

I hereby give notice that an ordinary meeting of the CCO Direction and Oversight Committee will be held on:

Date: Tuesday, 6 June 2023
Time: 2.00pm
Meeting Room: Reception Lounge
Venue: Auckland Town Hall
301-305 Queen Street
Auckland

**Komiti mō te Whakahaere Tikanga me te Aro ki
te Pae Tawhiti mō ngā Whakahaere ka
Whakahaerehia e te Kaunihera /
Council Controlled Organisation Direction and
Oversight Committee**

OPEN AGENDA

MEMBERSHIP

Chairperson	Cr Wayne Walker	
Deputy Chairperson	Cr Shane Henderson	
Members	Cr Josephine Bartley	Cr Richard Hills
	IMSB Member James Brown	Cr Daniel Newman, JP
	Cr Angela Dalton	Cr Ken Turner
	Cr Chris Darby	Cr John Watson
	IMSB Member Hon Tau Henare	Cr Maurice Williamson
Ex-officio	Mayor Wayne Brown	
	Deputy Mayor Desley Simpson, JP	

(Quorum 6 members)

Duncan Glasgow
Kaitohutohu Mana Whakahaere Matua /
Senior Governance Advisor

31 May 2023

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1 Ngā Tamōtanga | Apologies

2 Te Whakapuaki i te Whai Pānga | Declaration of Interest

3 Te Whakaū i ngā Āmiki | Confirmation of Minutes

Click the meeting date below to access the minutes.

That the Council Controlled Organisation Direction and Oversight Committee:

- a) confirm the ordinary minutes of its meeting, held on [Thursday, 11 May 2023](#), including the confidential section, as a true and correct record.

4 Ngā Petihana | Petitions

5 Ngā Kōrero a te Marea | Public Input

6 Ngā Kōrero a te Poari ā-Rohe Pātata | Local Board Input

7 Ngā Pakihi Autaia | Extraordinary Business

Quarter Three Performance Reports 2022/2023 Substantive Council Controlled Organisations and Ports of Auckland Limited

File No.: CP2023/06334

Item 8

Te take mō te pūrongo Purpose of the report

1. To receive a summary of and comments on the substantive Council-Controlled Organisation (CCO) and Ports of Auckland Limited (POAL) third quarter reports, for the period ending 31 March 2022.

Whakarāpopototanga matua Executive summary

2. Under Auckland Council's accountability framework, each substantive Council-Controlled Organisation (CCO) must provide a quarterly report to the CCO Direction and Oversight Committee. The reports for the third quarter of 2022/2023 are contained in Attachments A to C and are measured against the 10-year Budget and the 2022-2025 Statements of Intent (SOIs).
3. Under the Memorandum of Understanding between POAL and the council, POAL is required to provide a quarterly report to the council as shareholder. The report for the third quarter of 2022/2023 is contained in Attachment D.
4. Key results are highlighted in the table below and in more detail in the body of the report.

Council-controlled Organisation	Summary of Quarter Three results
Tātaki Auckland Unlimited (TAU)	<ul style="list-style-type: none">• TAU's operating financial result was favourable to budget by \$5.4 million due to better performance on events, visitation and film revenue, and timing difference in expenditure. Capital spend was \$29.8 million (71 per cent against year-to-date budget).• TAU has 11 SOI performance measures of which four were achieved, four are on track to being achieved, one is not on track and two have not been measured this quarter.
Eke Panuku	<ul style="list-style-type: none">• Eke Panuku has been tracking favourably to budget driven by lower spend in staff costs and professional services.• Operating financial result for the council property portfolio managed by Eke Panuku continued to outperform the plan due to both higher rental revenue and lower costs than planned. Capital spend was \$45 million (87 per cent against year-to-date budget).• Eke Panuku has 12 performance measures of which 6 are on track to meet their targets, 3 are at risk, 3 have not been measured.

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Council-controlled Organisation	Summary of Quarter Three results
Watercare	<ul style="list-style-type: none"> Storm and cyclone events had a significant impact on operations in the quarter. Flood response recovery has focused on repairs where they can be made quickly and planning for more complex works required. The Muriwai Water Treatment Plant has been red stickered and remains out of service. An interim solution is in place to maintain water supply. Capital expenditure is expected to exceed the 2022/23 budget of \$715 million, and an increase to \$812 million was approved by the Governing Body on 23 May 2023. Operating financial result was unfavourable to budget mainly due to lower infrastructure growth charges revenue and higher unplanned maintenance costs caused by the weather events in the third quarter.
Ports of Auckland Limited	<ul style="list-style-type: none"> POAL met FY23 annual budget of \$35 million NPAT after 9 months and are now forecasting a full year NPAT of \$45 million, at the higher-end of previously forecasted range. Safety is improving with injuries reducing both in frequency and severity. The return of berth windows brings further stability to operations, customer expectations and resource planning.

Ngā tūtohunga Recommendations

That the Council Controlled Organisation Direction and Oversight Committee:

- a) whiwhi / receive the 2022/2023 third quarter reports of the substantive Council-Controlled Organisations and Ports of Auckland Limited, provided as attachments A to D of the agenda report.

Horopaki Context

5. Each substantive CCO must provide a quarterly report to the CCO Direction and Oversight Committee. They are required to:
 - summarise the CCO's performance against the approved budget and agreed targets in the 10-year Budget and SOI;
 - provide a forecast of the CCO's performance;
 - identify the cause of major variances;
 - highlight major achievements for the quarter; and
 - signal any potential or developing issues.

6. The CCO reports for the third quarter of 2022/2023 are in Attachments A to C of the agenda report.
7. Under the Memorandum of Understanding between POAL and the council, POAL is required to provide a quarterly report to the council as shareholder. Council and POAL have agreed a format similar to the quarterly report for substantive CCOs. The report for the third quarter of 2022/2023 is in Attachment D of the agenda report.

Tātaritanga me ngā tohutohu Analysis and advice

Tātaki Auckland Unlimited

Financial performance

8. Operating financial result for Tātaki Auckland Unlimited (TAU) is favourable to budget by \$5.4 million as measured by net direct expenditure.
9. Direct revenue continues to be ahead of the budget with a favourable variance of \$25.2 million, due largely to the unbudgeted grant funding from NZ Government Activate and Reactivate Tāmaki Makaurau programme, and better than expected event and film revenues.
10. Direct expenditure is \$19.8 million higher than budget due to the corresponding unbudgeted Activate and Reactivate Tāmaki Makaurau expenditure, increased costs of sales, costs incurred to progress the Single Operator Stadiums Auckland Project and flood damage costs.
11. Capital spend of \$29.8 million is below the YTD budget of \$42.1 million (71 per cent) due to delays in securing labour as a result of the abundance of work in the market, extended business casing periods and disruptions due to the weather events.

Non-financial performance and other issues

12. TAU has 11 SOI measures, of which 7 are 10-year Budget measures. Eight of the eleven measures are tracked quarterly, one is a six-monthly measure and two are annual measures.
13. At the end of quarter three, four performance measures were achieved, four are on track to being achieved, one is not on track, and two have not been measured. The measure that is not on track is “Number of Māori businesses that have been through a TAU programme or benefitted from a TAU intervention.” The annual target for this measure is 150, the quarter three result is 77.
14. At the time this target was set, TAU was planning to establish a new Māori business team. However, as a result of recruitment challenges and uncertainties regarding future economic development activity, the establishment of this team has been paused. This has resulted in TAU working with fewer Māori businesses than was anticipated at the start of the year.
15. Highlights for quarter three include:
 - At 1.54 million year to date, ticketed attendance across TAU’s venues and events was tracking 13.2 per cent above the SOI target at the end of the third quarter. Further, the net promoter score across all venues was 10 per cent above the target. Note the ticketed attendance performance measure does not account for free and un-ticketed attendance at venues such as Auckland Art Gallery where the majority of visitors are un-ticketed.
 - Stage 1 of the Auckland Art Gallery’s *Kia Whakahou, Kia Whakaora* Heritage Project commenced on 18 January. It includes roof replacement and various heritage repairs and is expected to take two years to complete.

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- The first full Pasifika Festival since 2018 was delivered successfully at Western Springs on 18-19 March 2023. More than 36,000 people enjoyed the unique culture, food and performances from 11 Pacific Island nations.
- The Auckland Arts Festival returned in March for its first full uninterrupted programme since 2019. More than 100 events took place, including several world premiere productions. The festival was attended by 60,000 patrons.
- TAU hosted *Auckland's Future, Now* in its revised, breakfast session format on 28 February 2023. The focus of the event was on how Auckland can compete globally in times of challenge and change.

16. The below table sets out a summary of progress towards the measures.

Tātaki strategic outcomes	Target met or on track to be met	Target at risk or will not be met	Not reported this quarter	Total
Enhance Auckland as a culturally vibrant city for all	2		1	3
Expand economic opportunities for all Aucklanders	1	1		2
Provide an effective economic, cultural, social and environmental return on investment	1			1
Increase capital investment in Auckland for economic and cultural outcomes	2			2
Build a sustainable future focussed organisation	2		1	3
Total	8	1	2	11

Issues / risks

17. Through the council's Annual Budget process for 2023/24, TAU has been asked to find \$44 million of operational cost savings. The organisation will go through a major change programme to achieve the savings and it will be important to maintain focus on the delivery of the current programmes and services.
18. The significant weather events that affected Auckland between the end of January and February 2023 were managed effectively by the TAU divisions impacted. However, the damage created short- and long-term implications for TAU.

Eke Panuku

Financial performance

19. Eke Panuku has been tracking favourably to its operating budget (\$3.9 million favourable to net direct expenditure). This underspend is primarily due to reduced staff costs, a result of slower recruitment pace and an organisational restructure, coupled with lower-than-anticipated professional services costs.

20. For the council property portfolio managed by Eke Panuku, direct revenue has continued to track better than budget, largely due to additional rental income being received for longer than planned tenancy periods for some properties including Bledisloe House and properties in Hobsonville and New Lynn. Direct expenditure is favourable to budget by \$4 million due to lower spend in repairs and maintenance costs across the portfolio, savings from rates costs and lower regeneration spend.
21. Capital spend is \$45 million against YTD budget of \$51.5 million (87 per cent) and it is forecast to meet the revised annual budget of \$60 million.

Non-financial performance and other issues

22. Eke Panuku has 12 performance measures of which five are 10-year Budget measures. Nine of the 12 measures are tracked quarterly, two are tracked annually (surveys) and one will not be measured this year.
23. At the end of quarter three, six performance measures are on track to be achieved, three performance measures are at risk and three have not been measured.
 - public realm square meters – at risk due to construction delays due to recent weather events
 - capital project milestones achieved – at risk, the forecast is for 73 per cent of milestones to be completed (11/15 milestones) against a target of 80 per cent.
 - transform and unlock net sales – at risk due to the timing of the sale of a commercial building in Wynyard Quarter.
 - commercial / retail gross floor area (GFA) or net lettable area (square meter) – the target of 1,000 square meters will not be measured or met as the work will not be progressed due to programme and construction timing changes.
24. The below table sets out a summary of progress towards the measures.

Eke Panuku strategic focus areas	Target met or on track to be met	Target at risk or will not be met	Not reported this quarter	Total
Urban regeneration programmes	2	3	1	6
Property management services	2		1	3
Sector leadership	2		1	3
Total	6	3	3*	12

*Two are annual surveys and one measure will not be met or measured this year.

25. Urban regeneration highlights for the quarter include:
 - The annual new dwellings target has been met, with 242 new homes delivered by development partners against a target of 200 dwelling units.
 - Work has commenced on conceptual plans for the future use of Ports of Auckland property. The scope has been presented to councillors and work is underway to prepare for a direction-setting discussion with the Governing Body mid-year.
 - The North Wharf site in Wynyard Quarter has gone to the market this quarter, a development partner is sought to create a sustainable building for the site.

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26. Property portfolio management highlights for the quarter include:
- The surplus for the managed portfolio was \$19.4 million, \$6.1 million ahead of phased budget year to date. Eke Panuku project that the full year budget will be achieved or exceeded.
 - Asset sales in the year to date totalled \$73.6 million (80 per cent) against a combined annual target of \$91.7 million for Transform and Unlock and Asset Recycle sales. One significant sale became unconditional this quarter. Achieving the asset sales targets will be affected by the downturn in the property market.

Issues / risks

27. Eke Panuku have again noted that the weakening property market is impacting property development sales targets. However, failure of construction firms or contractors is also starting to emerge as a risk. Monitoring and due diligence of contractor or development partner selection will help mitigate this risk.
28. Impacts from recent flooding events (property repairs and financial impacts) are being worked through with the council's insurance provider.
29. Eke Panuku have had additional work to prioritise projects and work to give effect to organisational changes to realise budget savings. Other risks such as unbudgeted work and new priorities, material supply and delays with statutory planning processes are managed via early procurement, rescheduling of projects and resource planning.
30. The Human Rights Review Tribunal hearing in relation to the former Tavern Lane site development in Papatoetoe between the council/Eke Panuku and Ngai Tai Waipareira Housing concluded in June 2022. The Tribunal findings are yet to be released.

Watercare

Financial performance

31. Watercare's YTD net direct operating revenue is \$387 million, below the \$411 million budget by 5.9 per cent.
32. Direct revenue is overall on budget. Within this, water and wastewater revenue and the Waikato District Council contract is above planned. Conversely, revenue from developer Infrastructure Growth Charge (IGC) is below budget, reflecting the lower volume of IGC applications and the general reduction in developer activity this year.
33. Direct expenditure is above budget (\$26.7 million unfavourable) due to escalated operating costs, flood impacts, unplanned costs for Lutra, and increased Waikato District Council contract expenditure, recovered by an equivalent revenue increase.
34. Capital expenditure over the nine-month period aligns closely with the budget (99 per cent). Watercare's capital programme delivery is expected to accelerate for the remaining course of the year, projecting a total spend of \$812 million. On 23 May 2023, the Governing Body approved Watercare's request to increase the planned capital expenditure for the 2022/2023 financial year from \$715 million to \$812 million.

Non-financial performance and other issues

35. There was a significant operational response to the storm and flood events in January and February 2023. Watercare were proactive in communicating to the public and elected representatives through the events and during the immediate recovery and report that they received good feedback from stakeholders and customers on their communications approach.

36. Watercare have established an internal flood response recovery team to coordinate the recovery and adaptation repair works required over the next two years. Watercare reports working collaboratively with the council group and other utilities so that there is a dig once approach.
37. Following the Government's reset of the water services reform in April 2023, the next major milestone is the report back to the House of Representatives on the Water Services Legislation Bill and Water Services Economic Efficiency and Consumer Protection Bill by the Finance and Expenditure Committee. Both Auckland Council and Watercare made submissions on the bills. The select committee is due to report back to the House by 8 June 2023. There will also be additional legislation required as a result of the reset which the government intends to introduce before the 2023 general election.
38. Water and wastewater tariffs will increase by 9.5 per cent and growth charges will rise by eight per cent on 1 July 2023 in line with the agreed price path. There are some measures available to support financially vulnerable customers.
39. Dam levels are high (100 per cent as of 22 May 2023). Formal compliance reporting to the new water regulator Taumata Arowai started in March 2023 which includes additional standards. There were two areas of non-compliance in quarter three, in the Hilltop Zone in Pukekohe and the Helensville Zone. Watercare report these did not involve any risk to public health.
40. The Central Interceptor programme remains within the agreed budget and is due to be completed by June 2026. It is proposed to extent the tunnel to Point Erin. The major upgrade of the Pukekohe Wastewater Treatment Plant was completed in February 2023 resulting in increased capacity and improved environmental outcomes.
41. Watercare is reviewing the Wastewater Network Strategy which applies to wet weather discharges from the network. It is also developing long-term water and wastewater service strategies and is engaging with communities in Helensville/Parakai and Beachlands/Maraetai on the future services and infrastructure required in these areas.
42. Watercare is considering future options regarding its 67 per cent shareholding in Lutra Limited, which provides operational software and engineering service solutions to the water and wastewater industry.
43. Watercare has a total of 32 SOI measures. Four monthly measured targets were not met in the quarter:
 - Procurement sourced through Māori owned businesses – at 1.97 per cent was below the target of two per cent. Indirect spend is proving problematic to source from a major supplier, which is affecting this result.
 - Number of wet weather overflows – an average of 5.6 per discharge location compared within a target of less than two a year. This measure is likely to remain above target following the severe weather in January and February 2023.
 - Median response times for attendance at sewage overflows – at 64 minutes was above the maximum target time of 60 minute. This is due to the ongoing operational impact from the severe weather events.
 - Total recordable injury frequency rate –TRIFR per million hours worked was 19.58 in the quarter, above the maximum target of 10. Watercare has a large capital programme and addressing health and safety is a high priority for the board and executive.
44. In addition, Watercare has indicated it is unlikely to meet year-end targets for an additional five measures. These are:
 - workforce and organisation culture measures of the employee net promoter score, gender workforce ratio, number of Māori employees, and leadership walks to support the organisation's health and safety culture.

- greenhouse gas emissions, estimating it will be over its year-end target by approximately 12 per cent (10,500 tonnes CO₂e).

45. The below table sets out a summary of progress towards the measures.

Watercare value creation	Target met / on track	Target not met/ not on track	Not reported this quarter	Total
Customer and stakeholder relationships	14	2		16
Natural environment	2	1		3
People and culture	1	5		6
Asset and infrastructure	3	1	1	5
Financial and capital resources	2			2
Total	22	9	1	32

Issues / risks

- There was an increase in wastewater consent non-compliance from the flood events, including at Māngere and Army Bay wastewater treatment plants.
- The Muriwai Water Treatment Plant has been red stickered and remains out of service. An interim solution is in place to maintain water supply and investigations are underway for the longer-term solution.
- The mediation process continues with appellants on the replacement to the Huia Water Treatment Plant.
- It is an unsettling time for Watercare staff, with consultation starting in March 2023 on job pathways to the new Entity A which will be established by the Government's water services reform.

Ports of Auckland Limited

Financial performance

- POAL's operating revenue is better than budget (\$22 million favourable to YTD budget), improved further from the half year result. The positive revenue trend is primarily driven by strong demurrage, storage revenue, compensating for lower-than-expected revenue from its container business.
- Operating expense is \$8 million higher than budget due to increased resourcing in container terminal to support return to berth windows and higher fuel and transport costs in support of the increased transport and storage revenue, and dry-docking costs of bunker barge Awanuia.
- Net Profit After Tax (NPAT) for the quarter YTD stands at \$36 million, \$11 million favourable to budget. POAL anticipates the full-year result to be at least \$45 million.
- Capital expenditure is at \$18.6 million, against a budget of \$40.8 million (46 per cent of delivery) due to project delays and reprioritisation. Full year spend is expected to be in the range of \$25 -\$30 million.

Non-financial performance and other issues

54. Several key performance targets relating to the container business are not on track to meet target, but they show improvements from quarter two:
- Percentage of ships turned on time was 45 per cent - up from 39 per cent in quarter two but below the target of 75 per cent. POAL note that the result for March was 73 per cent.
 - Crane rate (as measured by MOT) was 24.0 – unchanged from quarter two and just below the target of 25.
 - Ship rate (as measured by MOT) was 45 – slightly up from 44.7 in quarter two, but below the target of 50.
 - TEU (Twenty-foot Equivalent Unit) throughput (000's) was 199 for the quarter down from 224 in quarter two and below target.
 - Multi-cargo car units processed (000's) was 51 down from 63 in quarter two and below target.
55. January and February were heavily influenced by the severe weather suspensions and frequent public holidays. Improving container terminal performance remains a top priority for POAL and improvements in performance are starting to be seen. Crane and ship rates are not on target as POAL continues to build labour capacity and training new staff with new skills. Operational Improvement Workgroup has commenced with Steerco of representatives across all operational areas including MUNZ to focus on key areas to lift performance while maintaining safety.
56. Key targets that are on track include:
- Customer satisfaction survey – 7.4/10 is above the target of 6/10
 - Container Terminal – Truck turnaround time (percentage turned at less than 30 minutes) - 80.9 per cent steady from quarter two and above the target of 75 per cent.
 - Multi-cargo average car dwell time (days) – 1.97 up from 1.89 in quarter two but still better than target of 2.1 days.
 - Percentage of land-side moves on rail - 14.8 per cent, down from 15.2 per cent in quarter two but above target of 14 per cent.
 - Multi-cargo breakbulk tonnage (000's) was 3,040 (YTD) on track to reach target by year end.

Benchmarking

57. The benchmarking shows POAL is behind Tauranga and Lyttelton in the main performance metrics. However, POAL have shown improvement in key metric whereas the performance of the other ports has dropped. See the graphs at the end of the POAL quarter two report.

Health and Safety

58. POAL report that safety is improving with injuries reducing both in frequency and severity.
59. POAL are involved in the H&S Sector review (requested by the Minister of Transport) with Maritime NZ in a number of initiatives.
60. POAL have jointly developed a Stevedoring Code of Practice for the port jointly with MUNZ, C3, and Wallace Investments. This is industry leading collaboration towards a safer port operation.

Significant events

61. Cyclone Gabrielle caused POAL to suspend operations from 1500 12/2 to 0700 15/2 for safety and wellbeing of staff.

62. POAL's one third share of Longburn Intermodal Freight Hub Ltd was sold to the other joint shareholders in February.
63. POAL successfully recommenced container lines berthing schedules in March, along with ports of Tauranga, Napier, and Lyttleton

Issues / risks

64. Congestion in the global supply has begun to reduce. POAL are seeing importers move to just-in-time inventory purchasing and shipping lines warn of lower volumes being booked. The lower volumes have enabled POAL to improve yard performance but will impact revenue directly as well as through decreased demurrage charges.
65. Successful reinstatement of Container Terminal berth windows is assisting the market, however other ports are struggling to stabilise operations due to labour and space constraints. This will take several months to settle.

Tauākī whakaaweawe āhuarangi

Climate impact statement

66. The quarterly performance reports are a key tool to monitor the progress of each CCO and POAL on climate change action. The CCOs and POAL quarterly reports contain commentary on activities relating to climate change.
67. Through TAU, Climate Connect Aotearoa launched an energy challenge on local energy sharing and hosted a 'potential partners' event with Kāinga Ora, Tāmaki Regeneration Company, Ngāti Whātua Ōrākei, Fletchers, Ara Ake and TAU representatives. Phase two of work with Market Economics underway to understand and model green jobs and skills in the Auckland region, building on the first model developed to understand the region's cost of transition in response to national mitigation strategies. The 2023 Women4Climate programme launched, with a successful process to select 10 mentees matched with mentors for an eight-month programme and event. A solar feasibility study for eight TAU's sites is underway and on track, with three sites left to assess.
68. Eke Panuku are developing environmental standards for public realm projects, in conjunction with the council group. The importance of climate resilient urban design has been proven in the recent flooding events, with green infrastructure in Northcote (Greenslade Reserve and Awataha stream works) and Wynyard Quarter (rain gardens) performing well.
69. Watercare's climate change activity includes a solar installation programme that is currently planning for Ardmore Water Treatment Plant, trialling low embodied carbon methods for infrastructure projects and deploying e-trucks for the Central Interceptor project.
70. Climate change has increased the number of weather events and the severe wet weather has led to increased greenhouse gas emissions from wastewater processing and operational flood response. As discussed, Watercare is not on track to meet its emissions target for 2002/2023.
71. Toitū Enviromark audit of POAL's Environmental Management System passed, and Diamond Certification was retained.
72. POAL are currently installing living seawalls and mussel habitat within the port.
73. POAL 2050 carbon reduction roadmaps developed for operational business units based on reducing scope 1 emissions. Interim targets also established for 2030.
74. Initiatives underway to reduce staff waste to landfill and review waste to landfill across the port.

Ngā whakaaweawe me ngā tirohanga a te rōpū Kaunihera Council group impacts and views

75. Each CCO and POAL quarterly report contains information on how they are contributing to the council's outcomes and objectives.

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

76. The governance of substantive CCOs and POAL is a responsibility delegated to the CCO Direction and Oversight Committee. We have not sought the views of local boards. CCOs provide six-monthly progress and performance reports to local boards. The quarterly reports also provide a summary of the engagement that CCOs have carried out with local boards during the quarter.

Tauākī whakaaweawe Māori Māori impact statement

77. Each CCO and POAL report on their contribution towards achieving Māori Outcomes in their quarterly report.
78. Te Matatini Festival, which was co-ordinated and led by TAU on behalf of the Council whānau, was delivered between 22-25 February. The post-event reporting is still being finalised, but it's estimated that the event brought \$20.4 million to the region's economy.
79. Amia was procured to pilot a cultural capability programme with two significant tech companies. The pilot programme aims to address findings from Te Au Hangarau —research identifying barriers to rangatahi Māori participation in the tech industry.
80. A draft relationship agreement between TAU and Te Kawerau ā Maki has been prepared and shared seeking feedback for the collaborative partnership towards the development of Henderson Creative Quarter Masterplan.
81. Eke Panuku have continued to provide opportunities to manawhenua to purchase or develop properties before they are taken to the market. Engagement with mana whenua partners has also continued across the business, including in the development of a Matariki Placemaking Strategy, design of the Panmure Lagoon Edge Reserve, Wynyard Headland, Te Ara Tukutuku project, Northcote projects and the Manukau Public Art Strategy.
82. Watercare was a sponsor of Te Matatini Festival, using the opportunity to promote 'He taonga te Wai' and connect with mana whenua representatives for the new water services entity A. A hui on the water reform was held with staff from the Independent Māori Statutory Board in March 2023. Watercare's Māori relations team, Te Rua Whetu, has been seconded to the government's water reform transition unit, which has limited the capacity to further progress the organisation's Māori outcome priorities.
83. POAL report that Taura Herenga Waka (Māori Outcomes Framework) Taumata established to lead the Runanga and three Rōpū formed to focus on the principles of Te Tiriti through ambassadorship, education, development of Te Ao/Reo and whanaungatanga.
84. POAL Board meetings with Ngati Whatua Orakei and Independent Māori Statutory Board are being organised over the next 3 months.
85. POAL's Te Tiriti training program has successfully commenced.

Ngā ritenga ā-pūtea Financial implications

86. Each of the CCOs and POAL's quarterly reports contain information regarding their financial performance. These are described in the sections above.





Ngā raru tūpono me ngā whakamaurutanga Risks and mitigations

87. Each of the CCOs and POAL's quarterly reports contain information regarding their risks and mitigations, which is summarised above.

Ngā koringa ā-muri Next steps

88. This report is primarily for information purposes. The next CCO and POAL quarterly reports (Quarter Four, April to June 2023) will be provided to the CCO Direction and Oversight Committee in September 2023.
89. Finance and CCO Governance staff are working with the CCOs to update the template for quarterly reporting so that it provides a better picture of performance trends, risks and issues and more financial information at activity level.

Ngā tāpirihanga Attachments

No.	Title	Page
A 	Tātaki Auckland Unlimited 2022/23 Quarter Three report	
B 	Eke Panuku 2022/2023 Quarter Three report	
C 	Watercare 2022/2023 Quarter Three report	
D 	Ports of Auckland Limited Quarterly Shareholder Report for 1 January to 31 March 2023	

Ngā kaihaina Signatories

Authors	Chris Levet - Principal Advisor Sarah Johnstone-Smith - Principal Advisor Rachel Wilson - Principal Advisor Trudi Fava - CCO Programme Lead Tracy Xu - Principal Advisor CCO Financial Planning
Authoriser	Alastair Cameron - Manager - CCO Governance & External Partnerships

Shareholder Comments on Ports of Auckland Limited Draft Statement of Corporate Intent

File No.: CP2023/06514

Item 9

Te take mō te pūrongo

Purpose of the report

1. To agree shareholder comments on Ports of Auckland Limited's (POAL) draft Statement of Corporate Intent for the period 1 July 2023 to 30 June 2026 (SCI)

Whakarāpopototanga matua

Executive summary

2. In December 2022, the Mayor sent a Letter of Expectation (LOE) setting out the council's priorities and expectations (as shareholder) to inform POAL's drafting of their SCI.
3. POAL has provided the council with a draft SCI for the period 1 July 2023 to 30 June 2026 (Attachment B).
4. As the sole shareholder, the council can provide comments on the draft SCI and POAL must consider those comments before finalising the SCI.
5. Staff have reviewed the draft SCI and recommend that shareholder comments be provided to POAL as set out in the draft letter attached to this report (Attachment A). Further analysis of the draft letter is found in the Analysis and advice section below.

Ngā tūtohunga

Recommendation/s

That the Council Controlled Organisation Direction and Oversight Committee:

- a) whakaae / approve the shareholder comments on Ports of Auckland's draft Statement of Corporate Intent for the period 1 July 2023 to 30 June 2026 as set out in the draft letter attached to this report
- b) tautapa / delegate authority to the Mayor and Chair of the Council Controlled Organisation Direction and Oversight Committee to:
 - i) finalise a letter to Ports of Auckland Limited setting out the shareholder comments on the draft Statement of Corporate Intent in line with the direction set by the committee
 - ii) approve any minor amendments to the shareholder comments, if required.

Horopaki

Context

6. Under the Port Companies Act 1988 (the Act), POAL is required to provide the council (as shareholder) a draft SCI one month after the commencement of each financial year of POAL.
7. The SCI instrument is comparable to a Statement of Intent for a council-controlled organisation in that the SCI is the principal mechanism for establishing the strategic objectives of POAL.
8. The purpose of the SCI is to:
 - a) publicly state the activities and intentions of POAL and the objectives to which those activities will contribute; and
 - b) provide a basis for the accountability of the Board of Directors of POAL to the council as shareholder for the performance of the company and its subsidiaries.

9. Under the Act, the council may provide comments on the draft SCI and POAL must consider those comments before finalising the SCI.
10. Council can modify POAL's SC at any time in accordance with the process in the Act.

Tātaritanga me ngā tohutohu Analysis and advice

11. A draft letter setting out the council's comments is attached to this report (Attachment A). Below is analysis of the letter set out by the headings of the letter.

Productivity Targets

12. The draft SCI is missing the Ministry of Transport (MOT) productivity measures and targets (crane rate, ship rate etc.) that have been included in previous SCI.
13. In the LOE, the council focused on the importance of POAL improving their financial performance. However, the focus on financial performance does not preclude the council from being interested in seeing POAL improve productivity. Council expects POAL to make continuous improvements and to report on both financial performance and productivity. Therefore, the council asks POAL to reinstate and continue to report on the MOT measures and provide comparisons to other similar ports.
14. The FY24 targets for TEU (Twenty-foot Equivalent Unit or twenty-foot container) and car units are below the targets in the previous SCI (see the below table). POAL have said this is because the previous SCI was too optimistic about the return of container trade and a softening in imports as the state of the national economy begins to impact consumers shopping habits and importers inventory holdings. The targets are based on the information POAL is receiving from cargo owners. Lower breakbulk targets also reflect the fact gypsum imports (approx. 200,000 tonnes pa) is moving to Port of Tauranga.

Measure	New FY24 target in draft SCI ('000)	FY24 target in 2022 SCI ('000)
TEU	876	942
Car imports	226	260
Bulk / Multi-Cargo	3,928*	3,815

* Combined bulk and non-car roll on roll off. The draft SCI splits multi-cargo between bulk and non-car roll on roll off whereas the previous SCI combined the two.

Financial Targets

15. POAL has responded to the LOE by including all the financial measures that were requested. Operating margin is weak compared to the LOE, as is sales growth and the other consequential metrics. POAL have provided rationale for why they have set the targets as compared to the targets set out in the LOE. Comparison of the targets requested in the LOE compared to the targets in the SCI and POAL's comments are set out in the table below.

Financial Measure	LOE target	Draft SCI target	POAL Comments
Return on Assets (EBIT / Total Assets)	10%	5.2%	POAL see 6.5% EBIT ROA being a realistic target to achieve by FY26. This FY26 target is above recent historic performance of other major NZ ports, and materially better than recent POAL performance, although is below the 10% requested in the LoE. A review is underway on POAL assets held within all Trades and Subsidiaries in scope to ensure alignment with POAL aspirations
Sales Growth (year on year revenue % growth)	10%	8%	FY23 shows a strong uplift in revenue due to recovery from COVID and supply chain disruption, significant repricing and introduction of new revenue sources. POAL's focus will be on growing pricing and margins, and continuing to diversify our revenue streams as a way of improving resilience, rather than revenue growth per se (which might be achieved via pursuit of marginal volume).
Operating Margin (EBIT / Revenue)	40%	24.1%	POAL achieved an operating margin of 19% in FY22, and are forecasting increasing to 27% by FY26. The LoE request for 40%+ is very challenging, and other NZ ports achieving margins at that level have done so via outsourced stevedoring labour and/or a higher proportion of bulk cargos.
Leverage (Net Debt / EBITDA)	2x-3x	3.22x	POAL intends to achieve this measure within the SCI period, via a combination of debt reduction and EBITDA improvement
Free Cash Flow to Sales ((EBITDA-Capex) / Revenue %)	30%	23.1%	POAL will make significant progress towards this target by FY26, provided there are no material changes to existing activities or footprint, or significant investments during the period. If there were significant change to trades or subsidiaries there could be further investment required, or capital freed up, which could materially change this metric. Note that the FY23 forecast is higher than SCI targets due to lower capex than usual (delays due to Covid, sourcing materials, and focus on back to basics under Regaining our Mana strategy. SCI period capex is aligned with depreciation, providing for renewal of assets as they wear out.
Dividend (subject to trading and solvency requirements)	>\$30m	\$35m	POAL intends to exceed this level, committing to \$50m in FY26 subject to solvency requirements and trading performance. We note that planned dividends will be paid alongside ongoing POAL debt reduction.

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16. The comments will note that the council expects the targets in the final SCI to be closer to the targets set out in the LOE.

Health, Safety and Wellbeing

17. In the SCI POAL has confirmed that safety is a priority in everything they do. POAL has also extended this commitment to all port users. POAL's Code of Practice for Stevedoring is an example to extending the safety commitment beyond POAL.
18. The measure and target of zero fatalities and serious work-related illnesses or injuries is retained from the previous SCI and is appropriate. Council Health & Safety staff consider that additional measures and targets are needed to help reduce risk, improve health and safety culture and allow the council to monitor POAL. Council Health & Safety staff consulted with their POAL counterparts and suggest the following two additional safety measures (and appropriate targets) be included:
- Leadership safety engagement with staff
 - Critical control verification scores

Sustainability

19. The SCI includes the following sustainability measures:

Key Performance Measures	FY 24 Target
Harbour Health Initiatives	1
Average carbon emission per TEU (kg CO ₂)	11.9
% Waste Diverted from Landfill	5%
Number of Community Reference Group Meetings	4

20. Council would like to see increased reporting on emissions. POAL is already audited as a part of Toitū Envirocare Carbon Reduce programme and required to account, disclose and reduce Scope 3 emissions as part of the requirements set in Part 7A of the Financial Markets Conduct Act 2013 (TCFD). Therefore, the letter requests that POAL include targets in the SCI for Scope 1, 2 and 3 emissions.

Māori Outcomes

21. Following the completion of the Māori Outcomes Framework, staff expected to see delivery of specific Māori outcomes initiatives and the measurement of these in the SCI. Council requests POAL to include an update against POAL's Māori outcomes framework in their quarterly reports.

Move Container Freight to Rail

22. The LOE asked POAL to work with the council and KiwiRail to move 100% of container freight to rail as soon as possible, to reduce Auckland's congestion and greenhouse-gas emissions.
23. In the SCI POAL note that they are committed to working with KiwiRail and other supply chain participants to maximise percentage via rail, as long as it is a commercially viable option. Within the SCI period KiwiRail advice is that the percentage of containers able to be moved on rail would be unlikely to exceed 20% of the forecast Twenty-foot Equivalent Units (TEU) of containers.
24. Council understands that there are immediate restrictions stopping POAL from making significant increases in the percentage of freight moved by rail. Therefore, the target of 16% for FY23 is appropriate. However, the outer years should be increased to reflect the work that KiwiRail, POAL and the council are undertaking to increase the capacity. POAL should be working towards targets of between 20% and 25% in the outer years of the SCI.

Future of Port Land

25. The comments should acknowledge POAL's commitment to support the council-led process to provide certainty on future of Port land, including a plan to return waterfront land to the people of Auckland.

Readability of SCI

26. Under section 12 of the Act POAL must make the final SCI available to the public. Because the SCI is a public facing document POAL should improve the readability of the document by defining all terms and explaining how the measures are calculated.

Tauākī whakaaweawe āhuarangi Climate impact statement

27. Council's sustainability staff have reviewed the draft SCI and assisted with the preparation of this report. This report features a review and comments on POAL's sustainability goals and targets.

Ngā whakaaweawe me ngā tirohanga a te rōpū Kaunihera Council group impacts and views

28. POAL debt is consolidated into the council's accounts and as such it is important that POAL work with the council on a strategic approach to its capital expenditure, to help ensure the optimum use of debt across the council group. Under the SCI POAL will confer with the council's CEO on any material acquisitions, capital expenditure, disposals or other changes which affect the Shareholder's accounting or financial reporting treatment or obligations before contractual commitments are entered into.

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

29. The governance of POAL is a Governing Body responsibility, and therefore we have not consulted with local boards.

Tauākī whakaaweawe Māori Māori impact statement

30. Staff from Ngā Mātārae have reviewed the draft SCI and assisted with the preparation of this report. This report features a review and comments on Māori outcomes in the SCI.

Ngā ritenga ā-pūtea Financial implications

31. Council's Finance staff and the Mayor's Office have reviewed the draft SCI and assisted with the drafting of this report. Financial implications are discussed under the Financial Targets heading in this report.



Ngā raru tūpono me ngā whakamaurutanga Risks and mitigations

32. The SCI is the principal mechanism for establishing the strategic objectives of POAL. Under the Act the council (as shareholder) can provide comments on the draft SCI. If the council does not engage with the SCI process and provide comments, there is a risk that the strategic objectives of POAL will not be in line with the strategic direction and expectations of the council. To mitigate this risk, staff will work with elected members to fully engage with the process and provide comments as an engaged shareholder.

Ngā koringa ā-muri Next steps

33. If the Committee agrees to the recommendations, staff will finalise the letter to the chair of the POAL board. Staff recommend that the Committee delegates approving the letter to the Mayor and Chair of the Committee.

Ngā tāpirihanga Attachments

No.	Title	Page
A 	Draft letter - Shareholder comments on Ports of Auckland Limited draft Statement of Corporate Intent 23-26	
B 	Ports of Auckland Limited - Draft Statement of Corporate Intent for the period 1 July 2023 to 30 June 2026	

Ngā kaihaina Signatories

Author	Chris Levet - Principal Advisor
Authoriser	Alastair Cameron - Manager - CCO Governance & External Partnerships

Lead Councillor CCO updates

File No.: CP2023/06508

Item 10

Te take mō te pūrongo

Purpose of the report

1. To whakaae / accept update reports from Lead Councillors about their activity in maintaining liaison with their assigned Council Controlled Organisations (CCOs) and the Ports of Auckland Limited.

Whakarāpopototanga matua

Executive summary





2. On 17 November 2022, the Governing Body approved the purpose and responsibilities of the Lead Councillor CCO role, as included in the Terms of Reference.
3. The purpose of the Lead Councillor CCO role is to assist the Governing Body to exercise effective direction and oversight of the substantive CCOs and the Ports of Auckland Limited.
4. Lead Councillors do not have a formal board role, and do not get involved in management decisions.
5. Key responsibilities of the Lead Councillor CCO includes:
 - attending open sessions of each CCO Board meeting and, at the discretion of the CCO Board Chair, closed sessions and committees. Confidential material is at the discretion of the CCO Board Chair, but CCO will be expected to provide sufficient information to enable Lead Councillors to exercise their functions
 - supporting the mayor and governing body by leading policy discussions that concern each CCO, including discussion in relation to the exercise of the council's direction and accountability powers
 - reporting on their activity with the CCO quarterly to the appropriate committee
 - attending mayoral meetings with CCO Board chairs
 - meeting with the mayor to discuss how the roles are operating and can be improved
 - creating and supporting good working relationships with CCOs, improving the exchange of information and perspectives
 - improving understanding of the expectations and perspectives of the council and community by CCOs
 - supporting greater understanding of the activities and expertise of CCOs by councillors and the council.
6. The Lead Councillor roles have been allocated as follows:
 - Tātaki Auckland Unlimited: Councillor Shane Henderson
 - Eke Panuku Development Auckland: Councillor Chris Darby
 - Watercare: Councillor Ken Turner
 - Ports of Auckland Limited: Councillor Chris Darby.
7. Written update reports are attached to this report for Tātaki Auckland Unlimited (Attachment A), Eke Panuku (Attachment B), Watercare Services Limited (Attachment C) and Ports of Auckland Limited (Attachment D).

Ngā tūtohunga Recommendation/s

That the Council Controlled Organisation Direction and Oversight Committee:

- a) whakaae / accept the written and verbal update reports from Lead Councillors.

Ngā tāpirihanga Attachments

No.	Title	Page
A 	Lead Councillor Report - Tātaki Auckland Unlimited – March / April 2023	
B 	Lead Councillor Report – Eke Panuku – May / June 2023	
C 	Lead Councillor Report – Watercare Services Limited – June 2023	
D 	Lead Councillor Report – Ports of Auckland Limited – May / June 2023	

Ngā kaihaina Signatories

Author	Duncan Glasgow - Kaitohutohu Mana Whakahaere / Governance Advisor
Authoriser	Alastair Cameron - Manager - CCO Governance & External Partnerships

Summary of Council Controlled Organisation Direction and Oversight Committee information memoranda and briefings (including the forward work programme) – 6 June 2023

File No.: CP2023/06096

Item 11

Te take mō te pūrongo

Purpose of the report

1. To tuhi ā-taipitopito / note the progress on the Council Controlled Organisation Direction and Oversight Committee forward work programme appended as Attachment A.
2. To whiwhi / receive a summary and provide a public record of memoranda or briefing papers that have been distributed to the Council Controlled Organisation Direction and Oversight Committee.

Whakarāpopototanga matua

Executive summary

3. This is a regular information-only report which aims to provide greater visibility of information circulated to Council Controlled Organisation Direction and Oversight Committee members via memoranda/briefings or other means, where no decisions are required.
4. No information items have been distributed.
5. No workshops/briefings have occurred:
6. Note that, unlike an agenda report, **staff will not be present to answer questions about the items referred to in this summary.** Committee members should direct any questions to the relevant staff.

Ngā tūtohunga

Recommendation/s

That the Council Controlled Organisation Direction and Oversight Committee:

- a) tuhi ā-taipitopito / note the progress on the forward work programme appended as Attachment A of the agenda report
- b) whiwhi / receive the Summary of Council Controlled Organisation Direction and Oversight Committee information memoranda and briefings – 6 June 2023.

Ngā tāpirihanga

Attachments

No.	Title	Page
A 	Forward Work Programme	

Ngā kaihaina

Signatories

Author	Duncan Glasgow - Kaitohutohu Mana Whakahaere / Governance Advisor
Authoriser	Alastair Cameron - Manager - CCO Governance & External Partnerships

Exclusion of the Public: Local Government Official Information and Meetings Act 1987

That the **Council Controlled Organisation Direction and Oversight Committee**

a) exclude the public from the following part(s) of the proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

C1 **CONFIDENTIAL: Referred from the Audit and Risk Committee - Council-Controlled Organisations' Quarterly Risk Update - May 2023**

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(c)(i) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information or information from the same source and it is in the public interest that such information should continue to be supplied. In particular, the report contains risk reporting and detailed top risks confidential to the substantive council-controlled organisations' boards or Audit and Risk Committees. The substantive council-controlled organisations have provided their risk reports for council's Audit and Risk Committee subject to confidentiality.	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.