

20 February 2025

Geoff Hunt  
Chair  
Watercare Services Limited

**By email** - [REDACTED]

Tēnā koe Geoff

### **Letter of Expectation for Statement of Intent for 2025 - 2028**

This letter of expectation sets out the council's priorities and expectations to inform the development of the draft Statement of Intent (SOI) 2025-2028 of Watercare Services Limited (**Watercare**).

It sets out common expectations across all council-controlled organisations (CCOs), and expectations specific to Watercare. It also reflects decisions made by Governing Body in December 2024 regarding CCOs (GB/2024/179).

The content of this letter was approved by the CCO Direction and Oversight Committee on 11 February 2025, with delegation to me, Councillor Henderson and Councillor Turner (as your Lead Councillor) to finalise and issue this letter of expectation.

The CCO Direction and Oversight 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 on or before 1 April 2025
- date for final submission of SOIs is on or before 31 July 2025.

Council looks forward to receiving a draft of the Watercare SOI no later than 1 April 2025. We invite CCO Chairs to attend the April 2025 meeting of the CCO Direction and Oversight Committee to present their draft SOIs and discuss how they have responded to the expectations set out in their letters. A calendar invitation will follow.

Please liaise with CCO Governance staff about ensuring these dates can be met. Council will likely consider its shareholder feedback on draft SOIs (except for Auckland Transport) at the CCO Direction and Oversight Committee meeting of 13 May 2025.

### **Part 1. Expectations of all CCOs**

#### ***i. Focussing the CCOs on delivery***

The CCO reform package approved by the Governing Body on 12 December 2024 seeks to realign and reinvigorate the CCO model, strengthen council's ability to support elected members to make integrated decisions, and ensure the Auckland Council Group is set up in the best way to deliver on its long-term plan and broader vision for Auckland.

Watercare was out of scope for structural change within the reform. Council decided to bring in-house economic development functions from Tataki Auckland Unlimited, disestablish Eke Panuku and bring all its functions in-house and pending transport legislative reform led by the Government for Auckland Transport. Council will be assuming a greater role in setting strategy, planning and policy and these CCOs will be refocussed on service delivery. For Eke Panuku and Tataki Auckland Unlimited, the structural changes are expected to be in place by 1 July 2025.

Council will also be pursuing a range of non-structural changes (such as reforming the existing CCO board appointment and performance review process) to support the reset of the CCO model as it applies to all substantive CCOs. Advice on these non-structural change options has been requested in early 2025 and any additional requirements or changes arising from this will be communicated to CCOs.

CCOs are expected to work positively and collaboratively with council to effectively implement the structural and non-structural change decisions on CCO reform. CCOs are also expected to support and actively engage in any section 17A, value for money and other reviews council may commission, as well as supporting integrated development decision-making, delivered by departments in council.

#### Attribution and branding

CCOs deliver services on behalf of council. However, it is not always clear to Aucklanders the correlation between activities and functions of the CCO and the council parent to which they pay their rates. In line with the general desire to refocus CCOs on service delivery, CCOs are expected to provide greater attribution to the council as the shareholder, policy maker or funder in their public facing services, assets, amenities, communications and branding.

## **ii. Accelerate implementation of group shared services**

Watercare must be active participants in Group Shared Services, in order to focus your efforts on core business activities.

As part of decisions on the Long-term Plan 2024-2034 (LTP), the Group Shared Services (GSS) board agreed the high-level scope of the functions including; technology services, people services, procurement services, corporate support services, data services, customer experience and digital services.

CCOs are expected to actively support the GSS board with accelerating the transition of functions to the GSS model. Council's chief executive has been tasked with assessing the benefits (through business cases) for all eligible functions within Auckland Council and CCOs, with as many as possible to be completed by 1 July 2025. Thereafter, where business cases are favourable, the expectation is that all functions are shifted to GSS as soon as possible. We understand the importance of services provided by GSS to Watercare being commercial and on arms-length terms with written contracts and suitable charge-back models. These elements are not unique to a council shared service model and Watercare is expected to move at pace to leverage the opportunity provided by GSS. Further, there is benefit for Watercare to leverage the expertise that GSS has so that Watercare can focus on its core services and key priorities leading up to full financial separation.

Demonstrable progress must be evidenced through the movement of functions to GSS through 2025, noting that, as part of the business case approval process, the operating model for these functions is agreed at the GSS Board.

In some cases where there is a good reason for part of a function to stay within a CCO, it is still expected that CCOs will utilise common technology platforms or systems and be supported by GSS wherever possible. The expectation is that no new technology platforms or arrangements will be introduced or entered in to by Council or any CCO without the appropriate oversight and approval within GSS.

**iii. Delivering year two of the Long-term Plan 2024-2034**

CCOs are expected to focus on delivering year two of the LTP 2024-2034.

Council will commence public consultation on the draft 2025/2026 Annual Budget in late February 2025. Following consultation and deliberations, the final Annual Budget will be adopted in June 2025.

**iv. Planning, delivery and paying for growth**

As outlined in the Mayor's Proposal for the draft Annual Plan 2025/2026, council continues to face issues around planning, delivery and paying for growth. Council will be developing a framework to support decision-making on growth related issues which takes an integrated group approach. This framework will help to identify necessary trade-offs and prioritisation. We are also increasing oversight over CCO planning and delivery to regional growth plans. CCOs are expected to actively support and contribute advice and expertise to the development of this framework and its associated implementation. I also note the requirements of the '*capital delivery and planned asset management improvements plan*' and '*pricing reform roadmap*' required under Watercare's interim economic regulation.

**v. Procurement and effective spending**

Improving how the council group procures and effectively spends ratepayers' money (particularly on capital projects) is an area of focus in 2025/2026. Effective delivery of capital works requires right sized and cost-effective solutions that will deliver outcomes for Aucklanders who will ultimately benefit from the investment. Suppliers find it hard to work with council and the processes are too lengthy. To support improvements, CCOs are expected to align closely with a group approach to procurement where there are clear efficiencies and benefits to be gained, noting the existence of the group procurement function in GSS as an enabler for this.

Council's chief executive has established a team to drive improvements and will report back to the Revenue and Expenditure Committee by March 2025. CCOs are expected to actively contribute to and implement these improvements once agreed. Even though Watercare does not receive rates funding, the expectation is that you will evaluate value for money of all your expenditure.

**vi. Continue upholding Auckland Council Group's Te Tiriti o Waitangi-derived obligations**

Auckland Council Group is committed to upholding its obligations derived from Te Tiriti o Waitangi and to achieving better outcomes for Māori. CCOs are expected to share this commitment and contribute to its delivery, including through (but not limited to):

- reporting on the delivery of Achieving Māori Outcomes (AMO) Plans as part of the Quarterly Performance Report. The reporting should include Key Performance Indicators (KPIs) to track progress over time.
- working with Ngā Mātārae regarding the review of the Māori Outcomes Fund and to implement the refreshed Kia Ora Tāmaki Makaurau framework and strategy. This includes contributing to the design of measures and preparing to align with the rest of the Auckland Council Group on AMO Plan development, monitoring and reporting for FY27 onwards.
- building strong partnerships with mana whenua and mataawaka. This includes aligning with Council's Mana ki te Mana approach to Māori engagement, where relationships take precedence over issues or projects. This approach respects the unique mana motuhake of each iwi and mataawaka entity by prioritising their needs and aspirations.

- working collaboratively with Ngā Mātārae and other Māori Outcomes specialists across the Council Group to take a whole-of-Council-Group approach to delivering outcomes for Māori. This includes continuing to participate in Auckland Council-led activities and hui such as the Kia Ora Tāmaki Makaurau Programme Delivery Board.

**vii. Quality advice to Local Boards**

CCOs should provide timely, delivery focused, quality, concise advice to local boards and ensure local boards are engaged early on projects and decisions directly impacting their local area. This supports the More Empowered Local Boards proposal, consistent with council's shared governance model.

**viii. Climate change**

CCOs should continue to be guided by *Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan* by incorporating climate change considerations (whole of life greenhouse gas emissions and resilience) into work programmes and decisions.

**ix. Compliance with Statement of Expectations of substantive CCOs**

CCOs should adhere to the Statement of Expectations of substantive CCOs, which explains how CCOs should conduct their business and manage their relationships with council and other interested groups (including matters such as the 'no surprises' principle). This document will be reviewed and updated in 2025 to reflect decisions on CCO reform.

As such, CCOs should work with the government, only where interests are aligned and messages are consistent with those of Auckland Council. CCOs should inform council of any conversation with the government on any new proposal or in the case of Auckland Transport, legislative reform. These engagements should be summarised in your quarterly reporting.

In responding to council's requests or initiating new programmes, CCOs should consider their role in the group and not just activities that benefit their purpose. CCOs are part of the Auckland Council group and are expected to operate in ways which contribute to the success of the group as a whole and do not create risks for the council group. This extends to the open and sharing of information where that is required to achieve outcomes or for legal purposes.

**x. Asset Management Planning in preparation for the 2027 LTP**

CCOs are expected to deliver a draft asset management plan (AMP) covering existing and planned assets to inform the development of the 2027 LTP. The draft AMP should be available in February 2026 to contribute to the development of the 2027 LTP.

Key expectations for the draft AMP are:

- planning covers at least 30 years and is based on whole-of life costings
- group alignment on population assumptions.
- delivery of your risk appetite is a base assumption of planning
- demonstration of a sustainable approach to renewals and maintenance
- cost forecasts are linked directly to existing levels of service
- spatial presentation of asset condition data (key asset groupings and asset criticality), and growth capex need (identifying location of investment and/or catchment of benefit) is included
- strategic alignment is demonstrated as set out in the Strategic Investment Framework for Infrastructure 2024
- participation in the Investment Impact Assessment for each Annual Budget and the 2027 LTP

- AMP prioritisation aligns with the Investment Hierarchy (as set out in the Long-term Plan 2024-2034), where investments with lower long-term costs are preferred.

Further detail and guidance on the AMP expectations above will be provided in early 2025. CCOs are expected to work with Auckland Council's Infrastructure Strategy and Asset Management System teams on the development of AMPs.

**ix. Investment area office**

Auckland Council has established an investment area office to assist it with delivering outcomes for Aucklanders in priority investment areas in the Long-Term Plan. Drinking water, wastewater and stormwater is a key investment area for Auckland Council. I expect Watercare to work constructively with the water, wastewater and stormwater investment area office.

**Part 2. Key expectations of Watercare**

In summary, the council's key expectations for Watercare are as follows:

- Successful implementation of Local Water Done Well, including financial separation, compliance with interim economic regulation and the implementation of new arrangements for water services
- Implementation of the Auckland Water Strategy
- Alignment of growth planning and delivery
- Improved oversight and accountability of CCOs
- Adherence to no surprises

**Implementation of the Auckland solution for Local Water Done Well**

Council's agreement with the Government for an Auckland solution within the Local Done Well policy was based on council's proposal that enabled Watercare's balance sheet separation from council so that Watercare can undertake the required investment in water and wastewater infrastructure and keep prices affordable to customers.

*(i) Financial separation*

Following financial separation of Watercare from council on 1 July 2025, Watercare will take on debt in its own name and is expected to successfully raise capital to fund the investment approved under the Watercare charter and to meet repayment obligations of approximately \$4.2 billion to council which will be finalised in the Transitional Debt Facility Agreement between the council and Watercare.

*(ii) Compliance with interim economic regulation*

The council expects Watercare to meet the performance and reporting requirements of the Watercare Charter (**Charter**) which will be formalised through Order in Council early in 2025 and apply from 1 April 2025 to 30 June 2028. The Charter includes minimum service quality standards for water and wastewater and financial performance objectives.

We note the minimum service quality standards are:

Water supply

- median response time for resolution at urgent water callouts is  $\leq 5$  hours
- median response time for resolution at non-urgent water callouts is  $\leq 6$  days
- unplanned water interruptions per 1,000 connections is  $\leq 10$
- leakage from the network, with a target based on total volume of water loss currently being developed by the Department of Internal Affairs.

## Wastewater

- dry-weather sewerage overflows per 1,000 connections is  $\leq 5$
- median sewer overflow resolution time is  $\leq 5$  hours

Watercare is to maintain an investment grade credit rating and meet the annual maximum revenue cap set through the price path of 7.2 per cent increase in water and wastewater charges and a minimum 15.5 per cent increase in infrastructure growth charges in 2025/2026.

Under the price-quality path of the Charter Watercare will also be required to report on a broader range of service quality measures and targets.

It also includes the following performance requirements. I expect Watercare to develop the following three plans in close consultation with council to meet council's objectives where possible and seek formal guidance from council where appropriate.

### Plan for infrastructure growth charges

- A pricing reform roadmap on the proposed approach to review and implement a new methodology for determining infrastructure growth charges and the consequential implications for water and wastewater tariffs, for the Crown Monitor's review and comment by 30 September 2025. Following this a new infrastructure growth charging methodology would be finalised in 2026/27 for implementation by 1 July 2027.
- Council supports Watercare implementing full recovery of the costs of growth as outlined in previous letters of expectations.

### Plan for operating cost efficiencies

- A draft operating cost efficiency improvement plan (2025-2028) to support Watercare's four per cent annual operational efficiency target to be provided by 31 December 2025 for the Crown Monitor's feedback. Council expects the Group Shared Services model to be reflected in this plan.

### Plan for capital delivery and planned asset management improvements

- Watercare is to develop a draft 'capital delivery and asset management improvement plan' by 31 August 2025, for the Crown monitor's feedback, and finalise the plan by 31 December 2025.
- Council looks forward to continued focus on capital delivery and to seeing the impact of Watercare's improvement plan in reports on the council group annual asset management maturity.

I expect Watercare to provide Auckland Council with all reporting to the Crown Monitor and to give Auckland Council early notice in the event of any unforeseen incident that impacts on your ability to meet the requirements of the Charter.

### *(iii) New enduring arrangements for water services*

Watercare should implement the requirements of the Local Government (Water Services) Bill (**Bill**) when enacted in mid-2025. The Bill provides the new water services delivery system and the new enduring economic regulation and consumer protection regime for water services.

### ***Implementation of the Auckland Water Strategy***

Watercare should continue to collaborate with Auckland Council to implement the Auckland Water Strategy, including continuing to:

- proactively plan for climate change and diverse water supply, including wastewater reuse
- install smart meters and achieve per capita water use targets.

### ***Alignment of growth planning and delivery***

Watercare should continue to build on recent improvements in the alignment with council's position in relation to private plan changes that do not conform with the Future Development Strategy. Watercare's input will be needed to the Housing and business development capacity assessment and update to Future Development Strategy.

### ***Improved oversight and accountability of CCOs***

While Watercare was out of scope of the structural elements of CCO reform, the expectation is that you will work with council constructively to implement the non-structural changes to improve oversight and accountability of CCOs which will be agreed by council in early 2025. For Watercare, the aim is that the improvements will support and be aligned with the requirements associated with interim economic regulation and the new enduring planning and accountability requirements and economic regulation framework for water services established when the Bill is enacted.

### ***Adherence to no surprises***

Watercare should ensure compliance with the council group's no surprises principle, including in the context of iwi relationships, government engagement, seasonal impacts on water supply and potential drought conditions, and as water reform is implemented to ensure the best outcome for Auckland.

Council looks forward to receiving a draft of the Watercare SOI no later than 1 April 2025. Staff are available to expand aspects of this letter if required. Please contact Alastair Cameron, Manager - CCO Governance and External Partnerships to discuss.

Ngā mihi,



Wayne Brown  
**MAYOR OF AUCKLAND**

### ***Copy to:***

*Councillor Ken Turner*  
*Councillor Shane Henderson*  
*Dave Chambers*  
*Alastair Cameron*

*Lead Councillor*  
*Chair, CCO Direction and Oversight Committee*  
*Chief Executive, Watercare Services Limited*  
*Manager, CCO Governance and External Partnerships*