

16 December 2021

Margaret Devlin
Chair
Watercare Services Limited

By email

Tēnā koe Margaret

Letter of Expectation for 2022/23

This letter of expectation sets out the council's priorities and expectations to inform the development of Watercare's draft Statement of Intent (SOI) for 2022-2025.

It sets out common expectations across all council-controlled organisations (CCOs), and expectations specific to Watercare.

This builds from the workshop held on 10 November 2021 with the CCO Oversight Committee and CCO Board Chairs and Chief Executives, to discuss the strategic priorities for inclusion in the letters of expectation. The content of this letter was approved by the CCO Oversight Committee on 14 December 2021, with delegation to myself and the Deputy Mayor to finalise and issue the 2022/23 letters of expectation.

Before addressing the expectations, I note that due to the uncertainty of the financial context the Committee also approved extensions of the statutory deadlines for the SOI process, as is allowed in the Local Government Act 2002, Schedule 8, section 4. This means the due dates for the process are:

- date of submission of the draft SOIs is 1 April 2022
- date when the boards must have considered shareholder feedback is 1 June 2022
- date for final submission of SOIs is 31 July 2022.

Please liaise with CCO Governance staff about ensuring these dates can be met. Council will likely consider its shareholder feedback on draft SOIs at the CCO Oversight Committee meeting of 26 April 2022.

Part I. Common expectations for all CCOs

Current state

The impacts of COVID-19 are ongoing on the council group and the community. Restrictions, labour market issues impacting the whole group and supply chain issues are resulting in delays and cost escalations for a number of work programmes and capital projects.

Decisions in the LTP anticipated the risk of further outbreak and provided for the impact to certain extent but additional pressures are building up. We need to adjust our expectations accordingly on the delivery of existing programme and on new initiatives that we would clearly like to take.

Long after COVID-19 ceases to be a major threat to us, there will be the ongoing crisis caused by climate change. We cannot afford to put off any longer the action needed to avoid a climate disaster.

In addition, there are a range of reforms, strategic reviews and changes underway, such as the National Policy Statement on Urban Development (NPS-UD), and reforms of the Resource Management Act and three waters. These are also contributing to uncertainty and heavy workloads across the council group.

Given the high level of uncertainty ahead from COVID-19, it is important that we think carefully about how we might want to respond to short-term issues and long-term challenges strategically.

We look forward to continuing to work together with you on these key issues and identifying potential options available to the council group.

Mayor's proposal for the 2022/23 annual budget¹

As Mayor I have proposed items for consultation as part of the annual budget 2022/23 which at a high level include:

- a) a base budget package proposal based on the second year of the 10-year Budget 2021-2031, taking into account the impact of the COVID-19 Delta outbreak and current economic conditions
- b) a package of further climate actions in addition to the base budget proposal to reduce emissions and support adaptation.

It is expected that draft 2022-2025 SOIs will be consistent with the relevant aspects of the Mayoral proposal for the 2022/23 annual budget.

Under the Mayoral proposal, CCOs are also expected to work with council's Chief Executive to implement \$15m of permanent cost reductions in the form of efficiency savings and service reductions across the group in 2023/24, growing to \$30m per annum from 2024/25 onwards. It is proposed council will consult on a set of draft expenditure prioritisation criteria in the 2022/23 annual budget. The criteria will be applied to implement the cost reductions sought.

Working together to progress the agreed areas of focus for growth and development

With limited resources, the Long-term Plan programme focuses on agreed areas of focus for growth and development (North West, CRL stations, Auckland Housing Programme/Tamaki and Drury).

We expect that as a Council group there is a continued commitment to working together to efficiently plan for and prioritise growth and intensification. The monthly GM Housing Group is seen as a key mechanism for coordinating this activity and council's Chief of Strategy is to be consulted with for any development proposal which may not align with council's adopted plans and strategies.

The government's programme to accelerate the supply of housing will require the council group to work together in a coordinated and united way (including implementing the NPS-UD and submitting on new associated legislation). To support this work, CCO contribution is expected in:

- developing the Auckland Future Development Strategy and additions to the Infrastructure Strategy

¹ <https://ourauckland.aucklandcouncil.govt.nz/media/trclridg/annual-budget-2022-2023-mayoral-proposal-december-2021-final.pdf>

- reviewing of any plans and strategies is undertaken in an open and transparent manner
- sharing information in a timely manner across the council group to ensure monitoring, analysis and reporting is consistent
- participation in the further development of organisational strategic priorities (i.e., investment prioritisation) to assess and allocate funding and project creation and implementation.

Climate change and climate related disclosures

As highlighted in Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan, our climate is changing. Our emissions continue to rise, and we are seeing more extreme events regionally and around the world. We need to act now – and we must act fast. For Auckland our core goals are:

- to reduce our greenhouse gas emissions by 50 per cent by 2030 and achieve net zero emissions by 2050
- to adapt to the impacts of climate change by ensuring we plan for the changes we face under our current emissions pathway.

The Auckland Council group will be required to prepare a climate-related disclosure under the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill from FY23. The disclosure will need to be compliant with the climate disclosure reporting standards that will be aligned to the Taskforce on Climate-related Financial Disclosures (TCFD) framework.

In order for the group to achieve future compliance with the climate disclosure reporting standards, CCOs are expected to work with council to implement the underlying processes that will support the recommended disclosures of the TCFD framework. In addition, collaboration is required on the following enabling projects:

1. Complete a group climate change risk assessment using scenario analysis
2. Identify and implement a process for managing climate risks across the group
3. Complete a climate-risk governance assessment.

Māori outcomes

CCOs should continue to deliver:

- Māori outcomes
 - Kia Ora Tāmaki Makaurau – a Māori outcomes performance measurement framework: implementation/delivery/reporting/monitoring/evaluation across the council group
 - Māori outcomes portfolio - understanding BAU initiatives across the council group which predominantly contribute towards advancing Māori outcomes
- Achieving Māori Outcomes plans (previously named Māori Responsiveness Plans)
 - Delivery, monitoring, reporting
- Māori engagement
 - Developing an engagement approach for the council group
- Māori employment and development
 - Implementation of the Māori employment strategy – MAHI. The strategy is currently being revised.

Other group matters

There is an overall greater focus on **equity and communities in most need** and considering them in all decisions. This is driven by the direction set in the Auckland Plan 2050 and Infrastructure Strategy. This means thinking about who is experiencing barriers to participation and how we address that, whose voices are not being heard or represented; and how the services, programmes and facilities we provide reflect the diversity of Aucklanders we are here to serve.

Council and CCOs shall work in partnership on strategy development, planning and decisions that impact on the council's level of risk and/or level of investment (and affordability). This includes jointly agreeing principles, methodology, shared procurement of services and/or working groups, open and transparent data, and sharing internal work in confidence. The CCO Chief Executive group should have oversight of any joint strategy work.

Statement of Expectation

The CCO review also recommended the development of a Statement of Expectation. Unlike the letters of expectation, this is a tool provided for in legislation, and focusses on council's enduring expectations (e.g. no surprises principle and operating as a group) that have previously been included in letters of expectation. The Statement of Expectation is more focused on how CCOs undertake their operations, rather than work programmes. This letter should be read alongside the Statement of Expectation².

Part II. Specific expectations for Watercare

The broader context for Watercare is framed by the recent government announcements on water reform and the expected establishment of a national Transition Unit by the start of the 2022/23 financial year, as well as council's likely adoption of the Auckland Water Strategy. These are going to require the council and Watercare to work very closely together over the coming year.

Therefore, the specific expectations that Watercare should reflect in your SOI are discussed below.

Water Reform

Watercare is expected to:

- work collaboratively with Auckland Council and the National Transition Unit on transition to a new water services entity
- work with council to provide advice and support to the government on the development of an economic regulator

Water use efficiency, security and diversity of sources

Watercare is expected to:

- deliver to new drinking water standards, as well as environmental and levels of service
- deliver safe and cost-effective water and wastewater services
- focus on water efficiency (for example Economic Level of Leakage and encouraging Aucklanders to be efficient with water) and innovation across the network to improve water service delivery

² http://infocouncil.aucklandcouncil.govt.nz/Open/2021/06/CCO_20210622_AGN_10103_AT.PDF

Auckland Water Strategy

Watercare is expected to:

- implement the Auckland Water Strategy aligned with the initial direction agreed in December 2021, including recognising Auckland's Vision for Te mauri o te wai o Tāmaki Makaurau, the life sustaining capacity of Auckland's water is protected and enhanced.
- work with Auckland Council on the implementation of the National Policy Statement on Freshwater Management
- implement the Watercare aspects of the adopted water consumption targets (April 2021) and continue to work collaboratively on modelling, monitoring and reporting of targets
- update Watercare's Auckland Efficiency Plan to align with the Auckland Water Strategy
- continue to deliver on the Asset Management Plan and align this plan with the Auckland Water Strategy
- work with council to review and update the Auckland Metropolitan Drought Management Plan, including council agreement on the triggers and thresholds for using different water sources

Delivering for communities

Watercare is expected to:

- ensure all aspects of service delivery will be customer and community centered, recognising Watercare's role in the community it operates in, as well as customers. This will be increasingly important in the evolution towards a three waters entity
- ensure programmes are developed and measured that assist Aucklanders to develop their water literacy, so that they are better prepared for and are able to cope with the impacts of extreme water-related events
- work with council on a plan to ensure all Aucklanders have equitable access to essential services

Climate Change

Watercare is expected to:

- monitor and model climate impacts on the water system, including impacts and scenarios for individual sources, to understand the resilience of the network and inform a precautionary approach to operational source management
- work with council on scenario planning and adaptation investment pathways with a 'whole of infrastructure' and 'whole of community' approach (i.e., Parakai/Helensville).

Council looks forward to receiving a draft of Watercare's Statement of Intent by 1 April 2022.

Staff are available to expand or explain aspects of this letter if required. Please contact Edward Siddle, Acting Manager CCO Governance and External Partnerships (edward.siddle@aucklandcouncil.govt.nz) to discuss.

Ngā mihi

A handwritten signature in blue ink that reads "Phil Goff". The signature is fluid and cursive, with the first name "Phil" and the last name "Goff" clearly legible.

Phil Goff

MAYOR OF AUCKLAND

cc: Deputy Mayor Bill Cashmore, Chair CCO Oversight Committee
Jon Lamonte, Chief Executive, Watercare
Edward Siddle, Acting Manager CCO Governance and External Partnerships