

## VALUE FOR MONEY IMPLEMENTATION PROGRESS REPORT

<b>Review:</b>	S17A - Three Waters Review	<b>Flag</b>	<b>GREEN (Overall)</b>
<b>Report Date</b>	20 August 2018	<b>Report Period</b>	June - August 2018

### Status Overview for the Review

Council staff are progressing the action plan for responding to the S17A - Three Waters Review approved by Finance and Performance Committee in February 2018 (Resolution number FIN/2018/13). This includes:

- Developing an Auckland's Waters Strategy
- Forming a joint working team to progress opportunities for savings through joint procurement, capital planning, and operations and maintenance across Auckland Council, Auckland Transport and Watercare.
- Developing a business case evaluating further opportunities to work collaboratively across the council family, including evaluating outsourcing of stormwater operations and maintenance from Auckland Council to Watercare
- Providing advice on options for integration between Watercare and Veolia in Papakura in the planning and provision of water infrastructure.
- Progressing S17A recommendations relating to economic regulation, the operating model for all water services and consolidation of environmental regulation as part of the second phase of council's response to the Value for Money review.

Good progress on implementing this action plan has been made during the May to August 2018 period with \$293 million of benefits forecast over the next decade.

- The Environment and Community Committee approved the budget, scope and timeframes for the Auckland's Waters Strategy in June 2018 (Resolution number ENV/2018/78). Workshops with key subject matter experts across the council family and councillors to inform the strategy were held in July and August. Workshops have been scheduled with all local boards in September and October to seek their feedback on key issues to be covered in the strategy.
- Martin Jenkins has been jointly commissioned by Watercare and Auckland Council to carry out a feasibility assessment of the case for outsourcing stormwater operations and maintenance from council to Watercare. Results of this review will be reported back in December 2018.
- Financial estimates of savings to be achieved through the Value for Money review are consistent with those presented to the committee in the last quarterly update in early June 2018. They include:
  - Realisation of \$179 million in benefits through Watercare capital expenditure that can be deferred or avoided without increasing operational risk.
  - Realisation of \$1 million in benefits from joint programme delivery and procurement
  - Forecast of \$108 million in additional savings from joint programme and project delivery work between Auckland Transport, Healthy Waters, and Watercare. A number of joint capital projects are either being developed or in construction.
  - Forecast \$1 million in operational savings from incorporating the three waters strategy into Auckland's Waters
  - Forecast of \$3.6 million potential operational and maintenance savings. Further investigations are underway, through the Martin Jenkins review described above, to determine where additional efficiencies can be delivered.
  - Opportunities to avoid capital expenditure through innovation and process improvements project continue to be explored by Watercare. For example, new innovations in water treatment technology may remove the need for upgrades to water treatment infrastructure
  - Additional opportunities for procurement savings will be explored through the S17A review of procurement across the council family.
- These savings have been captured in the Long-term Plan 2018-2028.

Benefit Realisation (\$,000s)				
Benefit opportunity	Benefit forecast	Variance to opportunity	Benefit realised (to date)	RAG
\$300,000	\$292,692	\$7,308	\$181,069	

### Commentary

Work is progressing on the actions approved by the Finance and Performance Committee in February 2018. As noted in the last update, approximately \$181 million of benefits have been realised to date. While the majority of the benefits to date are from deferred capital expenditure and optimisation of projects, other opportunities are being explored to avoid expenditure while achieving desired outcomes. Future benefits forecast will mainly be achieved through joint project delivery and procurement efficiencies.

Note: All figures used are in real dollars (uninflated)

### Risk amount

The potential operational savings that have been identified above can be achieved through efficiencies in the council family's operations and maintenance. However, these savings may be offset by the effects of growth and more extreme weather events, which increase the risk of flooding.

### Definition

**Benefit opportunity** – this is the benefits identified by the Value for Money review

**Benefit forecast** – this is the forecast benefit (of approved opportunities) following business unit review of the benefit opportunity. Note that not all benefits were valued as part of VFM review so forecast may include additional benefits

**Benefit realised** – these are benefits that have either been realised or have been included in the Long-term Plan

**Benefit realisation plan developed** – Y/N – is there a documented plan to realise benefit from VFM review

### RAG

- **Green** – work will progress as planned, due date will be met or if the due date has been revised it will not affect the project critical path or a dependent project
- **Amber** – Due date has or will possibly be missed and this may affect the project critical path or a dependent project, or an issue has arisen that may affect this project or a dependent project
- **Red** – due date has or will imminently be missed and this will affect the project critical path or a dependent project, or an issue has arisen that will negatively impact this project or a dependent project.

## Key Initiatives

Initiative	Start Date	Completion Date	Flag	Work plan achievements
Develop Auckland's waters (three waters) strategy	November 2017	June 2019		<p>The scope, budget and timeframes of the Auckland's Waters Strategy were approved by the Environment and Community Committee on 12 June 2018 (Resolution number ENV/2018/78).</p> <p>Incorporating the three waters strategy and policy within Auckland's Water Strategy will result in operational savings of approximately \$1 million, as this can be integrated with existing work programmes within the council family.</p>
Consolidated Capital Planning	November 2017	Ongoing		<p>The S17A review estimated a benefit opportunity of \$121 million savings from consolidated capital planning. As noted in the last update, \$179 million of benefits from consolidated capital planning have been realised. These were captured in the Long-term Plan 2018-2028.</p> <p>Watercare, Healthy Waters and Auckland Transport are now reviewing their Asset Management Plans to identify opportunities for alignment and greater efficiencies. Watercare are continuing to explore opportunities for how investment can be reduced through innovation and process improvement projects. For example, new innovation in treatment technology may remove the need for capacity upgrades to water treatment infrastructure, resulting in avoided capital expenditure.</p>
Joint project delivery and Procurement	July 2017	Ongoing		<p>The S17A review forecast a benefit opportunity of \$166 million from joint procurement of projects. To date \$1 million has been realised and opportunities for a further \$108 million of savings through joint project delivery have been identified</p> <p>To achieve this Watercare, Healthy Waters and Auckland Transport have identified locations where roading, stormwater, wastewater and water supply projects are needed in the same area. These projects are then being jointly procured and delivered.</p> <p>This approach significantly reduces duplicated expenditure on traffic management and reinstatement of road surfaces. This 'dig once' approach also reduces the impact of construction on residents and local businesses, for example, through fewer closures of the road corridor. Some examples of projects that are underway using this joint approach include:</p> <ul style="list-style-type: none"> <li>Line Road – will replace both stormwater and wastewater pipelines in Line Road to reduce flooding and enable new development by Tamaki Regeneration Company. The project is being delivered by Healthy Waters with funding provided from Watercare for wastewater</li> </ul>

				<p>upgrades. Project design is underway and the project will soon go to tender.</p> <ul style="list-style-type: none"> <li>• Tāmaki College – will reduce flooding and enable growth in the Tāmaki Regeneration Area which runs through the Tāmaki College grounds and crosses Taniwha Street. Watercare are currently constructing a major trunk sewer upgrade along Taniwha Street in the same location. To achieve efficiencies, Watercare will construct the Healthy Waters project as a variation to their current contract and Healthy Waters will fund it.</li> <li>• Morgan St – separation of the stormwater and wastewater network to reduce overflows and contamination to Newmarket Stream and enable intensification of development in the Carlton Gore Road area of Newmarket. The project is in construction and likely to be completed by September 2018. The project is being delivered by Healthy Waters but will improve operation of both the stormwater and wastewater systems.</li> <li>• Picton Street – a joint project between Healthy Waters, Watercare and Auckland Transport to reduce overflows and contamination in the Waitemātā Harbour by separating the stormwater and wastewater network. The aim is to start construction within this financial year.</li> </ul> <p>Further opportunities have been identified, including the following:</p> <ul style="list-style-type: none"> <li>• Western Isthmus (wastewater and stormwater improvements)</li> <li>• Integrating wastewater works (e.g. branch wastewater pipes and shafts) with the Central Interceptor Project</li> <li>• Aligning renewals and upgrades to existing infrastructure with the development of growth areas (e.g. Tamaki, Northcote).</li> </ul> <p>Additional opportunities for procurement savings will be explored through the S17A review of procurement across the council family.</p>
Joint Operations and Maintenance Activities	March 2018	Ongoing	Further benefits being investigated	<p>A review of Watercare and Healthy Water’s operations and maintenance contracts has identified some activities which can be coordinated across the two organisations and jointly procured.</p> <p>A benefit opportunity of \$13 million for joint operations and maintenance was forecast in the S17A review. To date \$3.6 million of potential benefits have been identified.</p> <p>Martin Jenkins have been engaged by Healthy Waters and Watercare to carry out a feasibility assessment of the case for outsourcing stormwater operations and maintenance from council to Watercare. Results of this review will be reported back in December 2018.</p>

Benefit Forecast (\$,000)												
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total
<b>Three waters strategy &amp; policy (avoided through development of Auckland's Waters Strategy)</b>												
Watercare	\$1,000											\$1,000
<b>Consolidated capital planning (deferred through review of the Asset Management Plan)</b>												
Watercare	\$179,000											\$179,000
<b>Joint project delivery and procurement</b>												
Watercare	\$250	\$312	\$280	\$208	\$320	\$384	\$792	\$1,304	\$1,704	\$2,272	\$2,232	\$10,058
Healthy Waters	\$819	\$312	\$46	\$987	\$1,128	\$2,022	\$1,900	\$1,480	\$1,560	\$920	\$1,160	\$12,334
Western Isthmus		\$613	\$1,900	\$2,217	\$2,829	\$3,138	\$5,035	\$5,521	\$5,351	\$5,050	\$5,045	\$36,699
Integration with Central Interceptor <sup>1</sup>		\$50,000										\$50,000
<b>Joint operations and maintenance activities</b>												
Joint Operational Activities <sup>2</sup>		\$325	\$332	\$351	\$364	\$369	\$372	\$372	\$372	\$372	\$372	\$3,601
<b>Total</b>	<b>\$181,069</b>	<b>\$51,562</b>	<b>\$2,558</b>	<b>\$3,763</b>	<b>\$4,641</b>	<b>\$5,913</b>	<b>\$8,099</b>	<b>\$8,677</b>	<b>\$8,987</b>	<b>\$8,614</b>	<b>\$8,809</b>	<b>\$292,692</b>

<sup>1</sup>Benefits realised upon tender award

<sup>2</sup>Preliminary operational efficiencies identified, further analysis to be reported in December

Benefit Realised (per period)												
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total To Date
<b>\$181,069</b>												\$181,069