

Terms of reference

Value for Money Review: Three Waters Services

[Sentient ID #XXXXXX1]

BE THE HOW.
WHAKAMAUA KIA TINA!



1 Document control

1.1 Document purpose

This Terms of Reference (ToR) outlines the purpose of the review, the way it will be structured, governed and how it will be executed.

1.2 Document history

Version	Date	Update by	Update details
1	20 March 2017	Sally Garrett	Consultation Draft
2	14 May 2017	Sally Garrett	Feedback from Stakeholders
3	20 June 2017	Sally Garrett	Feedback from Oversight Group

1.3 Document Approval

Role	Signature	Date
Chair, Finance and Performance Committee		
Deputy Chair, Finance and Performance Committee		

Comments:

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2 Introduction

2.1 Finance and Performance Committee resolution

1. At its meeting on 21 March 2017, the Finance and Performance Committee approved a programme to review effectiveness and value-for-money across the major activity and service lines of Auckland Council group, to ensure that its services continue to best meet Auckland's needs for good-quality infrastructure, local public services and performance of regulatory functions into the future. These reviews will assist in informing the 2018 long term plan.

2.2 Statutory requirements

2. This programme meets Auckland Council's statutory obligations under section 17A of the Local Government Act 2002 (LGA02). Under s17A, Auckland Council "must review the cost effectiveness of current arrangements for meeting the needs of communities within its district or region for good-quality local infrastructure, local public services and performance of regulatory functions".
 - Good quality is defined in s10 of the LGA02 in relation to local infrastructure, local public services and performance of regulatory functions to mean infrastructure, public services and performance that are efficient, effective and appropriate to present and anticipated future circumstances. The Auditor General has defined "cost effectiveness" to mean "the relationship between the levels of resources used (cost) and progress towards a predetermined outcome".
 - Local infrastructure, local public services and performance of regulatory functions include essentially all of council's functions.
 - The transition provisions (Schedule 1AA of the LGA02) in relation to s17A require that the first reviews need to be completed by August 2017. After that, s17A requires that reviews are conducted every 6 years, or when:
 - council is considering a significant change to relevant service levels;
 - a council contract or binding agreement in relation to delivery of infrastructure, service or regulatory function is expiring within the next 2 years.
 - There are exceptions to the review requirements where:
 - the delivery of that infrastructure, service or regulatory function is governed by legislation, contract or binding agreement such that it cannot reasonably be altered within the following 2 years;
 - Auckland Council is satisfied that the potential benefits of undertaking a review in relation to that infrastructure, service or regulatory function do not justify the costs of a review.

2.3 Value for Money Review: Three Waters Services

3. This programme includes reviewing water supply, wastewater and stormwater management (i.e. Three Waters) services across the group.
4. Auckland Council group spending on three waters services averages around \$750m operating spending and \$550m capital spending per year, with total assets for three waters services of over \$12b. This is across Watercare Services Ltd (water supply and wastewater treatment) and Healthy Waters within the Infrastructure and Environmental Services Directorate of the Auckland Council parent which undertakes management of significant parts of the public stormwater network. There are also important relationships with the Chief Planning Office Directorate (planning, and infrastructure strategy) and Auckland Transport (stormwater and related projects).

5. A number of previous studies have considered issues relating to governance, funding and delivery of three waters services for Auckland. This includes the section 17A review on CCOs undertaken in 2014 and the work currently being undertaken by the central Auckland stormwater and wastewater optimisation programme (CANOPy). This review will build on the findings of those reviews and other relevant studies.

3 Objectives, Lines of Inquiry, and Scope

3.1 Objective

6. The objective of the review is to evaluate the value for money of three waters services across the Auckland Council group and consider the relative merits of alternative options including more integrated management of three waters services in supporting Auckland Council group's established objectives and social, economic, environmental and cultural outcomes (desired outcomes).

3.2 Lines of Inquiry

7. The review will consider:
 - the cost effectiveness of Auckland Council group's three waters services, compared with appropriate benchmarks and international best practice;
 - The performance issues and risks associated with Auckland Council group's three water services including an assessment of the economic, environmental, social and cultural value in respect to the desired outcomes being sought to date;
 - whether the current governance, funding and service delivery arrangements are the appropriate approach to deliver value for money and achieve the desired outcomes in the long term plan for the Auckland Council group.

Desired Outcomes

This includes assessing whether greater integration of functions (including governance, regional strategy and planning, regulatory compliance, infrastructure development, asset management and maintenance, service operations and management, etc.) would provide opportunities for more cost-effective provision of services over the long run and better meet the desired outcomes in the long term plan including levels of services when compared to current arrangements.

This may be by reference to the opportunities provided by various integration options for developing regional strategies, delivering large infrastructure projects (e.g. central interceptor) and providing efficient and resilient services.

- options and recommendations to improve value for money in water, wastewater and stormwater services in support of Auckland Council group's desired levels of service, performance measures, targets and desired outcomes and objectives.

3.3 Scope

8. The review will consider water, wastewater and stormwater activities across the Auckland Council group and respective group budget and service areas in the current Annual Plan, the Long Term Plan and the Asset Management Plans.

9. The review will not in itself develop a refreshed three waters strategy, but should address where responsibility for developing that strategy and related public policy settings should sit.
10. The review will not address national standards and regulatory requirements.
11. The review will be in the context of s17A of the LGA 2002, s57 of LGACA 2009, the Resource Management Act 1991 and associated policy.
12. The review will not consider organisational support services which will be included in the scope of the organisational support reviews
13. The review will address value for money in a broad sense – i.e. how well the existing policy and institutional arrangements deliver on council's strategic objectives and desired outcomes for Aucklanders. This extends beyond the legislative requirement in s17A to look at cost efficiency, effectiveness and appropriateness of services.

4 Framework for analysis

14. In pursuing the lines of inquiry above, the review will address the following:
 - **Description of the current state**, including institutional arrangements (governance, funding, and delivery arrangements), demand, service levels, resourcing, costs, quality and performance measures and benchmarking (if appropriate) with other New Zealand and international comparator organisations. The detailed review assessment will build on the details of the levels of service, performance measures and outcome definition, value for money measurement and other analytical matters needed to strengthen and clarify the lines of inquiry referenced by the desired outcomes being sought in Auckland Council's Long Term Plan and associated budgets.
 - **Outline of future pressures and demands** including strategic issues and trends that will impact on the operating environment for the service over the medium term. This includes for example any social, economic, commercial, demographic, regulatory, environmental or technology issues that are significant in considering the context for service delivery in the medium term.
 - **Key cost drivers**, clarifying the factors that impact on the cost of delivering the services and how they are likely to change over the medium term in light of the trends noted above.
 - **Value chain**, articulating how the resources are applied to deliver the services and how the services are intended to contribute to the council's strategic objectives and desired outcomes for Aucklanders.
 - **Performance evaluation**, assessing the value for money of the services in terms of the efficiency of resource use in delivering the services and the effectiveness of those services in contributing to the council's strategic objectives and impact on desired outcomes for Aucklanders.
 - **Opportunities to improve value for money**, including through changes to the level or mix of services provided to business practice or to organisational arrangements.

- **Options**, outlining alternative arrangements for governance, funding or service delivery that would allow opportunities to improve value for money to be realised and evaluation those options in terms of their likely performance in practice and any implementation issues that would need to be addressed. This must include (but is not limited to) examination of the options noted in s17A (4) LGA02. Further, this should include examination of the options indicated in the lines of inquiry above.
- **Recommendations** to improve value for money in the delivery of those services.

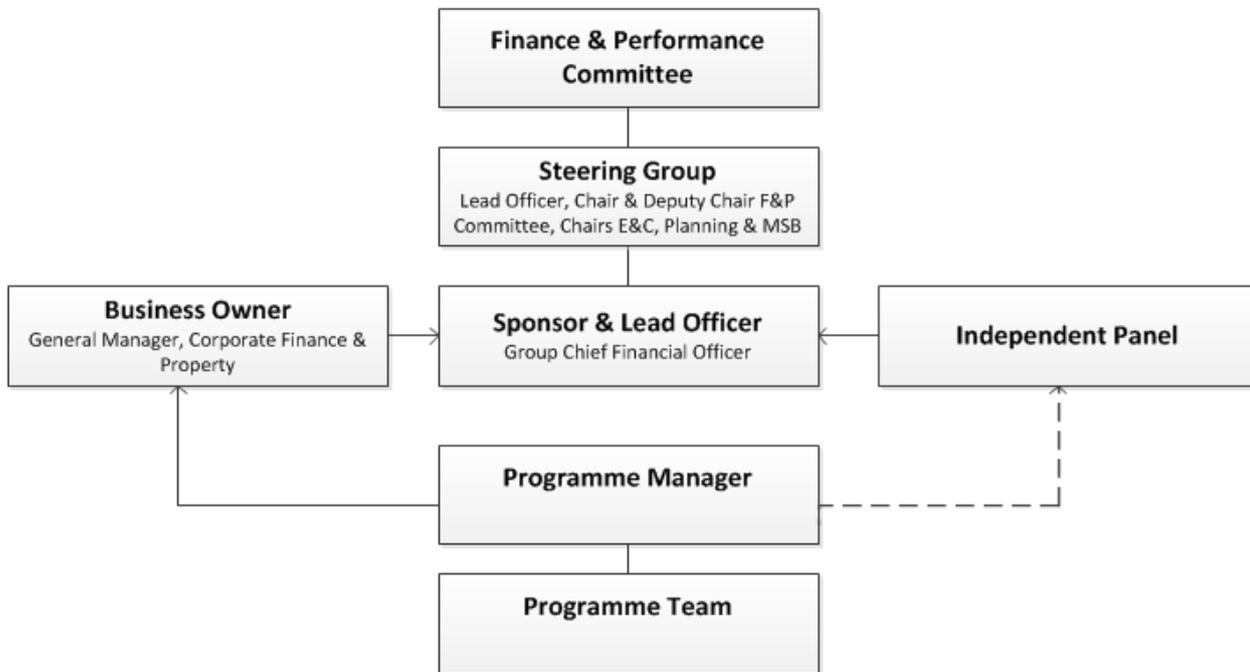
5 Project approach

15. The review will be undertaken by an in-house project team, supported by an external reference group (with expertise in public finance, public policy/public management and local government operations), under the direction of a governance group as noted below.
16. The review will proceed in the following phases:
 - **Establishment:** The approval of the review's objectives, lines of inquiry and scope .The development of the terms of reference and consultation of those terms with the key stakeholders. This phase will result in the approval of those terms of reference and the subsequent resourcing and establishment of the project team.
 - **Assessment:** evaluating the value for money of three waters services across the Auckland Council group with reference to the current state, future pressures, key drivers and current performance and preliminary findings. This phase will result in the publication of a current state assessment report which will include identifying high level opportunities for improving value for money through changes to the level or mix of services provided, to business practice, or to organisational arrangements.
 - **Options and evaluation:** This phase will consider the relative merits of the opportunities and alternative arrangements for governance, funding or delivery of those services in supporting Auckland Council group's objectives and desired outcomes.
 - **Final report.** Including assessment, options, findings and recommendations, based on the above.
17. In conjunction with the programme's expert panel, the review project team will prepare interim reports on each phase for consideration by the governance group.
18. The review team will consult with relevant parties in the Auckland Council and CCOs in developing the material for the assessment.
19. The review team will consult with Auckland Council, CCOs, the Independent Maori Statutory Board and local boards in preparing the final report.

6 Governance and resourcing

6.1 Governance Structure

S17a Value for Money Programme Governance Structure



6.2 Roles & Responsibilities

Programme /Review Roles	Responsible	Purpose & Responsibilities
Programme Sponsor/Lead Officer	Group Chief Financial Officer	<ul style="list-style-type: none"> Programme sponsor who champions the group value for money programme and has accountability for the programme overall Authorises (and recommends to the Finance and Performance Committee) key programme reports Recruits and approves expert panel membership
Programme Business Owner	General Manager Corporate Finance and Property	<ul style="list-style-type: none"> Business owner who ensures the programme is adequately resourced to deliver on its objectives Authorises (and recommends to the Sponsor) key programme reports Resolves issues and manages risks escalated by the Programme Manager Briefs the Programme Sponsor and the Steering Group Engages stakeholders to assist with timely responses to information requests and socialisation of deliverables Ensures the participation and co-operation of business resources

Programme Champion	Director Finance and Policy, Mayoral Office	<ul style="list-style-type: none"> Responsible for communications to the Chairs of the CCOs Resolves CCO-related issues escalated by the Sponsor or Business Owner Champions the group value for money programme
Programme & Review Oversight	Steering Group	<ul style="list-style-type: none"> Provides political oversight to monitor progress of the programme at key milestone points
Programme Review & Oversight	Chair and Deputy Chair Finance and Performance Committee	<ul style="list-style-type: none"> Primary programme customer who will approve the terms of reference and receive the draft reports and findings
Programme Review	Finance & Performance Committee	<ul style="list-style-type: none"> Receive and consider proposals and recommendations for value for money review proposals and the final reports from value for money reviews
Independent Advice & Quality Review	Independent Panel - TBA	<ul style="list-style-type: none"> A core panel of three members with expertise in public finance , infrastructure, public policy ,economics and /or local government governance experience supplemented by subject matter experts for particular reviews as required Reporting to the Lead Officer Panel members will be asked to: <ul style="list-style-type: none"> provide independent advice on the objectives, lines of inquiry, performance, opportunities options and recommendations for value for money reviews undertake a quality review of the documentation supplied, based on the review criteria including: <ul style="list-style-type: none"> the value for money review evaluation/analysis is clearly defined the research questions are appropriate and feasible to support the objectives and lines of inquiry for the reviews data analysis techniques are robust and appropriate and correctly applied opportunities, options , evaluations and recommendations are based on evidence there is coherence, consistency and a clear line of integration across the reports and the reasoning associated with the research/evaluation/analysis

Independent Specialist with Industry Knowledge (SME)	Three waters Industry Expert -TBD	<ul style="list-style-type: none"> • Advising the expert panel, provide independent expert advice and commentary on the assessment and evaluation of opportunities as they arise based on industry experience with similar undertakings.
Programme Manager-Value for Money	TBD	<ul style="list-style-type: none"> • Co-ordinate, recruits and manages programme office resources and approach and is responsible for the delivery of the agreed programme plan to schedule and budget. • Develops the programme plan, review methodology and the production of the associated deliverables for authorisation by the Business Owner, the Sponsor, the Steering Group and Finance and Performance Committee. • Develops and manages the programme calendar and associated engagement requirements including steering group management and the supply of documentation to the expert review panel. • Briefs the Programme Business Owner and Sponsors regarding project status, risks/issues and decisions required.
Senior Financial Analyst	TBD	<ul style="list-style-type: none"> • Define and supervise the collection of the data requirements needed for evidence-based value for money reviews from council and CCOs to support the programme methodology. • Analysing financial and non-financial records and plans, reports relating to past and planned expenditures and revenues including relevant reviews and benchmarking to distil relevant performance-related trends, issues, opportunities. • Work on the application of the public service value for money analytics and modelling between expenditure, inputs, outputs and desired outcomes.
Senior Economist	TBD	<ul style="list-style-type: none"> • Define and develop the value for money modelling approach and value-based data requirements for each review including key value drivers and desired outcomes for each review. • Supervise the collection of the data requirements needed for evidence-based value for money reviews from council and CCOs to support the programme's value-based methodology. • Analyse records and plans, reports relating to past and planned expenditure, revenues and desired outcomes to distil relevant performance-related trends, issues, opportunities.

		<ul style="list-style-type: none">Oversee the application of the public service value for money analytics including the relational modelling between expenditure, inputs, outputs and desired outcomes and draw conclusions and insights from this work.
Financial Analyst		<ul style="list-style-type: none">Support the senior financial analyst, collect the data requirements needed for evidence-based value for money reviews from council and CCOs to support the programme methodology.Assist with the analysis including modelling of financial and non-financial records and plans, reports relating to expenditures and revenues including past reviews and benchmarking to distil relevant trends, issues, and opportunities.

6.3 Stakeholders

20. The key stakeholders in this review are as follows.

- Mayor Phil Goff
- Chairperson Ross Clow – Finance and Performance Committee
- Deputy Chairperson Desley Simpson – Finance and Performance Committee
- Chairperson Penny Hulse – Environment and Community Committee
- Chairperson Chris Darby – Planning Committee
- Deputy Chairperson Greg Sayers – Audit and Risk
- Chairperson David Taipari – Independent Maori Statutory Board
- Kelvin Norgrove, Policy Project Manager, Independent Maori Statutory Board
- Taha MacPherson - Chief of Staff, Mayoral Office
- David Wood - Director Finance & Policy, Mayoral Office
- Margaret Devlin – Chair Watercare Services
- Dr Lester Levy – Chair Auckland Transport
- Dr David Warburton – CE Auckland Transport
- Richard Morris – CFO Auckland Transport
- Stephen Town – CE Auckland Council
- Sue Tindal – Group CFO Auckland Council
- Raveen Jaduram – CE Watercare Services
- Brian Monk – CFO Watercare Services
- Jacky Simperingham – Watercare Services – Review Point of Contact
- Dean Kimpton – COO Auckland Council
- Barry Potter- Director Infrastructure and Environmental Services Auckland Council
- Jim Quinn – Chief of Strategy Auckland Council
- Local Board Chairs
- Finance and Performance Committee

21. Given that water, wastewater and stormwater involve strategic assets, the review will be undertaken in accordance with council's Significance and Engagement Policy. This policy will be triggered if any option proposes any material changes to service levels.

6.4 Dependencies

22. This review will be undertaken in the context of:

- the refresh of the three waters strategy
- the refresh of the water demand management plan

- the Central Auckland Stormwater and Wastewater Network Optimisation Programme of work

6.5 Schedule

Milestone	Due Date
terms of reference approved	June 2017
VFM programme established	June 2017
project team established	June 2017
current state assessment	July 2017
high level opportunities	August 2017
options and recommendations	August 2017
final report	September 2017