reporting will be undertaken as part of the 2017/2018 annual plan process (adoption by June 2017).</p> <p>Because the LTP must follow a legislatively prescribed process which includes consulting with the public, any changes to policies affecting CCOs contained in the LTP must be well planned and fit within the time bound LTP process (adoption by June 2018).</p>
<p><b>2b)</b> The Statement of Intent (SOI) – annual cycle covering a period of three years. Some content of the SOIs is legislatively prescribed and cannot be omitted.</p>	<p><b>Current State:</b> The SOI document is developed according to a template set by Council. The template can be amended annually ahead of each SOI cycle.</p> <p><b>Proposed scope of improvements:</b> The number and type of Key Performance Indicators (KPIs) contained in the SOI at present are not consistent across the six CCOs (i.e. some CCOs have measures relating to staff engagement and health and safety, but others do not). The measures are also very difficult to understand so SOIs should include information that improves understanding for the reader. The KPIs will be reviewed by council staff with a view to improving overall consistency, appropriateness and clarity</p>

	<p>of the measures in addition to whether the targets continue to be appropriate.</p> <p><b>Contribution to review objectives:</b> increasing the responsiveness of CCOs to the public and council, improving the recognition of ratepayer funding of CCO activity, increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> Amendments to the template (and therefore the content and structure of the resulting SOI) need to be finalised by December of any year for the next SOI cycle.</p> <p>The KPIs will be reviewed in time for the finalisation of the LTP (June 2017).</p>
<p><b>2c)</b> Reporting against the SOI – quarterly reporting covering the previous 3 months, plus annual report covering the previous year.</p>	<p><b>Current state:</b> The quarterly reports are developed using a template set by council.</p> <p>The CCO Board and Chief Executive are expected to participate in a discussion with the Finance and Performance Committee of council about CCO performance against their SOI objectives and targets (half year and fourth quarter results only). There is no evidence to suggest that more frequent meetings would be beneficial, however, councillors have indicated that they require further support to carry out their responsibilities at these meetings to ensure that any non-performance of CCOs has been identified..</p> <p><b>Proposed scope of improvements:</b> The risk section of the quarterly report template should be updated to improve overall consistency in disclosure across the CCOs. The traffic light' indicators (Red, Orange, and Green) for progress towards the achievement of targets should have a specified threshold so that all CCOs reports are consistent (e.g. Red light equals target not met (more than 2.5% below target)). Improve to support for councillors prior to half year and fourth quarter meetings.</p> <p><b>Contribution to review objectives:</b> increasing the transparency of CCO decision-making, increasing the responsiveness of CCOs to the public and council, improving the recognition of ratepayer funding of CCO activity, increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> If council decided to make amendments to the structure or content of the quarterly report, it would need to update the template approximately two months ahead of the end of the quarterly period. Some content of the reports is legislatively prescribed and cannot be omitted.</p>
<p><b>2d)</b> Strategic direction setting and prioritisation.</p>	<p><b>Current state:</b> Most council policies are refreshed on a regular basis. Although not necessarily cyclical, these updates take place when there is a significant change to the priorities and goals of council. The Auckland Plan is</p>

	<p>refreshed every six years. The Regional Land Transport Plan (which is approved by NZTA and AT) is revised every three years.</p> <p>Council must maintain the ability to specify the outcomes it wants from CCOs and also the ability to determine if CCOs are delivering what council (representing the public) want. There have been instances where the strategic capability of council (as the overall direction setter and monitor) has been eclipsed by the technical/strategic capability of CCOs.</p> <p><b>Proposed scope of improvements:</b> This is a complex topic and no work has yet been undertaken recently on the relative merits of enhancing council's strategic/technical capacity with respect to CCO activities. A report will be prepared by end 2017, outlining the current state and issues and options for the future. This work relates to the section on monitoring later in this agenda report and may be combined with that workstream.</p> <p><b>Contribution to review objectives:</b> increasing the responsiveness of CCOs to the public and council, improving the recognition of ratepayer funding of CCO activity, increasing the ability to align CCOs to the direction set by the council.</p>
<p><b>2e)</b> The Governance Manual for Substantive CCOs (the manual). The manual is a document that records all of the enduring expectations of council, including policies and templates.</p>	<p><b>Current state:</b> The manual was adopted in December 2015. It was envisaged that it would be updated approximately annually.</p> <p><b>Proposed scope of improvements:</b> In addition to the mechanisms listed in this report for review which are contained in the manual, there are other policies and expectations which will benefit from revision (e.g. the no surprises protocols)</p> <p><b>Contribution to review objectives:</b> increasing the responsiveness of CCOs to the public and council, improving the recognition of ratepayer funding of CCO activity, increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> Due to the dependencies with other elements of this accountability review, we propose that the manual is updated twice during the course of the review – once after the director appointment process review has been completed and again at the completion of all elements of this review (June 2018).</p>

**Table 3: CCO accountability mechanisms that are not currently in use.**

<b>Accountability mechanism</b>	<b>Proposed scope and timing for improvement</b>
<p><b>3a)</b> Operating rules for Auckland Transport - Council may make rules by</p>	<p><b>Current state:</b> Not used. There is little indication in cabinet papers on the intention behind these legislative provisions. The provisions are broadly worded but do give</p>

<p>which Auckland Transport must operate, including rules in relation to—</p> <ul style="list-style-type: none"> <li>• how the governing body of Auckland Transport must operate:</li> <li>• how Auckland Transport must appoint and employ staff (including its chief executive):</li> <li>• how Auckland Transport must acquire and dispose of significant assets.</li> </ul>	<p>some specific indication of their intent.</p> <p><b>Proposed scope:</b> To review and consider current AT board practices including the way the AT board holds meetings and releases information, its employment practices and its acquisition and disposal practices.</p> <p><b>Contribution to review objectives:</b> increasing the transparency of CCO decision-making, increasing the responsiveness of CCOs to the public and council, improving the recognition of ratepayer funding of CCO activity, increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> Issues and options paper - end May 2017.</p>
<p><b>3b)</b> Section 91 of LGACA provides that council may impose <u>additional accountability requirements</u> on its substantive CCOS including:</p> <ul style="list-style-type: none"> <li>• the provision of first and third quarter reporting against the SOI (in addition to half year and annual reporting),</li> <li>• the provision of a 10 year plan ( but not from AT)</li> <li>• a description of how the CCO will comply with council’s requirements for the management of the assets identified by council as strategic assets and processes for the approval of major transactions in relation to those assets</li> </ul>	<p><b>Current state:</b> Council already requires first and third quarter reports of its CCOs. Since December of 2015 however, only half yearly and fourth quarter results have been discussed in public with CCO boards, in order to allocate time to forward looking workshops with CCO boards. First and third quarter CCO results are circulated by memo to councillors and consolidated into the council group reporting.</p> <p><b>Proposed scope:</b> Staff will review all current reporting and planning requirements and the conventions relating to them to ensure they are fit for purpose and consider whether there are any matters requiring additional planning or reporting from CCOs (e.g. use of business case methodology). Staff will also consider whether there is any benefit from additional 10 year planning other the current requirements relating to Asset Management Plans (which are 10 year plans).</p> <p><b>Contribution to review objectives:</b> increasing the transparency of CCO decision-making, increasing the responsiveness of CCOs to the public and council, improving the recognition of ratepayer funding of CCO activity, increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> Initial analysis provided to council by September 2017</p>
<p><b>3c)</b> Shareholder-led independent CCO board performance reviews</p>	<p><b>Current state:</b> CCO Boards are required to undertake their own reviews of their performance (board-led reviews). Council has no input as to the scope or supplier for these reviews. Council does not undertake its own independent board performance review.</p> <p><b>Proposed scope:</b> Consider the best way of assessing and improving the performance of the CCO boards. Preliminary external advice has been sought to assist with scope.</p>

	<p><b>Contribution to review objectives:</b> increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Indicative timing:</b> Issues and options (scope and methodology) by May 2017. If a review is agreed to then it could be completed and reported by December 2017.</p>
<p><b>3d)</b> Requirement for Watercare to report against section 57 of LGACA (cost-effectiveness of service delivery)</p>	<p><b>Current state:</b> there is no explicit and identifiable public reporting against this legislative requirement nor any agreed conventions or methodology around doing so.</p> <p><b>Proposed scope:</b> Requires discussion with Watercare to determine achievable methodology. This is likely to be an additional reporting requirement under s 91 of LGACA (item b) above)</p> <p><b>Contribution to review objectives:</b> increasing the transparency of CCO decision-making, increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> initial findings reported by end September 2017.</p>
<p><b>3e)</b> Service Delivery Reviews under section 17 of LGACA</p>	<p><b>Current state:</b> Council last undertook s17A service delivery reviews of CCO activities as part of the 2014/2015 CCO review.</p> <p><b>Proposed scope:</b> A report will be taken to the 23 February 2017 Finance and Performance Committee on s17(A) reviews. The activities that will be subject to these reviews and the timing of them will be considered at that time.</p> <p><b>Potential for contribution to review objectives if CCO activities are included:</b> improving the recognition of ratepayer funding of CCO activity, increasing the ability to align CCOs to the direction set by the council.</p> <p><b>Proposed timing:</b> not yet determined.</p>

**Table 4: CCO accountability mechanisms that are not possible or useful to review**

<b>Accountability mechanism</b>	<b>Rationale for not reviewing</b>
<p><b>4a)</b> CCO company constitutions</p>	<p>CCO constitutions were last updated in 2012, to include the ability for council to issue a binding management directive. Due to the nature and purpose of company constitutions it is not likely that any change will contribute to the review objectives.</p>
<p><b>4b)</b> Public Audit Act 2001</p>	<p>Council cannot change an Act of parliament. No problems have been identified that would warrant lobbying for change to this Act</p>
<p><b>4c)</b> The Local Government Official Information and Meetings Act 1987 (LGOIMA).</p>	<p>Council cannot change an Act of parliament. No problems have been identified that would warrant lobbying for change to this Act.</p> <p>However, council will consider whether the existing LGOIMA guidance for CCOs contained in the CCO</p>

	Governance Manual is working effectively. If not, staff will consider turning this guidance into a policy and including it as a s92 policy (table 1 b).
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### **Ongoing monitoring to ensure CCO effectiveness**

1. In addition to council having assurance that it is making the best use of the available accountability mechanisms, it should give equal consideration to the effectiveness and resourcing levels of its monitoring activities for CCOs.
2. The Office of the Auditor General has noted the importance of both the health of the CCO/council relationship and the appropriate administrative processes for monitoring<sup>4</sup>.
3. In recent years, council has focused on building strong working relationships with its CCOs and, has held resourcing for the monitoring function at a modest level.
4. The effectiveness of the existing ongoing CCO monitoring regime and the resources needed for additional accountability mechanisms should become a separate workstream alongside any option chosen for the CCO accountability review.

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<sup>4</sup> Office of the Auditor General. (September 2015). Governance and accountability of council-controlled organisations. Page 40.