

# Response to the Three Waters: Value for Money (S17A) Review 2017

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## Te take mō te pūrongo / Purpose of the report

1. To note an update on progress on responding to the recommendations of the Three Waters Value for Money (S17A) Review 2017.

## Whakarāpopototanga matua / Executive summary

2. In November 2017, the Finance and Performance Committee received and approved the recommendations of the Three Waters: Value for Money (S17A) Review 2017 (resolution number FIN/2017/153).
3. The Three Waters (S17A) review set a cost savings target of \$300 million over ten years and recommended greater integration of water services between Auckland Council and Watercare to achieve this.
4. Auckland Council, Watercare and Auckland Transport are working collaboratively to deliver these cost savings across the council group.
5. The S17A review made ten specific recommendations. The recommended approach to each of these is summarised in Table One below. Some require a strategic response and others an operational response.

### *Strategic Response*

6. The first recommendation of the S17A review was that a Three Waters Policy and Strategy should be developed to guide the work of Auckland Council and Watercare.
7. As noted in a presentation to Environment and Community Committee in September 2017, work on an Auckland's Waters Strategy is already underway. It is recommended that the Three Waters Policy and Strategy be incorporated in this Auckland Water's Strategy. This strategy will be developed by Auckland Council by June 2019, working collaboratively with Watercare, Auckland Transport, Panuku Development Auckland and other relevant parties.
8. More detail regarding the budget and scope of the Auckland's Waters Strategy will be provided to the Environment and Community Committee in May 2018.

### *Operational Response*

9. The S17A review also recommended operational changes to achieve greater value through more alignment of water services.
10. Work has been done to integrate work programmes and achieve savings on major projects, such as the Western Isthmus Water Quality Improvement Programme and Franklin Road improvements.
11. An operational review is underway and a joint working group including Auckland Council, Watercare, Auckland Transport and Panuku Development Auckland has been established to investigate opportunities for greater integration and achieve cost savings across the whole council family in two phases. The savings will be benchmarked from 1 July 2017.
12. *Phase One:* An action plan outlining anticipated savings will be provided to the Finance and Performance Committee in May 2018. This will consider opportunities for greater alignment across the council family for:
  - capital planning
  - procurement, and
  - operations and maintenance.
13. The S17A review also recommended outsourcing of stormwater operations and maintenance to Watercare. A business case evaluating this proposal will be developed and reported back in October 2018.

14. Initial opportunities for collaboration in areas such as environmental regulation will be explored in phase one.
15. *Phase Two:* In phase two, the remaining recommendations relating to economic regulation, the operating model for delivery of all water services, and consolidation of environmental regulation will be considered in detail.
16. This will take place after completion of the Auckland's Waters Strategy in June 2019. It will also be informed by the central government Three Waters review, which is currently underway.
17. Executive oversight for both phases of the operational review will be provided by the chief executives of Auckland Council, Auckland Transport and Watercare.
18. Work associated with the operational response to the S17A review will be carried out by internal staff and managed through existing budgets across the council family.

## Ngā tūtohunga / Recommendations

That the Finance and Performance Committee:

- a) Note that the Auckland's Waters Strategy will incorporate the Three Waters Strategy and Policy recommended through the S17A review.
- b) Note that the Auckland's Waters Strategy will be developed by June 2019 by Auckland Council, working collaboratively with Watercare, Auckland Transport, New Zealand Transport Agency and other relevant parties.
- c) Note that a joint working team has been established to progress the findings of the S17A review relating to joint procurement, capital planning, and operations and maintenance. Anticipated savings and an action plan for achieving these will be provided to the Finance and Performance Committee in May 2018.
- d) Note that a business case evaluating outsourcing of stormwater operations and maintenance from Auckland Council to Watercare will be developed.
- e) Note that recommendations relating to economic regulation, the operating model for all water services and consolidation of environmental regulation will be progressed post-completion of the Auckland's Water's Strategy. These will also be informed by the central government Three Waters Review.

## Horopaki / Context

### Value for Money Review

19. In March 2017 (resolution number FIN/2017/23) the Finance & Performance Committee endorsed the value for money programme for the council group, including thirty reviews of council services to be undertaken over the next three years.
20. The three waters review was completed as part of the first four reviews and the findings reported to the Finance and Performance Committee on 6 November 2017.
21. The three waters review found that significant value has been delivered from integrating water and wastewater services with Watercare and consolidating stormwater operations within council.
22. However, further opportunities to work collaboratively with greater coordination and reduced duplication across the council family in the provision of water services were identified. The review identified potential cost savings of \$300 million to be achieved over the duration of the Long-term Plan 2018-2028.

### Response to the Review

23. Auckland Council, Watercare and Auckland Transport are working collaboratively to respond to the S17A review.

24. The S17A review made ten recommendations. The recommended approach to each is summarised below in Table One.

**Table One: Recommendations of S17A review and proposed response.**

<b>S17A Recommendation</b>	<b>Response to Date</b>	<b>Timeframe</b>
1. Initiate and produce a Three Waters Policy and Strategy and associated asset management plan.	<p>Healthy Waters, Watercare and Auckland Transport have been working jointly on this resolution since November 2017. The aim is to develop an Auckland's Waters Strategy, incorporating the Three Waters Policy and Strategy.</p> <p>Relevant programmes and investment will also be aligned within each organisation's asset management plan.</p>	Update on scope and budgets for strategy to be provided in May 2018 and final strategy adopted by June 2019.
<b>Operational Response: Phase One</b>		
2. Consolidated capital planning and delivery, particularly for a Special Purpose Vehicle for the Central Interceptor.	<p>A joint working group has been established to review opportunities across the council family for savings from capital works programmes. It will report back with anticipated savings and an action plan.</p> <p>The feasibility of establishing a Special Purpose Vehicle for the Central Interceptor is currently being investigated.</p>	<p>May 2018</p> <p>Work underway – report back date to be confirmed</p>
3. Joint Procurement – Stage One. Evaluate opportunities for joint procurement.	<p>This approach has already been taken on several recent projects such as Franklin Road and Okahu Bay separation projects</p> <p>A joint working group is currently investigating further opportunities across the council family and will report back with an action plan and anticipated savings.</p>	May 2018
4. Operating Model – Stage One. Potential for outsourcing stormwater operations and maintenance to Watercare.	<p>The joint working group will also consider opportunities for integration of operations and maintenance services across the whole council family, including Auckland Transport and Community Facilities.</p> <p>A business case will then be developed evaluating the case for outsourcing stormwater operations and maintenance to Watercare.</p>	<p>May 2018</p> <p>October 2018</p>
<b>Operational Response: Phase Two</b>		
<p>5. Economic regulation – Stage One.</p> <ul style="list-style-type: none"> <li>• Publish an annual funding plan.</li> <li>• Participate in asset management benchmarking exercise</li> </ul>	<p>Development of an annual funding plan for healthy waters will be considered post completion of the Auckland's Waters Strategy (noting that Watercare already publishes an annual funding plan but one will need to be developed for Healthy Waters for 2019/2020).</p> <p>Healthy Waters and Watercare will review opportunities for benchmarking of services and look to participate in the next Water Services Association of Australia benchmarking exercise in 2020.</p>	<p>By 2019/2020</p> <p>Next formal review in 2020</p>

6. Consolidated environmental regulation	This will be considered post completion of the Auckland's Waters Strategy.	To be confirmed
7. Consolidated capital planning and delivery – Stage Two. Assess the best operating model to deliver all Three Waters services.	This will be considered post completion of the Auckland's Waters Strategy and be informed by the central government Three Waters Review.	To be confirmed
8. Joint procurement – Stage Two. Develop a shared procurement plan for three waters services	This will be considered post completion of the Auckland's Waters Strategy. It will also be aligned with the Group Procurement S17A review.	To be confirmed
9. Three waters operating model	This will be considered post completion of the Auckland's Waters Strategy and be informed by the central government Three Waters Review.	To be confirmed
10. Economic regulation – Stage Two. Contract an independent economic assessment of organisation's asset management and funding plans.	This will be considered post completion of the Auckland's Waters Strategy and be informed by the central government Three Waters Review	To be confirmed

## Tātaritanga me ngā tohutohu / Analysis and advice

### Auckland's Waters Strategy

25. The S17A review noted that there is currently no strategic document to guide delivery of water services in Tāmaki Mākaaurau. While the Auckland Plan provides an overarching vision and strategic direction, and the Unitary Plan provides guidance on specific issues such as water sensitive design, there is no strategic plan which sets out clear shared outcomes for water in Auckland.
26. The review placed significant emphasis on the development of a Three Waters Policy and Strategy to address this gap.
27. As noted in a presentation to Environment and Community Committee in September 2017, work is already underway on an Auckland's Water Strategy. It is recommended that the Three Waters Strategy be incorporated into this.
28. The Auckland's Waters Strategy will provide a shared vision and agreed outcomes for water management across the council family. It will be developed with input from mana whenua at a governance level and through targeted public engagement and consultation
29. The review also called for development of an associated integrated asset management plan for the three waters. However, this would require a duplication of the existing asset management plans of Watercare, Healthy Waters and Auckland Transport.
30. These are operational and tactical documents that link directly to the approved Statement of Intent (SOI) for each council controlled organisation. The production and approval of these asset management plans is currently the responsibility of each organisation and their boards.

31. The intent of the S17A review will be achieved through greater alignment of the existing asset management and funding plans. This will identify opportunities for savings through alignment of programmes.
32. A recent example is the Western Isthmus Water Quality improvement programme, where investment and timing of works have been aligned between Watercare and Healthy Waters.

### **Operational Response: Phase One**

33. As outlined in the Executive Summary, a number of recommendations from the S17A review require an operational response.
34. Executive oversight for this operational response will come from the chief executives of Auckland Council, Auckland Transport and Watercare.
35. Three areas were identified in the S17A review that will be considered during the first phase of the operational response. These are capital planning, procurement and operations and maintenance.
36. Opportunities for generating income through alternative sources of revenue will also be considered.
37. Some actions that have already been taken to achieve savings and further opportunities that have been identified in each area are discussed in more detail below.

### *Consolidated Capital Planning*

38. The S17A review focused primarily on opportunities for savings and integration between Watercare and Healthy Waters. Several other parts of the council family also have impacts on stormwater management. For example, there are significant overlaps between stormwater, roading, stream management and flood management.
39. Coordinating work across these areas has the potential to deliver better value through enhanced services and reduced costs.
40. It is recommended that the review of capital planning look broadly across the council family for opportunities for savings and efficiencies, including Auckland Transport, council's Community Facilities, Panuku Development Auckland and any other relevant agencies.
41. Consolidated capital planning is underway for the Western Isthmus Water Quality Improvement Programme and where feasible, this will extend to joint procurement of the construction works.
42. Further opportunities across other capital works programmes are being investigated. For example, there may be potential for savings through aligning three waters and transport investment in the Tamaki redevelopment area, or around the Housing NZ portfolio.
43. The S17A review also asked that options be investigated for a special purpose vehicle for the Central Interceptor. Watercare and Auckland Council's Finance teams are investigating the feasibility of establishing this.
44. In the meantime, work is progressing on the Central Interceptor project, with the creation of a governance structure to oversee delivery and appointment of a programme director. A procurement process for the construction of the project is underway and will be concluded by December 2018.

### *Joint Procurement*

45. Group source procurement collaboration between Auckland Council, Watercare and Auckland Transport on procurement of capital works is already in place. A group procurement policy has been developed and a number of programmes have been jointly procured resulting in better customer service and cost savings.

46. For example, for the Franklin Road project, improvements to the road corridor were combined with Watercare and Auckland Council's separation of the wastewater and stormwater network.
47. At Okahu Bay, Watercare and Healthy Waters have developed a joint project to improve water quality through separation of the network. A joint project at Wynyard Quarter to deliver street improvements and stormwater renewal was also delivered by Auckland Transport and Healthy Waters.
48. Further opportunities for cost savings will be identified across the council family. A report back on this will be provided in May 2018. This will also be informed by the Group Procurement S17A review which is currently underway.

#### *Combined Operations and Maintenance*

49. The S17A review recommended that a business case be developed evaluating the case for council performance-based contracting with Watercare to deliver the operation and maintenance of stormwater.
50. Work is underway to explore opportunities within the existing water supply, wastewater and stormwater maintenance contracts to deliver enhanced customer service and cost savings. Consideration will also be given to any opportunities for savings within the Auckland Transport and Community Facilities maintenance contracts.
51. As the first step, work has commenced on analysing the service level agreements between different departments within Auckland Council and the council controlled organisations. These agreements cover the areas of maintenance overlap between agencies.
52. For example, in areas where services are provided for both Healthy Waters and Watercare by the same company, there may be potential for greater efficiencies. It is recommended that this initial review be completed first to identify opportunities for cost savings which do not require structural changes. These will be reported back in May 2018.
53. A full business case evaluating the cost-benefits for outsourcing of stormwater operations and maintenance to Watercare will be simultaneously developed and reported back to the committee by October 2018.
54. Other non-structural options for achieving better integration of operations and maintenance will also be considered through the business case process.
55. Some key areas to be covered in this business case will include:
  - human resources considerations.
  - funding stream to Watercare for delivery of operations and maintenance.
  - impact on service levels.

#### *Alternative Funding Options*

56. The report back in May 2018 will also consider options for generating revenue through alternative funding sources. This includes whether the current funding assistance rates from the National Land Transport Fund are fairly reflecting the cost of mitigating the stormwater effects of the roading network in Auckland. There may be potential for more costs to be recouped in this area.
57. There may also be opportunities to generate revenue through commercialising and marketing innovative water management solutions developed by council's Healthy Waters department.

#### **Operational Response: Phase Two**

58. The S17A review also made recommendations relating to three other areas:
  - economic regulation
  - overall operating model for delivering water services
  - consolidation of environmental regulation.

### *Economic Regulation*

59. The production of a funding plan for each organisation was recommended in the economic regulation section of the review. A funding plan is currently produced annually for Watercare and options for Healthy Waters for 2019/2020 will be investigated further.
60. Any efficiencies from aligned programmes between Watercare and Healthy Waters will be reflected on an ongoing basis within the funding plans.
61. The S17A review also recommended that Watercare and Healthy Waters participate in the next Water Services Association of Australia benchmarking exercise.
62. Healthy Waters and Watercare will review opportunities for benchmarking of services and look to participate in the next formal benchmarking exercise in 2020.

### *Operating Model and Consolidation of Environmental Regulation*

63. The S17A review also recommended reviewing options in business operating models for all functions involved in delivering water services. It also recommended evaluating the business case for consolidation of environmental regulatory functions across council.
64. These recommendations would require major structural change to implement and are best considered once an overarching strategy for Auckland's waters with has been developed.
65. It is important that any review of the overall operating model for delivery of water services is also informed by the central government Three Waters review. This is a national level review of how to improve the management of drinking water, storm water and wastewater (three waters) to better support New Zealand's prosperity, health, safety and environment.
66. Timelines for this review are not yet confirmed but its outcomes will need to be considered in determining the best operating model for water services

## **Ngā whakaaweawe ā-rohe me ngā tirohanga a te poari ā-rohe / Local impacts and local board views**

67. Local boards have a strong interest in improving water quality across the Auckland region and currently fund many local projects focused on waterways.
68. Local boards will be consulted on development of the Auckland's Waters Strategy. Local boards will also be consulted on any changes to service levels resulting from the S17A operational review.

## **Tauākī whakaaweawe Māori / Māori impact statement**

69. Mauri (life force), is a fundamental concept of the Māori worldview. The state of mauri is an indicator of overall environmental, cultural and social wellbeing. All water sources have an inherent mauri that can be diminished or enhanced.
70. Enhancing the mauri of waterways is of key significance to mana whenua in their role as kaitiaki of Auckland's waters. Early engagement in partnership with mana whenua to promote kaitiakitanga and embed mana whenua values into this work will be critical to the success of the actions outlined in this report.
71. Development of the Auckland's Waters Strategy has been workshopped with the Kaitiaki Forum. The forum requested that one of their members be included on the governance group for the development of the strategy. This has been recognised in the development of the governance structure for the strategy.
72. Mana whenua will also be consulted on the strategy throughout the development, consultation and adopting process.

73. Auckland Council, Auckland Transport and Watercare regularly consult with mana whenua on any major operational projects and this will be ongoing throughout the S17A review process.

### Ngā ritenga ā-pūtea / Financial implications

74. The works associated with delivering the S17A operational response are being carried out by internal staff and will be managed within existing budgets.
75. An update on the scope of the Auckland's Waters Strategy and budgets required will be provided to the Environment and Community Committee in May 2018.

### Ngā raru tūpono / Risks

76. As the works outlined in the S17A review were not planned or budgeted for, there is a risk that they could be delayed due to lack of staffing resource. This will be managed through appointment of dedicated programme managers within each organisation and reporting on progress to an Executive Management Group.
77. There is also a risk that the cost savings of \$300 million may not be an accurate estimate of potential savings. Any material change to this will be reported to the respective boards and the Finance and Performance Committee.

### Ngā koringa ā-muri / Next steps

78. Work is progressing on the development of the Auckland's Waters Strategy. Updates on the development of this will be provided to the Environment and Community Committee, with an aim of adopting the final strategy by June 2019.
79. For the operational review, work has commenced to identify and realise cost efficiencies, including those achieved since 1 July 2017, those underway and new opportunities. An action plan and estimates of savings to be achieved in Phase One will be provided to the Finance and Performance Committee in May 2018.
80. Executive oversight for this operational response will come from the chief executives of Auckland Council, Auckland Transport and Watercare.
81. Where possible, potential cost savings will be included in the Long-term Plan budgets. Efficiencies identified after the long-term plan process is completed, will be captured in future annual or long-term plans

### Ngā kaihaina / Signatories

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