

VALUE FOR MONEY IMPLEMENTATION PROGRESS REPORT

Review:	S17A - Three Waters Review	Flag	GREEN (Overall)
Report Date	09 06 2018	Report Period	March – June 2018

Status Overview for the Review

On 27 February 2018 the Finance and Performance Committee received a joint report from Auckland Council's Healthy Waters department, Watercare and Auckland Transport outlining their action plan for responding to the S17A - Three Waters Review. In response the committee resolved that staff should:

1. Develop an Auckland's Waters Strategy
2. Form 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.
3. Develop 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
4. Provide advice on options for integration between Watercare and Veolia in Papakura in the planning and provision of water infrastructure.
5. Progress 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.

An update on progress on the first four actions is provided below. The remaining recommendations relating to economic regulation, the operating model for delivery of all water services and consolidation of environmental regulation will be considered after completion of the Auckland's Waters Strategy in June 2019. Work on these will also be informed by the central government Three Waters review, which is currently underway

In summary, good progress has been made during the update period with \$293 million of benefits forecast over the next decade. Updates on progress over the period include:

- The joint development of the scope, budget and timeframes for Auckland's Waters Strategy and the identification of \$1 million in operational savings from incorporating the three waters strategy into Auckland's Waters
- Realisation of \$179 million in benefits through deferred Watercare capital expenditure. Watercare has identified significant capital expenditure that can be deferred or avoided without increasing operational risk. This deferral will allow Watercare's portion of the Western Isthmus Programme to be brought forward and, also, helps council to manage its debt to revenue ratio
- Realisation of \$1 million in benefits from joint programme delivery and procurement
- Additional forecast joint programme and project delivery work has identified \$108 million in additional savings
- To date \$3.6 million of operational and maintenance savings have been identified. Initial work into this workstream has revealed a larger overlap of customer service requests and maintenance between Auckland Transport and Healthy Waters than was considered in the value for money review. Further evidence-based investigations will be undertaken to determine where efficiencies can be delivered.
- Opportunities to avoid capital expenditure through innovation and process improvement projects are being explored by Watercare. For example, new innovations in treatment technology may remove the need for capacity upgrades to water treatment infrastructure resulting in avoided capital expenditure.
- Additional opportunities for procurement savings will be explored through the S17A review of procurement across the council family

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. 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

A sum of approximately \$16 million has been identified as a potential benefit forecast from the Healthy Waters portion of the Western Isthmus Water Quality Improvements Programme that is not yet confirmed. Delivery of these benefits is dependent on approval of the water quality improvement targeted rate as part of the Long-term Plan 2018-2028.

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>A report outlining the scope, budget and timeframes of the Auckland's Waters Strategy will be presented to the Environment and Community Committee for their consideration on 12 June 2018.</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 works programmes within the council family.</p>
Consolidated Capital Planning	November 2017	Ongoing		<p>In addition to Watercare reviewing its Asset Management Plan, opportunities are being explored where investment has been 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> <p>The S17A review estimated a benefit opportunity of \$121 million savings from both completion of the three water's strategy and consolidated capital planning. To date \$179 million of benefits have been realised.</p>
Joint project delivery and Procurement	July 2017	Ongoing		<p>Watercare, Healthy Waters and Auckland Transport have worked together to identify locations where roading, stormwater, wastewater and water supply projects are needed in the same location. These projects have then been jointly procured and delivered.</p> <p>This approach significantly reduces duplicated expenditure on traffic management and reinstatement of road surfaces. These activities typically constitute over 20 per cent of the cost of projects in the road corridor. This 'dig once' approach to work in the road corridor also reduces the impact of construction on residents and local businesses. Projects which have been delivered to date using this approach include:</p> <ul style="list-style-type: none"> • Franklin Road (stormwater separation, watermain renewal and road rehabilitation) • Panorama Road (watermain and footpath upgrade) • Wynyard Quarter (stormwater capacity upgrades and renewals) • Line Road (wastewater and stormwater renewals). <p>Further opportunities have been identified, including the following:</p> <ul style="list-style-type: none"> • Western Isthmus (wastewater and stormwater improvements) • Integrating wastewater works (e.g. branch wastewater pipes and shafts) with the Central Interceptor Project

Joint Operations and Maintenance Activities	March 2018	Ongoing	Further benefits being investigated	<ul style="list-style-type: none"> Aligning renewals and upgrades to existing infrastructure with the development of growth areas (e.g. Tamaki, Northcote). <p>A benefit opportunity of \$166 million from procurement was forecast in the S17A review. To date \$1 million has been realised and a further \$108 million has been identified through the joint project delivery as described above. Additional opportunities for procurement savings will be explored through the S17A review of procurement across the council family.</p> <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. These include the use of closed circuit television to assess pipes, flushing of blocked pipes, cutting back of roots intruding into pipes, and aligning the water quality monitoring programmes.</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>The effect of consequential operational expenditure is high for stormwater treatment assets compared to piped networks and these cost pressures will increase as future urban areas are developed.</p> <p>The S17A review suggested that stormwater operations and maintenance functions delivered by Auckland Council should be integrated into Watercare to achieving savings. However, initial analysis indicates that there is a larger overlap of customer service requests and maintenance activities between Healthy Waters and Auckland Transport. These suggested savings need further evidence-based investigations to determine where efficiencies can be found.</p> <p>Further opportunities for integration of operations and maintenance functions between Watercare and Healthy Waters may exist and these will be reviewed. The outcomes of this will be reported back to the relevant committee in December 2018.</p>
Options for integration with Veolia	March 2018	Ongoing		<p>The request for advice on options for integration between Watercare and Veolia for the planning, funding and delivery of water supply and wastewater infrastructure in Papakura has been considered. Veolia has rights and obligations under the historical Franchise Agreement with Watercare in relation to the provision of services in Papakura. The Franchise Agreement allows Veolia to operate these services until 2047. Without renegotiating the arrangement with Veolia there is limited scope for further integration. However, Watercare and Veolia are working to more closely align how water and wastewater infrastructure is delivered in Papakura with particular emphasis on growth infrastructure. As an example, the two organisations are currently involved jointly with developers in designing and constructing water supply lines to service growth at Hingaia.</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
Three waters strategy & policy (avoided through development of Auckland's Waters Strategy)												
Watercare	\$1,000											\$1,000
Consolidated capital planning (deferred through review of the Asset Management Plan)												
Watercare	\$179,000											\$179,000
Joint project delivery and procurement												
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 ¹		\$50,000										\$50,000
Joint operations and maintenance activities												
Joint Operational Activities ²		\$325	\$332	\$351	\$364	\$369	\$372	\$372	\$372	\$372	\$372	\$3,601
Total	\$181,069	\$51,562	\$2,558	\$3,763	\$4,641	\$5,913	\$8,099	\$8,677	\$8,987	\$8,614	\$8,809	\$292,692

¹Benefits realised upon tender award

²Preliminary 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
	\$181,069											\$181,069