Review of Auckland Council's council-controlled organisations

REPORT OF INDEPENDENT PANEL

July 2020

Preface

In January 2020 when we began this review, no panel member had any inkling of how challenging the next six months would prove to be, particularly with the impact of COVID-19, which forced us to conduct many meetings online – reinforcing to us the value of face-to-face interactions. Our terms of reference proved very broad indeed, spanning more than a dozen discrete topics, which made it difficult, in spite of our best efforts, to avoid writing a lengthy report. To do justice to many of these topics meant coming to grips with complex legal and factual material. There was also the challenge of writing a report the public could understand. However, we feel privileged to have had the opportunity to examine the council-controlled organisations, or CCOs, and develop what we hope are practical measures to correct the problems we identified.

We thank all those who took the time and effort to participate in whatever form. Their contributions, whether in the form of documents, briefing papers, written submissions or interviews, are gratefully acknowledged. All were willing to assist us openly and constructively. We especially acknowledge the co-operative and constructive approach taken by CCOs themselves to our many requests of them. Council staff, too, deserve acknowledgement for their contribution, especially in helping us understand some of the intricacies of council policy and operations relevant to our review.

We are indebted to our secretariat members Claire Gomas, Trudi Fava and Ross Chirnside. We also thank those council staff who assisted us with briefing notes and for arranging our many stakeholder interviews. Special thanks go to Peter Riordan of THINKWRITE for his enormous contribution in helping write our report. As already mentioned, we considered it crucial all readers, not just insiders, could understand our report.

We hope the recommendations in our report will translate into improvements in the model, accountability and culture of CCOs. We also hope this review has, if only in a small way, already helped facilitate greater collaboration and co-operation among CCOs and between CCOs and the council. Teamwork is, after all, a key ingredient in effective local government.

Naku te rourou nau te rourou ka ora ai te iwi

With your basket and my basket the people will live.

Miriam Dean CNZM QC
Chair

Leigh Auton

Doug Martin

31 July 2020

Contents

Overview

CCOs have a big presence on the council stage – they account for two-thirds of the council's services to the public, control two-thirds of its assets, and absorb half of its operational budget. For this reason alone, it is essential they work as well as possible. And in the main they do. We consider the CCO model remains the right one for Auckland, bringing together strong business disciplines, agile decision-making, streamlined administrative structures, operational efficiencies and specialist skills and expertise. The CCO model also delivers tangible benefits to Auckland – benefits as varied in nature as the CCOs themselves.

The council has the means to make two significant improvements to the model generally. One is to give CCOs clear strategic direction (which would enable them to translate the council's high-level plans into practical work programmes) and the other is to give CCOs guidance on how to strike a balance between commercial and public interests (which would eliminate a good deal of the criticism levelled at CCOs by the public).

Too much has been made of the notion that CCOs are commercial entities. They are not. Some of their activities are commercial in nature and they must often exercise commercial judgement and business expertise, but at heart they are community-owned entities that exist to provide services to those who partly or wholly fund them – Aucklanders. As a result, they must be more conscious of community expectations and appropriately balance commercial and public interests.

The council also has the means to make a third significant improvement. This one, however, is specific to Auckland Tourism, Events and Economic Development, or ATEED, and Regional Facilities Auckland and that is to amalgamate them. There are many good reasons to take such a step: they share similar goals and perform similar activities (indeed some overlap); their amalgamation would result in cost savings, efficiencies and a co-ordinated region-wide programme of cultural, arts, sport and business events. Moreover, their social, cultural and economic functions are intrinsically linked and never more so than since COVID-19. Amalgamation could also coincide with a long-overdue tidying up of legislation relating to the Auckland War Memorial Museum and MOTAT (which could bring all cultural institutions under one roof) and Eden Park (which could enable the joint management and operation of the city's main stadiums).

The other three CCOs are sound in their present form, but are not without problems, most notably:

- Auckland Transport does not collaborate enough with the council on transport strategy and setting bylaws; the way it designs, consults on and implements small projects (a big share of its project workload) is far from satisfactory; and the way it receives funding needs streamlining.
- Panuku lacks a clear purpose; it is caught up in duplicated property sales processes; it has problems with the funding of its redevelopment work; and its overheads are too high and its focus too wide.
- Watercare's infrastructure expansion work (like Auckland Transport's) is not effectively co-ordinated with the council and its consenting work (again like Auckland Transport's) is too slow. Two other defects – although not of its own making – are the absence of a three-waters strategy to implement, and a lack of council input into the setting of long-term water prices.

One of our main tasks was to consider whether CCOs are sufficiently accountable to the council and the community. The short answer is the council has all the necessary levers at hand to ensure accountability, but it is not using them effectively – and in one important respect, not at all. Yet strong accountability (including transparency) is at the heart of good local government – and it also goes both ways.

The council's many plans, policies and strategies offer almost no practical strategic direction to CCOs. They do not contain careful, detailed information about the council's expectations of CCOs so they can set their work programmes and priorities accordingly. In some crucial areas – such as water, property and arts and culture – there is no strategy at all. In other areas, such as economic development, they are out of date. Some (such as stadiums) have been the subject of enormous effort and expense, but have yet to be adopted. As for plans and policies, they are often too broad and lacking in specifics, and require considerable interpretation by CCOs to make them operational. Some plans do not receive the accompanying funding to enable CCOs to turn them into reality.

The accountability mechanisms themselves are not without problems either. Letters of expectation, for example, are too vague and fail to give CCOs adequate guidance in preparing their statements of intent. CCOs' statements of intent vary enormously in length, clarity, presentation and performance measures and are poorly aligned to CCOs' activities and objectives. CCOs' reporting to the council is also variable and is missing vigorous discussion of their performance. There are far too many local board engagement plans – an incredible 105 – and there is no monitoring of their implementation. The council's governance manual for CCOs is far too long (it should be focused on the council's expectations of CCOs) and it should not hesitate to use its statutory power to direct CCOs to comply with its plans and strategies when necessary – something it has never once done.

The council's governance of, and liaison with, CCOs is not working as it should. Problems include a failure to recognise the importance of relationships with CCOs; a lack of commitment by some councillors to attending CCO induction days, workshops and other opportunities to learn more about their businesses; forums that do not encourage free and frank conversations; poor and patchy information flows; insufficient support for councillors in holding CCOs to account; and insufficient resources for the council unit charged with monitoring CCOs' activities and budgets, which are considerable.

Finally, there is insufficient face-to-face discussion and meaningful dialogue between CCOs and the governing body, especially in relation to the council's strategic planning processes for CCOs. No amount of mechanisms will make accountability work – it takes people, and relationships between people, to achieve this. At the moment, there is no one senior-level person within the council (excluding the council chief executive) with the task of managing day-to-day relationships between the council and CCOs.

CCOs' interactions with local boards does not result in effective accountability. CCOs largely inform local boards about projects in their area rather than seek real input into their design. CCOs are also not sufficiently responsive to local boards' concerns and do not co-ordinate their efforts in local board areas with other CCOs. The time has come for local boards and senior CCO managers to sit down and thrash out a more meaningful way of working together. And local boards need to show more initiative in their relationships with CCOs when it comes to integrating their planning into CCOs' own planning.

As for accountability to Māori, we found much the same situation: the mechanisms themselves are adequate to ensure CCOs comply with their obligations to Māori. The problem lies in their use. In particular, we found confusion about roles and relationships, a lack of clear direction, a lack of collaboration between CCOs, and a lack of alignment in their Māori responsiveness plans and initiatives undertaken to achieve Māori outcomes. CCOs' engagement with Māori must go beyond mere box-ticking to recognising mana whenua as Treaty partners in Auckland's governance.

As for being accountable to customers and ratepayers, CCOs certainly understand the theory, but the practice is another matter: the feedback from the public on this score was overwhelmingly negative. Responsiveness to queries or complaints was slow – and complaints were frequently about the tardiness of minor works or the excessive heed paid to commercial interests over public interests (the latter hardly helped by the fact CCOs' constitutions are silent on balancing these considerations). The make-up of CCO boards could do with a greater diversity of skills and ethnicities.

The culture of CCOs was the last main topic we examined, and we heard much wishful discussion of everyone being part of the "council family". We saw little evidence of this in action. "Silo" thinking appears to prevail. Shared values and behaviour are rare. Collaboration is thin on the ground. Transparency is not what it should be. Communication with the public about major infrastructure work is fragmented. Even in such practical matters as sharing back-office services, there are no group policies to ensure as much sharing of quality, cost-effective services as possible. Branding is another area that does not present a united face to the public. We must mention senior managers' pay because it so riled the public that we suggest the council has input into remuneration levels.

More generally, trust and confidence in the council and CCOs is low, and the time has come for them to work together to confront that problem. A good place to start would be shifting the emphasis on to results and away from the seemingly endless processes and procedures we encountered so much of during our review.

In this overview, we have concentrated on the problems we uncovered, but no one should think there are not plenty of successes – there are, and they are outlined in the CCOs' own words in appendix C. We have not discussed here our recommendations for addressing these problems because they are set out next. Our focus was on solving problems in pragmatic, cost-effective ways. Value for money was one of our main criteria when assessing viable alternatives. These recommendations should be read with care because, as summaries, they are necessarily stripped of the details that give them context.

Many of the recommendations can be implemented quickly and easily. Some will take longer, but easily, in our view, within 12 months, and some will require collaboration between CCOs, the council and other entities.

Recommendations

We recommend:

ATEED and Regional Facilities Auckland

1. The council approves the merger of the two CCOs and appoints a steering group to implement the change.

2. The merged entity explores, at the council's direction, the critical need for joint management and operation of the city's four stadiums with the Eden Park Trust.

3. The council explores with the Auckland War Memorial Museum and MOTAT bringing both institutions into the merged entity and seeks such legislative change as is necessary.

Auckland Transport

4. Auckland Transport and the council jointly prepare the regional land transport plan, the draft of which the council endorses before going to the CCO's board for approval.

5. Auckland Transport and the council form a working group to clearly delineate their bylaw-making powers and formalise the result in a memorandum of understanding.

6. Auckland Transport urgently reviews how it designs, consults on, funds and implements minor capital works, including how it involves local boards in the design of its annual work programme.

7. Auckland Transport and the council explore urgently with the Ministry of Transport and the New Zealand Transport Agency how to streamline funding processes.

Panuku

8. The council identifies a more stable source of funding for Panuku during the preparation of the next long-term plan.

9. Panuku clearly outlines how its activities and investments contribute to meeting its performance targets.

10. The council amends the Panuku constitution to make clear its twin purpose of redeveloping urban areas and managing the council's non-service property.

11. The council assumes responsibility from Panuku for identifying and deciding which non-service properties to sell (excluding those in the CCO's own unlock-and-transform areas).

12. Panuku cuts its overheads and adopts a more focused approach to redevelopment.

13. Panuku manages and develops the three city centre marinas until the waterfront redevelopment is complete.

14. Panuku continues to manage the council's non-service property until the council produces a property strategy and considers whether to combine all property services in one place.

Watercare

15. The council formulates a three-waters strategy and includes a reference in the strategy to Watercare's obligation to consult the council about the broad direction of pricing and water services.

16. Watercare and Auckland Transport submit their asset management plans and detailed supporting information to the council every year so it can assess how well the plans give effect to its urban growth strategy.

17. The council, Watercare and Auckland Transport resolve consent processing delays and if this does not happen, the council assumes responsibility for assessing the water and transport components of consents.

18. The council reaches agreement with Watercare and Auckland Transport on clear, measurable minimum performance levels expected of them when reviewing consent applications, and establishes a formal mechanism to allow objections to the way both CCOs enforce their codes of practice.

19. The council reviews the way it requires CCOs to monitor and report on risks and risk mitigation measures.

Accountability

20. The council establishes a small team to draw up detailed, implementable strategies that give CCOs more strategic direction, starting with strategies on water, economic development and stadiums.

21. The council establishes a strategic planning process in which CCO boards and the governing body hold workshops to discuss CCO work programmes and priorities, with the results fed into each CCO's letter of expectation and statement of intent, as well as into the annual budgeting and planning processes.

22. The council prepares a statement of expectation setting out its expectations of each CCO and of CCOs generally.

23. The council develops a template CCOs must use when drafting their statements of intent, as well as a set of common key performance measures they must include, to ensure consistency in length, detail, presentation and benchmarks.

24. CCOs' first and third quarterly reports concentrate more on any emerging risks or any developments that may require CCOs to adjust their priorities.

25. The council creates a senior position responsible for day-to-day management of council-CCO relationships to take some of the load off its chief executive.

26. Councillors have a day-long induction at the start of their three-year term on their responsibilities as CCO shareholders, the separation of governance from management, and how to best govern CCOs as arm's-length organisations.

27. The governing body spends half a day each year visiting each CCO to better understand its business and culture and to informally build relationships.

28. The council reviews the liaison councillor role at the start of the 2021 financial year.

29. The council rewrites its governance manual so the focus is squarely on its expectations of CCOs, removing policies to a separate document and requiring incoming directors and senior managers to read the manual.

30. The council gives its CCO governance and external partnership unit more resources to strengthen monitoring of CCOs.

31. The council updates and clarifies its no surprises policy by:

    - including clearer, more current examples of when the policy applies
    - giving clearer guidance about precisely when CCOs should pass on information – and to whom
    - ensuring CCOs' statements of intent contain a reference to the updated no surprises policy so all concerned can be held to account.

32. The council draws up a protocol governing information requests between the governing body and CCOs.

33. The council exercises its statutory powers under section 92 of the Local Government (Auckland Council) Act 2009 if it has any concerns that a CCOs is not acting consistently with any strategy.

34. CCOs and local boards reset how they engage with one another, by means of:

    - a workshop to develop a more meaningful way for CCOs and local boards to work together
    - the preparation of joint CCO engagement plans for each local board
    - more initiative by local boards in integrating their own planning with CCO planning
    - liaison between CCOs and local boards at a more senior level so CCOs can quickly remedy local board concerns
    - the preparation of joint CCO six-monthly reports for each local board
    - the communication of clear, up-to-date information from CCOs to local boards on projects in their area.

35. The council, working with the Independent Māori Statutory Board, the Mana Whenua Kaitiaki Forum and CCOs, clarifies for CCOs what each of these three entities' respective roles are at the governance level, and how CCOs should engage with each entity.

36. The council urgently completes the Māori Outcomes Framework, which should include guidance on how CCOs engage with mataawaka, and afterwards CCOs update and align their Māori responsiveness plans accordingly.

37. CCOs use a template for their Māori responsiveness plans and collaborate with one another and seek input from Māori entities during the drafting process.

38. CCOs continue to work with the Independent Māori Statutory Board to monitor and report more effectively on Māori responsiveness plans.

39. CCOs engage directly and at a more senior level with the Independent Māori Statutory Board and the Mana Whenua Kaitiaki Forum to work on joint initiatives that benefit Māori.

40. Ngā Mātārae, the Mana Whenua Kaitiaki Forum and CCOs arrange a hui to establish a more co-ordinated and meaningful way of working together to reduce the number of meetings Māori entities are expected to attend and contribute to.

41. The council and CCOs review the quality of the service their call centres provide, including by ensuring an up-to-date, group-wide phone directory is on hand containing job descriptions and contact details of all staff.

42. The council gives CCOs guidance on how to balance public and commercial interests and amends their constitutions to make explicit that each CCO must meet both objectives.

43. CCO boards have a more ethnically diverse membership and include more individuals with relevant subject matter expertise and public sector experience.

Culture

44. The council and CCOs have common values and expectations of staff and management behaviour that collectively set the tone for the broader culture of all council organisations.

45. CCOs appoint a lead agency when working jointly on projects.

46. The council, Auckland Transport and Panuku jointly communicate to the public about urban development and transport infrastructure matters.

47. CCO chief executives establish a group, led by the council's chief executive, that meets monthly to deal with any common or significant problems, risks or developments.

48. CCO chairs meet four times a year to strengthen relationships, build trust and generally provide a forum to share information and views.

49. The quarterly meetings of council and CCO executive leadership teams have a formal agenda.

50. New council and CCO staff receive instruction during their induction on the need for CCOs to operate at arm's-length but also to be accountable to the council.

51. CCO chief and senior executives' job descriptions include requirements about collaborating with the council, following council directions and meeting council expectations.

52. Job descriptions refer to the need to contribute to Māori outcomes.

53. CCOs make more effort to co-ordinate how they consult the community on and implement local projects.

54. CCOs report regularly on the nature of the complaints they receive and how long they take to resolve them.

55. CCOs' statements of intent contain a key performance indicator on complaint-handling.

56. The council and CCOs explore options to give ratepayers a more effective voice in what happens in Auckland and also how, short of court proceedings, to challenge CCO or council decisions.

57. The council updates its brand guidelines to ensure the pōhutukawa logo is used in a clear, consistent and flexible way on all council-funded services, activities and facilities, including when used alongside CCO operational brands.

58. The council monitors CCOs' compliance with its brand guidelines.

59. CCOs follow the council's quality advice standards and encourage staff to participate in its quality advice training.

60. The council includes a selection of CCOs' reports among its own selection for external review each year, and considers reviewing elected members survey questions to get a clear picture of satisfaction with CCO engagement and advice.

61. The council and CCOs work together to draw up group policies on shared services, the development of leadership talent and remuneration.

62. Shared services have formal supplier/purchaser agreements, with agreed service levels.

63. CCOs discuss their proposed collective bargaining strategy with the council.

64. The council makes compliance with the procurement policy mandatory on all CCOs to reduce costs and minimise duplication.

Part one: **Introduction**

Auckland Council was formed out of the merger of eight councils in November 2010.[1] At the same time, about 40 CCOs were merged into seven. The five substantive CCOs that remain today are the subject of our review.[2] They are: Auckland Tourism, Events and Economic Development (ATEED), Auckland Transport, Panuku Development Auckland, Regional Facilities Auckland and Watercare Services. The council initiated this review in response to public disquiet about the performance and accountability of CCOs, but also because the CCO model has been operating for more than a decade now and warrants an examination of what is working, what is not, and what can be done to improve it.[3]

The role of CCOs in relation to other parts of the city's local government structure was a subject the Royal Commission on Auckland Governance devoted some time to and its view is worth repeating. The royal commission envisaged that any reforms to make local government "more efficient and less fragmented" demanded:

- a mayor who was inclusive, inspirational and decisive
- local councils (what were to be local boards) that were better at engaging with communities, used new ways to connect with people, and simplified consultation, thereby improving community access to councils
- a council that would set policy to achieve growth and economic and social development, and that would provide strategic direction for CCOs
- CCOs that adopted a commercial focus, employed economies of scale, had a streamlined bureaucracy and allowed the council to concentrate on its main role of devising policy and strategy to ensure Auckland's prosperity and orderly growth.[4]

Our terms of reference focus on the last of these four strands of good local government, but we found it necessary sometimes to comment on the other three as well because they are so entwined. The royal commission was guided by four principles, and we chose to do the same because they sum up what good local government should look like. They are: common purpose (encompassing the interests of all Aucklanders), effectiveness (delivering maximum value), transparency and accountability (defining roles clearly), and responsiveness (respecting and accommodating a variety of views).[5] Overlaying all these principles is the need to recognise Māori as a Treaty partner in local government.

Purpose and scope

Expressed broadly, our terms of reference required us to consider whether CCOs were an efficient and effective model for delivering services, and whether the CCO decision-making model had

[1] Auckland Council replaced Auckland City Council, Auckland Regional Council, Franklin District Council, Manukau City Council, North Shore City Council, Papakura District Council, Rodney District Council and Waitakere City Council.
[2] The other two CCOs were Auckland Council Investments Limited, disestablished in 2018, and Auckland Council Property Limited, which was merged with Auckland Waterfront Development Agency Limited in 2015 to become Panuku Development Auckland. There are also nine smaller CCOs.
[3] Auckland Council press release dated 4 November 2019.
[4] Royal Commission on Auckland Governance, 2009, Volume 1, pp 8-15.
[5] Ibid, p 5.

enough political oversight, public transparency and accountability. The terms of reference covered a wide range of matters that can be summarised under three headings.

CCO model: The essential question here was whether the CCO model delivered council services with a maximum of operational efficiency, transparency and accountability or whether there were better ways to deliver such services. This meant considering whether there was duplication with in-house council activities, whether CCOs were receiving adequate direction, and whether CCOs and the council clearly understood one another's roles and responsibilities.

CCO accountability: Here the key question was whether the council had adequate mechanisms to hold CCOs to account and was using them effectively. Specific questions included whether accountability mechanisms ensured CCOs responded to the concerns of the governing body and local boards; whether CCOs acted in a way that reflected their accountability to the community as well as to the council; and whether CCOs met their legislative requirements towards Māori.

CCO culture: The chief question here was whether CCOs needed to improve how they consulted, engaged with and responded to the council and wider community. Specifically, we looked at whether council-CCO working relationships were based on mutual trust, respect and confidence, whether CCO heads responded to council directions (and policies) and worked effectively with senior council managers, and whether CCOs consulted Aucklanders sufficiently and responded sufficiently to their concerns.

A summary of our list of issues, which is a distillation of the terms of reference, can be found in appendix A.

We emphasise our review was high-level, although not without meaningful detail. It was neither necessary nor practicable to understand all the details of the governance, management and operation of each CCO. Nor was this feasible for the specific concerns raised by stakeholders about the actions (or inactions) of individual CCOs. Our focus was above all on solving problems in pragmatic and cost-effective ways. Value for money was one of our main criteria when assessing viable alternatives.

Some topics lent themselves to very straightforward improvements – CCO culture and certain model-related matters being examples. Other topics entailed improvements that required more elaborate explanations, such as accountability and the proposed merger of ATEED and Regional Facilities Auckland.

Approach

Our approach was investigative. As with any review, there was no substitute for interviews and we held more than 100 with CCO chairs and chief executives, councillors, local board chairs, council staff, the Independent Māori Statutory Board, iwi, resident and business organisations, CCO customers, regulators and other relevant stakeholders. We were keen to understand what was working well, what was not, and exploring and testing possible options for improvement. Interviews were treated as confidential to ensure full and frank discussions. Appendix B details the categories of interviewees.

We sought written submissions from interested stakeholders, including the public. We received 2,250 submissions. Some were short; some ran to many pages. We considered a wide range of other written material. In the case of CCOs, this included constitutions, statements of intent, annual reports, local board and Māori engagement plans and related material, job descriptions and various operations-related material. Council documents we examined included the governance manual for CCOs, group policies, plans and various policy and process-related material and legislation. We considered previous reviews and reports relating to CCOs, whether about Auckland or not. We also liaised with those leading a separate council-led review of Auckland's cultural and heritage institutions, and the insights they shared with us influenced our views of options for ATEED and Regional Facilities Auckland. (As we note later, it is ultimately for that review, however, to determine the best structure for those institutions.)

Finally, we held workshops with councillors, local board chairs, CCO chief executives and chairs and iwi. COVID-19 prevented us from holding more with other stakeholders. The workshops were useful in identifying deficiencies and options for improvement. We also held four drop-in sessions to give the public an opportunity to share their views.[6] And we asked CCO chief executives to produce a joint submission on ways to improve accountability and engagement, which proved helpful.

The report is divided into the three parts described above: CCO model, CCO accountability and CCO culture. Each part is in turn divided into three parts: relevant facts and feedback, an assessment of current problems, and proposed improvements. Being a public document, it has been written with the ordinary reader in mind.

Context

Any examination of the council's CCOs must be viewed within the context of the city's overall governance model, which, although familiar to those working in local government, is unlikely to be well known to many Aucklanders.

Governance structure

Auckland Council has its own enabling legislation, the Local Government (Auckland Council) Act 2009, which gives it a structure, functions, duties and powers different in many ways from those applicable to other local authorities.[7] One notable difference is greater responsibilities for the mayor, and in particular the requirement to promote a vision for Auckland and lead the development of the council's plans, policies and budget.

The council's governing body (mayor and 20 councillors) share governance with the 21 local boards (comprising 149 elected members).[8] The governing body is responsible for Auckland-wide strategic decisions such as setting rates, determining the annual and 10-year budgets, approving various strategies, policies and plans, and overseeing CCOs. Local boards have input into the governing body's regional decision-making but responsibilities are local. They make decisions about such things as their community programmes, events and facilities. They also adopt a local

[6] Drop-in sessions were held in Birkenhead, Warkworth, Westgate and Manukau. A fifth, scheduled for the city centre, had to be cancelled because of COVID-19.
[7] Other local authorities are governed by the Local Government Act 2002.
[8] Councillors are elected on a ward basis, and local board members on the basis of defined geographic areas. The mayor is elected by all Aucklanders.

board plan every three years, and CCOs take these plans into account when developing their own plans and initiatives.

An important part of the governance structure is the Independent Māori Statutory Board, which, along with its independent auditing function to ensure the council is meeting its Treaty of Waitangi obligations, ensures the council and CCOs take into account issues of significance to Māori in their decision-making. Representatives of the board sit on some council committees.

The voice of Māori is also heard through the Mana Whenua Kaitiaki Forum, a collective of Auckland's 19 hapū and iwi authorities, which works with the council to achieve outcomes for Māori, including whānau and tamariki wellbeing, marae development and Māori housing.

The council's governance structure is outside the scope of our review. Nonetheless, we note that many stakeholders considered it unwieldy. As one ratepayer group put it: "There are 42 councillors and local board chairs ruling Auckland – that's way too many." Or as another stakeholder put it: "We have 170 councillors and local board members governing Auckland, which makes it difficult for CCOs to have an effective relationship with the regions' [leaders]." Whether it is time, as many argued, to review Auckland's governance structure is not for us to decide. We merely point out that CCOs face a cumbersome task in working with, and responding to, the concerns of so many local boards. Each CCO has a local board engagement plan – as, indeed, each must have a Māori responsiveness plan.

Finally, although not part of Auckland's formal governance arrangements, the council operates local economic development initiatives in partnership with the city's business associations. There are 50 such initiatives, each covering a specified commercial area, called a business improvement district.[9] Each also has a committee made up of representatives of local businesses that liaises directly with CCOs about business-related plans and activities in its area. The council makes funds (from targeted rates levied on businesses) available for committees to use on activities that promote economic growth in their district. There are also an estimated 100 ratepayer and resident groups that seek to make their views known to CCOs, particularly Panuku and Auckland Transport because of their urban development and public transport responsibilities.

CCOs

All five CCOs are wholly owned subsidiaries of the council and operate at arm's-length from it. The council is the sole shareholder of each. Funding is through a variety of means (see next pages). The five CCOs, which we examine in detail in part two, are:

Auckland Transport: Auckland Transport manages the city's land transport network, including bus and train services, transport infrastructure and parking.[10] It prepares the regional land transport plan for Auckland and holds many of the transport-related statutory powers ordinarily exercised by councils.[11]

---

[9] Each district includes a town centre or industrial area, or a combination of the two.
[10] Transport infrastructure includes wharves, roads and bus stations, bus shelters, trains, parking buildings, signs and traffic lights, street lights, footpaths and cycleways.
[11] Sections 38 and 45 of the Local Government (Auckland Council) Act 2009.

ATEED: ATEED helps make Auckland a desirable place in which to live, work, visit, invest and do business. It does this through economic development, tourism and event attraction and funding (as well as running some events).

Panuku: Panuku is responsible for urban regeneration. It also manages what the council calls "non-service property", that is, property no longer needed for parks, roads or community facilities, together with other council-owned property as diverse as quarries and marina berths. It also sells land deemed surplus by the governing body.

Regional Facilities Auckland: Regional Facilities Auckland manages arts, culture and heritage institutions and stadiums and attracts, and delivers (as well as produces) events. It operates under six brands: Auckland Art Gallery; New Zealand Maritime Museum (Maritime Museum); Auckland Zoo; Stadiums (which has facilities in North Harbour, Mt Smart and Western Springs); Auckland Live (which runs events); and Venues and Conventions (which runs Aotea Centre, The Civic and the Bruce Mason Centre).

Watercare Services: Watercare operates Auckland's water and wastewater services. It must keep charges to customers at a minimum while ensuring the long-term integrity of its assets.

A snapshot of key details for each CCO (and an idea of the size of the combined CCOs and their share of council's operational budget relative to the council and its activities and employees) is provided below and on the next page.

Figure 1: CCOs in context

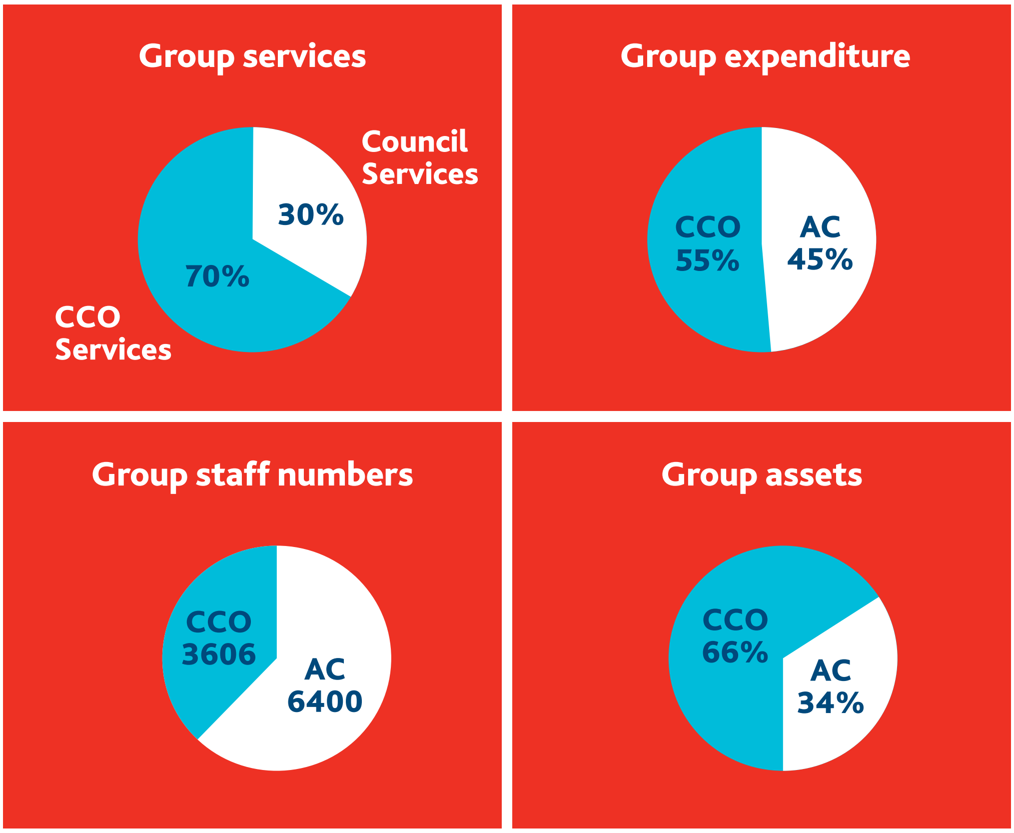


Figure 2: Snapshot of CCOs

	Revenue	CCO expenditure	Rates	Staff
Auckland Transport 	$1868M	$1894M	RATES 37% / OTHER 63%	1760
Auckland Tourism, Events and Economic Development 	$70M	$75M	RATES 74% / OTHER 26%	218
Panuku Development Auckland 	$73M	$82M	RATES 64% / OTHER 36%	231
Regional Facilities Auckland 	$184M	$130M	RATES 70% / OTHER 30%	575
Watercare 	$715M	$986M	RATES 0% / OTHER 100%	1080

Staff numbers are based on full time equivalents as at 20 February 2020

Part two: **CCO Model**

Auckland's CCOs account for 55 per cent of the council's operational budget, control 66 per cent of its assets and operate 70 per cent of council services to the public.[12] For this reason alone, it is essential the CCO model delivers council services with the maximum of operational efficiency, transparency and accountability – which is precisely the question we examine here, along with whether there are better ways to deliver these services. (Note: the accountability aspect of the model is examined in part three.)

Advantages and disadvantages

The CCO model has benefits and drawbacks, which have been documented in studies and reports, including the royal commission's report into the city's governance.[13] The benefits can include:

- a professional board of directors with commercial expertise
- an ability to attract professional staff who might not join a council
- an ability to tailor systems and process to specific business needs
- a set of tight business objectives
- an ability to respond faster and more flexibly to opportunities and challenges
- a greater degree of continuity in investment and decisions
- a structure that insulates a council from financial liability and risk
- a set of council-determined objectives that leaves the council free to focus on strategy, policy and regulatory functions.

The drawbacks can include:

- an excessive focus on CCO objectives, at the expense of council-wide collaboration
- a need to monitor a CCO, whose overheads may increase service delivery costs
- a reduced ability to manage risks originating in a CCO
- a CCO's drive for organisational efficiency at the expense of community outcomes
- a fragmentation of council functions or services
- a diminished say by customers and residents over how a CCO delivers services.

A council can minimise these drawbacks if it ensures CCOs:[14]

- have a clearly defined purpose and strategic direction
- have clearly defined roles and responsibilities relative to the council
- have the right people in the right roles

[12] Note: we had some difficulty verifying the exact split of services delivered by CCOs and the council to the public. One estimate was that CCOs operate 75 per cent of these services (see footnote 3). Our ballpark assessment is between about 65 per cent and 75 per cent and we have taken the midpoint of 70 per cent.
[13] See footnote 4, pp 459-460.
[14] See: What Works? A report for Wellington City Council on getting the best from council-controlled organisations, Plimmer Consulting, August 2012.

- have an effective relationship with the council
- are subject to transparent and effective accountability processes and monitoring.

Key questions

We have been asked to answer four questions about the CCO model in Auckland:

- whether there are any problems, including duplication with in-house council activities
- whether each CCO has a clear and current purpose and is receiving adequate direction from the council
- whether the roles and responsibilities of CCOs and the council towards one another are clearly defined
- whether viable alternatives exist (including bringing CCO functions in-house) and what the advantages and disadvantages are.

In answering these questions, we considered whether each CCO's activities:

- require the commercial disciplines and specialist expertise of professional directors
- require people with strong technical and industry knowledge and rely on the ability to recruit and retain highly skilled staff with private sector skills
- require fast decision-making, innovative thinking and the application of relevant commercial disciplines, including those relating to risk management
- can be made more efficient by aligning the CCO's systems and processes to its specific business needs
- lend themselves to achieving economies of scale
- are not duplicated by other CCOs or the council.

We have rated the current CCOs and alternative models as "high", "medium" or "low" against these criteria.

Summary findings

Our answers in relation to each CCO are set out below. But our broad conclusions are:

The model remains the right one for Auckland, just as the council's previous review in 2014/2015 found, and as the royal commission and Auckland Transition Authority recommended.[15] It brings together business disciplines, agile decision-making, a streamlined administrative structure, operational efficiencies and specialist skills and expertise that would not be possible if the council assumed direct control of CCO functions. Such a step would add an onerous workload to the mayor and councillors' already heavy responsibilities. It would also distract them from pressing strategy matters. As one interviewee said: "We can't run everything from city hall." Or as another councillor put it, bringing the CCO in-house "would create a monolith".

The size and complexity of transport and water infrastructure would make it especially untenable to bring these functions back into the council (and such a move would demand, at the very least,

---

[15] Auckland Council, Governing Body report, Council Controlled Organisation Review – Process Overview, CCO Configuration Options and Delivery of Services Review, 27 November, 2014.

stand-alone business units with advisory boards, resulting in potentially fewer benefits and more risks). The royal commission rightly observed that the size of these operations "requires the very highest standards of governance practice and commercial directors of the highest quality" – and the city's infrastructure needs have grown considerably in the decade since those words were written.[16] As for the smaller CCOs, there are sound reasons why they, too, should remain as CCOs, given the need for specialist skills, fast decision-making, innovative thinking and the like (although ATEED and Regional Facilities Auckland are missing an opportunity to achieve economies of scale). Moving CCO operations in-house was the only viable alternative to the current model that we considered warranted any examination.

Most interviewees – whether councillors, council staff, CCO directors, CCO staff, regulators, customers or other stakeholders – agreed with us. Most said CCOs have achieved significant results for the region in the past decade. A smaller number of submitters – including councillors, local board members and the public – thought the model left elected representatives with little say in decisions about the city, leading to low levels of trust in the council. In their view, CCOs should be brought in-house. We do not agree.

There is, however, room to improve the way the model works, as well as the accountability and culture of CCOs. Specific problems with each CCO, and how improvements can be made, are examined in detail next.

ATEED

Purpose and responsibilities

ATEED has three core responsibilities: economic development, tourism promotion and events attraction and management. Its constitution says its core objectives are to lift Auckland's economic wellbeing, boost Auckland's contribution to the national economy, and help make the city an internationally competitive place to visit and live, work, invest and do business in.

As the council's economic development agency, its activities include identifying business opportunities, helping potential investors with their infrastructure and talent needs, boosting workforce skills, supporting innovation and providing advice about encouraging business growth. It focuses its economic development activities mainly on the region as a whole, but it also supports local economic development in individual wards or even suburbs (especially important now with the impact of COVID-19).

ATEED's tourism, marketing and events management activities are grouped together in a single division that is also responsible for attracting international students and large business meetings and conventions to Auckland. Its Destination AKL 2025 strategy provides the direction for this work.

[16] See footnote 4, p 466.

Funding comes from four sources: council-provided operational funding (50 per cent), fees and user charges (29 per cent), grants and subsidies (2 per cent) and the accommodation provider targeted rate (19 per cent).[17] For 2019-20, its operating budget is $75 million. It has no capital expenditure budget. As at February 2020, it had 218 staff. Of these, 84 were in economic development, 81 in tourism and events, 31 in corporate services and 22 in marketing and communications.

Feedback

We received only a small amount of feedback about ATEED compared with other CCOs, perhaps suggesting low public awareness of what it does. We have grouped feedback under two topics.

Economic development

The vast majority of submitters stressed the importance of its economic development role, especially given the impact of COVID-19. One councillor said it was essential to have an agency that could work closely with the business community. One council manager said: “There is a job for political leadership and an organisation promoting the city on a national and international stage.” Another said: “The political framework is the wrong framework for economic development, [which] is a commercial arrangement with a social outcome.”[18]

We heard positive feedback about ATEED’s responsiveness during and after the COVID-19 lockdown. One local board chair described it as “more savvy and fleet-footed than the council”. It won praise for responding quickly to small businesses’ needs, and also for helping develop the tourism video Papatūānuku is Breathing, which attracted 2 million viewers here and overseas. Several submitters also noted the CCO had responded well to the need for increased focus on jobs growth. These are the sort of actions the council would want to see from its economic development agency.

Many submitters said neither Aucklanders nor elected members understood ATEED’s economic development responsibilities well. A complicating factor was that economic development encompassed a broad range of activities, some of which had no immediate link to economic growth. ATEED’s economic development activities are not clearly described in its corporate documents, perhaps because the council has not given it a clear strategic direction. Both council and CCO staff said the council’s 2012 economic development strategy was out of date. (See part three.)

Many councillors, business associations, and even members of ATEED’s board, said ATEED was often seen as a more of a marketing, destination and events agency than an economic

[17] This charge on accommodation providers recovers some of ATEED’s spending on attracting visitors to Auckland and running major events in the city. The council’s draft emergency budget for 2020-21 proposes suspending the rate until 31 March 2021 in response to COVID-19.
[18] ATEED provides advice and support to thousands of small and medium-sized businesses, including Māori businesses through its Whariki network and tourism-specific programmes. It has also helped about 1,000 companies a year obtain research and development grants totalling more than $20 million through the Government’s Regional Business Partner Network programme. It has also helped companies obtain New Zealand Trade and Enterprise capability vouchers.

development agency. As a result, its economic development activity was either not visible or imperfectly understood. Some submitters said ATEED's economic development mandate and focus were too wide and that it suffered from being "all things to all people". One council manager said ATEED's original purpose, to bring investment into Auckland, had vanished from ATEED's "mantra". But some people cited ATEED's work in persuading Amazon Studios to select Auckland as the main production base for its television version of The Lord of the Rings as evidence of the CCO's success in this area. Media reports suggest the move will bring millions of dollars into the region, create jobs and give a big boost to the region's economy.[19] (See appendix C for more ATEED accomplishments.)

We received a lot of feedback about what submitters regarded as inadequate local economic development aimed at helping growth in individual business improvement districts. Local boards, business improvement districts and/or local businesses often initiated this sort of economic development, which typically consisted of small-scale projects ranging in value from a few thousand dollars up to about $20,000. Local boards were particularly strong on this point. One lamented a lack of "any level of service" to its local community. This may not be surprising since ATEED has only four staff to support local board-initiated economic development. ATEED's response was that its main focus was on regional economic development (which nonetheless has an impact in wards and suburbs) whereas local economic development was the responsibility of the council and other CCOs as well.[20]

Events

Many submitters appreciated ATEED's tourism and events work. Feedback was positive about events ATEED attracted to the city and/or managed. Examples included the Rugby World Cup, V8 Supercars, NRL Auckland Nines, ICC Cricket World Cup, World Masters Games (run by an ATEED subsidiary) and Volvo Ocean Race stopovers. However, some said ATEED's events function overlapped with Regional Facilities Auckland's work. Both, for example, were involved in attracting business meetings and conventions to Auckland. Many stakeholders also questioned why ATEED was running cultural events such as Diwali and the Lantern Festival when the council had its own community events team. And others considered its activities were not core council business and did not provide value for money, and the CCO should be disestablished or its functions brought in-house.

There were conflicting views about who should be responsible for events. One stakeholder described the current arrangement as "really untidy". An industry stakeholder said there was "merit in one entity and, indeed, I would even go further and potentially bring Auckland Council community events into one entity". Other submitters noted that each agency had different – and quite justifiable – goals for running events and hence should be kept separate. As one councillor put it, ATEED's eyes were set on visitor nights, economic activity and raising Auckland's profile, while Regional Facilities Auckland was simply interested in "bums on seats".

---

[19] https://www.aucklandnz.com/about-ateed/news/latest-news/Lord-of-the-Rings-series-tranformative-opportunity-for-Auckland.

[20] Its role, it said was limited to providing economic data to local boards and the council, working with local boards and business improvement districts to support start-ups, running local programmes for small to medium-sized businesses, and providing advice in support of local projects.

Many submitters, especially members of the public, questioned the economic sense of ATEED running some events and Regional Facilities Auckland running others. There was strong public concern about duplication. One industry stakeholder said “the biggest costs in running events are productions and venues, so it makes commercial sense to consolidate all event activity in one entity”. Other stakeholders pointed to the duplication and inefficiencies also in securing and promoting events. The musical, The Book of Mormon, was cited as an example. Regional Facilities Auckland secured the show at The Civic, but needed ATEED funding to promote the event. We heard similar points about attracting and funding stadium events. Some stakeholders highlighted the inefficiencies in having to deal with two council organisations, which could be avoided by bringing together the CCOs’ event functions.

Alternative models

We considered four alternatives. One was the status quo (although possibly transferring ATEED’s four cultural festivals to the council).[21] However, this would do nothing to address issues of scale or improve efficiency, service delivery and value for money for ratepayers. A second was to bring ATEED in-house. This would not be a viable option either because the CCO model offers so many benefits that a council-run operation could not match, including securing private and/or government funding. A third – and one urged by several stakeholders – was to bring some functions, such as economic development, into the council. But again, this would not be viable for the same reasons the second option would not be feasible. And as discussed below, social, cultural and economic functions are intrinsically connected. A fourth option was to merge ATEED with Regional Facilities Auckland. This is a viable option, for reasons outlined further on.

Regional Facilities Auckland

Purpose and responsibilities

Regional Facilities Auckland is a charitable trust with some of Auckland’s most significant regional sporting, cultural and entertainment assets. The trustee is Regional Facilities Auckland Limited, whose purpose is to attract world-class events and provide arts, cultural, heritage, leisure, sports and entertainment facilities and activities.

In practical terms, this means providing outdoor venues for professional and community sport and for concerts and entertainment activities, and also providing a range of indoor venues to host performing arts, conventions, and festivals. It also operates Auckland’s main cultural heritage and natural environment organisations and promotes arts, cultural heritage, entertainment and community wellbeing. It is expected to supplement its council income with commercial revenue. In 2019-20, the council provided operating revenue of $40.6 million, as well as $78.5 million to fund capital works such as the Aotea Centre refurbishment and Auckland Zoo expansion. In the same period, it budgeted to earn $60 million from its commercial activities, including visitor receipts. Finally, Regional Facilities Auckland has a say in the appointment of directors to two cultural and heritage institutions outside its direct area of responsibility – MOTAT and the Auckland War Memorial Museum.

---

[21] The four events are Diwali, Pasifika, Tāmaki Herenga Waka and Lantern Festival.

As at February 2020, it had 575 permanent staff in seven divisions: 137 in its corporate area, 131 in its Auckland Live and Auckland Conventions, 148 at Auckland Zoo, 104 at the Auckland Art Gallery, 30 at the Maritime Museum, and 25 at Stadiums Auckland. It also has 631 casual staff to call in when it needs help running events.

Feedback

We have grouped feedback under four headings:

Events

We received positive feedback about its Auckland Live brand and the events it attracted to the city. Auckland Live's events have resulted in a 52 per cent growth in Auckland audience numbers over the past decade. (See appendix C for more about its accomplishments.) However, many submitters questioned the need for two events agencies, especially when the council had an events team of its own for supporting more community-based events such as the Santa parade and Christmas in the Park.

Funding allocations

Many submitters said sport and entertainment infrastructure and spending significantly overshadowed that on cultural infrastructure. They said the emphasis on sport had been particularly strong in recent years, forcing cultural institutions to compete among one another for a limited pool of funding. Noted one submitter: "The Art Gallery is buried in Regional Facilities Auckland and it makes donors and supporters run a mile. It is denigrated by where it sits. It should be taken out, and report directly to council with its own board. Alternatively, bring all the cultural institutions into one umbrella – amalgamate the museums." This view may be coloured by the extensive publicity the unresolved stadium issue has attracted. Sporting facilities (stadiums) in fact comprise only 14 per cent of the CCO's budgeted capital investment and only 12 per cent of its operational costs. And the gallery has been donated significant artwork in recent times.[22]

Some submitters wanted the CCO brought more or less completely in-house, saying Auckland's councils had done their job effectively before amalgamation. In fact, one councillor said: "We used to run the art gallery. I don't know what problem is that we were trying to fix." Several submitters said local government staff could not be expected to attract and deal with rock promoters. "You need people who understand a promoter's world, enjoy rock concerts and those people don't live within council," said one submitter. Others blamed the lack of a stadium strategy or cultural strategy for the way resources were skewed in favour of sport, and said bringing everything in-house would force the council to develop these strategies.

Other submitters, including many who had either worked within or alongside sporting and cultural facilities, favoured the CCO remaining outside the council. One submitter said he doubted the council had the ability to directly manage cultural institutions, adding that its "track record in the past has been very poor". Another submitter said he supported the CCO model because it was "capable of delivering without being mired in politics – it delivers efficiencies, tangible outcomes". Another still said managing and operating large stadiums required specialist commercial skills.

---

[22] Gifts of artwork over the past five years had a value of $9.4 million.

Some submissions from the public showed a misunderstanding about the CCO's activities, which were often confused with the council's community facilities, such as sports fields, parks and community halls.

Stadiums

Many submitters described the absence of a stadium strategy as a real impediment to change and expressed a strong degree of frustration that development of one was taking so long. They blamed the CCO for not listening to the voice of the public, and especially those of particular sporting codes, notably rugby league and speedway. "This organisation does not listen to users of the facilities and seems to think it can do whatever it wants with ratepayer assets," said one submitter. "It needs to improve its capacity to accept feedback from venues stakeholders such as speedway drivers, car owners and fans," said another. "Their actions, communication and strategies appear to be preconceived," said a third.

Several submitters pointed out that the Auckland Transition Agency had intended that all council-owned stadiums would ultimately come under the roof of Regional Facilities Auckland. "But Eden Park is the elephant in the room," said one, noting that as an independently owned stadium it was outside the CCO's mandate, yet it had a huge influence on what it could and couldn't do.

The CCO's facilities and venues represent a significant financial liability to the council because they require council funding to operate and do not generate a cash surplus to pay for what is now a considerable amount of deferred maintenance. We note that such venues commonly receive local government financial support.[23] There can be no doubt a stadium strategy is essential to understanding Auckland's future needs for venues, the costs of providing for those needs and how those assets might be managed. (See part three.)

We also heard from councillors frustrated at the lack of openness about the financial performance of each of the CCO's business units. They said such information would help them understand how the units were performing and what their future liabilities were.

Cultural heritage organisations

Some submitters and stakeholders urged the assimilation of all cultural heritage organisations under the CCO's control. "They all need to be joined up and in one place," said one. "It's all the untidy legacy stuff." They regarded the current cultural heritage review as moving too slowly, and probably being hamstrung by attempts to get results by taking a collaborative approach. One said the review was "not doing anything. The Stafford review created a structural solution, but you need strategy and vision first". (See more on the Stafford review immediately below.) Many stakeholders, including councillors and those from other museums, also expressed dissatisfaction with what they said was Auckland Museum's "legislatively protected position", which enabled it to, as one commented, "soak up money and there's nothing the council can do". The museum prefers the phrase "statutory independence" and says its funding reflects the scale of its services. (MOTAT's position is also protected by legislation but we heard none of these concerns to the same degree as we did with the museum.)

---

[23] Examples include Sky Stadium, which is owned by Wellington Regional Stadium Trust and receives support from Greater Wellington Regional Council and Wellington City Council, and Forsyth Barr Stadium, which is owned by a subsidiary of Dunedin City Council.

Alternative models

We considered five alternative models. One was the status quo. Another was to bring all of the CCO's activities in-house. A third was to bring only the stadiums in-house, and a fourth was to bring only the cultural organisations in-house. But like the alternative ATEED options, they are either not viable or offered few benefits. In our view, the only real contender was the fifth, a merger with ATEED, as we explain next.

Merger of ATEED and Regional Facilities Auckland

We think a merger is a viable alternative for these broad reasons:

- It would bring together two entities with more similarities than differences.
- It would produce economies of scale, cost savings and other tangible benefits.
- It would be a first step towards the rationalisation process set in train by the local government reforms a decade ago.
- It would enable better accountability and monitoring by reducing the number of CCOs from five to four.

Since a merger would be a big step, we have explained our reasoning in some detail.[24]

We approached the CCOs, separately and together, for their views and also to get a clearer picture of the implications of a merger. One CCO was initially opposed to a merger. However, both, to their credit, took a constructive and collaborative approach to discussions and ultimately agreed that a merger would, to use their words, "deliver great outcomes for Auckland". At our request, they have prepared a joint memorandum setting out their position and views on key questions, such as the benefits of a merger, timing, funding, structure and implementation. This memorandum (of which we have seen a draft) will be made available to the governing body, along with council officers' advice, to assist it in deciding whether to merge the two entities.

The essential purpose of a merged ATEED and Regional Facilities Auckland would be to make Auckland the preferred city in which to live, work, visit, invest and play. A combined entity would achieve this by attracting and delivering events, managing the city's cultural institutions, venues and stadiums, and attracting visitors, business and investment that foster social, cultural and economic wellbeing.

We now set out in more detail the four principal benefits of a merger.

Common purpose and activities

Both have far more in common than they have differences. Both focus in one way or another, to use their words, on "enriching the lives of Aucklanders" – ATEED through economic development (including tourism) and attracting, funding and delivering events, and Regional Facilities Auckland through arts, cultural, entertainment and sports experiences, which have obvious social and cultural benefits but also investment and employment spinoffs. The result, both said, was that it

[24] The council did consider a possible merger of the two CCOs in 2014. At that time, it prioritised, and implemented, a merger of Auckland Waterfront Development Agency Limited and Auckland Council Property Limited.

would be "relatively straightforward to align any new organisation's purpose [and] strategic priorities".

Moreover, their social, cultural and economic functions are intrinsically connected, so that fostering one element inevitably feeds another, which strengthens a third, and so on in a self-sustaining fashion. Regional Facilities Auckland currently supports ATEED's economic development and tourism-related functions through a co-ordinated, region-wide programme of cultural, art, sport and business events. The effect is to stimulate economic, social and cultural outcomes, especially in attracting visitors to the city. ATEED, in turn, helps attract and/or fund events, some of which Regional Facilities Auckland delivers.

There is precedent for a merger of cultural, sports, events and venue-related functions. Glasgow Life, for example, is a city council-funded charitable trust that offers the city's 1.2 million residents and visitors a full range of arts, sports and entertainment events (including management of 167 associated venues and buildings), as well as focusing on learning activities for Glasgow children.[25] Closer to home, the capital's Wellington Regional Development Agency combines venue management, events and economic development (although, unlike Glasgow Live, its venue management is confined to the city's civic venues and one multi-purpose arena, the TSB Arena).[26] Auckland Council appears to already recognise the inter-connectedness of economic development and social and cultural activities since its parks, arts, community and events committee is also responsible for overseeing economic development.[27]

One conceivable risk of a merger – and the CCOs make this point in their memorandum – is that a new entity could focus too much on events at the expense of economic development. However, careful design can avoid this, bearing in mind that economic development has many strands. ATEED's focus, in truth, is more about attracting and supporting businesses, investment and visitors into the Auckland region. Other CCOs (and the council) contribute to economic development in their various ways – Panuku through urban redevelopment and Auckland Transport and Watercare through the provision of infrastructure, which aids growth and creates jobs. And the council facilitates economic development with its planning and consenting processes.

What's clear is that the council and all CCOs should together define the economic outcomes Auckland ought to strive for, and agree on how to achieve and measure them. Exactly which council entities should champion local economic development and how are particularly pressing questions, since most of the criticism we heard about this topic centred on local, rather than regional, economic development. Economic growth in individual neighbourhoods is important, but fostering this growth is not a role for one entity alone. A clear, cohesive economic development strategy is vital (see more in part three).

There is a particular need, in our view, to consider where responsibility for small-scale local economic development is best placed – whether with the merged entity or brought in-house so that, to use one council officer's words, this work is "joined up and monitored in a co-ordinated

---

[25] https://www.glasgowlife.org.uk/libraries/learning-opportunities.
[26] Wellington Regional Development Agency – which trades as Wellington NZ – supports economic development throughout the region, including marketing the city as a destination for visitors, migrants and investors. It also helps businesses expand and innovate, advocates for the region's economy and attracts and promotes major events and runs the civic venues: https://www.wellingtonnz.com/.
[27] Auckland Council Governing Body Terms of Reference 2019-22, which sets out the decision-making responsibilities for each council committee.

way". Currently local economic development is spread between ATEED, Panuku and several of the council's departments. The last of these include the business improvement districts team in the CCO governance and external partnership unit and a team called community empowerment, which has as its overriding purpose to facilitate "council and communities work[ing] together more effectively". One possibility is a virtual group led by the merged entity (or a senior council manager) to bring together all the disparate council parts involved in Auckland's economic development, whether local or regional.

Cost savings and efficiency gains

Combining the resources and assets of both CCOs to provide a single, city-wide programme of cultural, art, sport and business events would reduce costs and have substantial benefits for Auckland. The CCOs estimate cost savings of between $5 million and $7 million a year. Over 10 years, the course of the council's long-term plan, the net present value of these savings would amount to between $44 million and $67 million. Savings would come from a single board and management team, shared back-office functions and integration of all events activities. Over time, we expect the advantages of scale (by combining all functions in one entity) would lead to further cost savings, such as from joint management of the city's stadiums, bringing together the city's main cultural institutions under one roof and increasing the use of commercial service providers.[28]

Creating a single integrated events "pipeline", to use one interviewee's words, would be more efficient, offer one point of contact for customers and eliminate duplication of effort. Removing this duplication would directly address a common concern among the 2,000 or so public submissions we received. A merger – and the consequent cost savings – would also lead in time to more facilities of greater quality, such as new theatres, museums and science centres. Both CCOs emphasised that a merger would accelerate development of Auckland's cultural infrastructure and give ratepayers the world-class facilities they deserved.

Finally, we note that the establishment of a new merged entity would provide the opportunity to have a clearly defined purpose and a logically complete set of functions. Currently, there is limited understanding among Aucklanders and visitors to Auckland of the two CCOs' respective purpose and responsibilities.

Views were divided over whether the ownership of stadiums (and related venues such as the Aotea Centre) and the management of events should be combined with, or kept separate from, ownership and management of Auckland's cultural and heritage institutions (and related events). Initially we favoured separation, as the Stafford review recommended.[29] However, we came round to the view of Regional Facilities Auckland, and other stakeholders, which argued that managing sports, performing arts, museums and zoos as elements of a single cultural offering was the modern approach to take. (Those other stakeholders, we might add, included senior staff of the institutions. Generally speaking, it was patrons of these institutions who preferred separation of the cultural institutions from stadiums and performing venues.) The Ministry for Culture and Heritage, considers sport to be part of the wider culture rubric.[30] And this was also the model the Auckland Transition Agency adopted because it considered that, despite the differences between

---

[28] For example, Regional Facilities Auckland has a lighting business for its venues. Contracting out this work to save on fixed costs would achieve further savings.
[29] Auckland Cultural Heritage Sector Review – Final Report (Stafford review), October 2018, p 3. Overseas models include Stadiums Queensland and Museums and Galleries Queensland.
[30] Briefing for Incoming Minister for Sport and Recreation, Ministry for Culture and Heritage, October 2017, p 3.

organisations such as a gallery and an indoor sports venue, they shared a common need for ticketing, promotion, asset management and casual labour.[31]

The Art Gallery and Maritime Museum, cultural organisations already under the Regional Facilities Auckland umbrella, also favoured this integrated approach, as did MOTAT and Stardome. They especially feared increased bureaucracy, political interference (their words) and diminished philanthropic support if brought into the council fold. Ultimately, however, it is for the council's cultural heritage review to determine the future structure of, and strategy for, the city's cultural institutions, and whether they should be combined with Auckland's arts, entertainment and sports venues. A merger would still make sense with or without the cultural and heritage institutions, albeit with fewer benefits.

Complete Auckland's local government reform

A merger of Auckland's venues and events within one entity could, to borrow one interviewee's words, help "complete once and for all the jigsaw" of local government reform. In establishing Regional Facilities Auckland in 2010, the Auckland Transition Agency said a principal benefit of the CCO would be to "rationalise" the main regional facilities of what were then the city's eight councils and also to "plan for the future".[32] The agency therefore saw the CCO as a first step only towards centralising the council's main facilities, including those not included in the new CCO for various reasons – notably the Auckland War Memorial Museum, MOTAT and North Harbour Stadium.

Ten years on, some of these entities, such as Maritime Museum, North Harbour Stadium and Bruce Mason Theatre, have been brought into the CCO, but for legislative and other reasons Auckland War Memorial Museum, MOTAT and Stardome have not. In our view, the time has come for the council to bring to full fruition the Auckland Transition Agency's vision by consolidating all these major cultural venues and facilities into one entity. We emphasise that a merged entity would have a dedicated team of culture and heritage experts. And we agree with Regional Facilities Auckland, and some of the cultural institutions we spoke to, about the need for an advisory committee made up of senior members experienced in that same field, as well as in governance.

The council currently spends more than $60 million a year on its cultural heritage institutions – the Auckland War Memorial Museum, Art Gallery, MOTAT, Stardome and the Maritime Museum. The War Memorial Museum, by virtue of the Auckland War Memorial Museum Act 1996, occupies what many stakeholders described to us as a privileged position because of its ability to levy the council for its financial needs. The levy is currently about $32 million a year and has typically risen by about 2 per cent to 4 per cent a year. In the 2020-21 financial year, the council will provide 97 per cent of the museum's funding. The council considers it has no ability to control these increases (except by invoking an arbitrator's clause) or to require any real accountability for the way the museum spends this substantial sum of ratepayers' money. The museum disagrees. It says the council has "significant power to influence the museum's annual plan and levy", such as through joint planning meetings, but has not used this power and that it is "directly accountable to ratepayers" through both its annual plan and reporting processes.[33]

[31] Auckland Transition Agency Report, Council Controlled Organisations of Auckland Council, 28 May 2010, p 69.
[32] Ibid, p 69.
[33] Section 22 of the Auckland War Memorial Act 1996 requires the museum to prepare a draft annual plan setting out intended policies and performance targets that can be referred to a joint meeting of the museum and the council for consideration before publication, if needed. If the museum and the council cannot reach agreement on the amount of the levy proposed in the draft plan, the dispute is referred to arbitration. Since 2017, the museum has provided council with a five-year funding plan.

There is no doubt the museum is one of the jewels in Auckland's crown. But from a long-term perspective, and in the interests of ratepayer accountability, we consider there is a need to bring all of the city's cultural institutions into one entity so Aucklanders can benefit from having an integrated group of museums working together in a collaborative manner. This is a well-proven model in other cities, notably Melbourne's Museums Victoria, San Diego's Balboa Park (which also incorporates that city's zoo), Singapore's National Heritage Board, Perth's Western Australian Museum (incorporating many physical sites), and Liverpool's National Museums Liverpool.[34] Seeking the necessary legislative change would be part of that process. MOTAT has indicated in discussions with us that it would look favourably at joining a merged entity. Stardome said it would want to see how "things developed" but would certainly look at close co-operation with a merged entity.

The Auckland War Memorial Museum resists any change which could compromise its statutory independence, which will make for some frank discussions with the museum. As the Stafford review noted, the museum strongly supported retaining its existing funding model to ensure, among other reasons, that it could give Aucklanders a quality experience and "avoid capricious funding decisions by council".[35] It is not for our review to canvass the competing considerations. The museum will have the opportunity, as part of the council's culture and heritage review as well as after the implementation of any merger, to advance the reasons why it considers its statutory independence should be preserved. We merely point out that one benefit of a merger would be to take the first step towards a model that ultimately included Auckland's "entire" cultural and heritage sector.[36]

We consider Auckland Zoo should also be included in this grouping with the new merged entity because its activities align well with the science and conservation focus of some of the cultural organisations, and also because its location in Western Springs presents a significant long-term opportunity for the city to develop a broader precinct of related activities. This could potentially be similar to the way Balboa Park in San Diego groups together seemingly diverse organisations, including its zoo and museums.

There is a similar need to consolidate the city's stadiums. This would have obvious cost savings, but perhaps more importantly, it would spur on a decision on a stadium strategy (see part three), including which of the city's ageing stadiums should be refurbished and by what funding mechanisms. Ratepayers will ultimately fund this work and almost all stakeholders we spoke to agreed that tough choices about the future of the city's stadiums were long overdue, and that such decisions needed to consider the long-term – not short-term – interests of all Aucklanders, even if they differed on how exactly to go about this.

Since 2010, the council's financial contribution to Eden Park has grown but with no accompanying stake in its governance. Since 2019, Eden Park can draw on a council loan facility of up to $53.5 million (of which it has accessed $43 million to date). The council will also have given it a total of $9.8 million by July 2022 in the form of a non-repayable grant to be put towards essential maintenance of the park to help secure international sporting events in the next two years. Despite this considerable financial help, it appoints none of the nine directors to the Eden Park Trust's

[34] https://bpcp.org/about/; https://museumsvictoria.com.au/; https://www.nhb.gov.sg/; https://museum.wa.gov.au; https://www.liverpoolmuseums.org.uk/.
[35] Stafford review, p 31.
[36] Stafford review, p 3.

board (five are appointed by the Government and two each by the Auckland Rugby Union and Auckland Cricket Association). In short, Eden Park, like the Auckland War Memorial Museum, enjoys the protection of special legislation, is heavily funded by the council but is not accountable to it or ratepayers.

In May 2019, the council's chief executive appointed a facilitator to work with Regional Facilities Auckland and the Eden Park Trust to try to reach an agreement on a joint venture structure that would allow Eden Park to be run alongside Auckland's three other main stadiums – while still leaving ownership of Eden Park in the trust's hands. The aim was to ensure Auckland's stadiums could be more competitive with stadiums elsewhere in New Zealand, Australia and further abroad. This can be done only by working together to become more efficient and cost-effective (including by sharing back-office functions) and by having joint management to ensure good planning of long-term capital investment. The result would be the most efficient mix of venues to attract world-class sporting, entertainment and cultural events to Auckland. Regrettably, those discussions reached an impasse.

Underscoring the need for such competitiveness was the announcement by the Sydney Cricket Ground Trust and Venues New South Wales in June 2020 that control of the state's main stadiums would be merged under one board – a decision described by the media as "dangerously close to common sense". We could not agree more that the same needs to happen in Auckland.[37]

We have no doubt joint management of Auckland stadiums is imperative for the reasons explained. We heard varying estimates of the cost of refurbishment or replacement work – $350 million for an upgraded Mt Smart, $80 million for an upgraded Western Springs and anywhere from $1.5 billion to $2 billion (and even higher) for any new stadium, excluding the cost of land.[38] The Eden Park Trust told us it estimated an upgrade to its stadium to provide covered seating for 60,000 would cost between $500 million and $800 million. (We understand any refurbishment of North Shore Stadium is some years away.) The harsh economic reality is Auckland neither needs nor can afford four stadiums.

A merged CCO with a new senior executive team may well be a circuit-breaker to the current impasse, integrating the management (but not the ownership) of all four stadiums in some form of joint venture while the council decides on a long-term stadium strategy. Such a joint venture is a common sense solution. An added advantage would be that the merged CCO could focus more of its attention on the civic, arts and cultural institutions.

The Eden Park Trust told us it supported the concept of a merged CCO if it facilitated such a common sense solution and would be keen to discuss options with a new merged entity for jointly managing and operating its stadium alongside the council-owned ones. Those discussions could even begin at the same time as discussions on implementation if the governing body accepts our recommendation. (We acknowledge a merged CCO and Eden Park Trust would need to consider the implications of the Commerce Act 1986 on such a step. However, given the city's stadiums are competing with other stadiums around the country (and indeed globally), as well as the overwhelming economic benefits of integration for Auckland ratepayers, these implications should be manageable.)

[37] Sydney Morning Herald, June 23, 2020.
[38] Stakeholders gave us varying estimates. The lowest was $1.3 billion and the highest $3 billion.

Better accountability and monitoring

In reducing the number of CCOs from five to four, a merger would cut the time and costs involved in holding CCOs to account and enable more effective performance monitoring. It would mean one less letter of expectation, statement of intent, round of reporting and so on. It would also result in CCOs of sufficient scale to deliver services efficiently and effectively.

Alternative models

Of the alternative models we considered, the only one, in our view, that improves efficiency, service delivery and value for money for ratepayers is a single CCO carrying out all venue, events and economic development-related functions. Based on our assessment criteria, we rate such a merged entity:

- *high* for requiring board and specialist expertise (skills the governing group would be unlikely to have)
- *high* for needing to attract people with industry knowledge and expertise (running large events and managing stadiums being highly specialised skills)
- *high* for requiring fast decision-making and innovative thinking
- *medium* for the ability to tailor business-specific systems and processes
- *medium to high* for activities (economic development, venue management and events) that lend themselves to economies of scale
- *high* for lack of duplication.

Joint management and operation of stadiums would, as part of an overall package of reform, convert the two “medium” ratings to “high”. We note that stand-alone agencies with economic development, venue and/or events responsibilities are common elsewhere in New Zealand and overseas.

Implementation

Obviously, there would be practical matters such as timing, funding and method of implementation to consider if the council pursues a merger. Some of these are set out in the CCOs’ memorandum. Others, especially legal and financial, are matters of detail for the council’s officers and advisors. That said, we discussed these matters in broad terms with both CCOs and council managers. We agree with the CCOs and officials that a clearly defined purpose, careful design and a staged implementation process would ensure a satisfactory resolution of all these matters.

A staged implementation may be necessary for legal reasons to retain the charitable status of Regional Facilities Auckland as the merger vehicle. The first stage – a simple merger of the two entities with appropriate safeguards in place to protect that charitable status – could be done relatively quickly. The second – which would involve integration of assets and functions – would take longer but would also afford an excellent opportunity to examine closely the functions of each entity to achieve maximum synergies, cost savings and transparency, especially financial. Discussions with the Eden Park Trust could start as early as stage one since joint management and operation of the stadiums would affect a merged entity’s design. The same could apply to the discussions with the cultural institutions.

Timing would be crucial for a range of reasons: to minimise any disruption during key events next year, such as the America's Cup; to minimise disruption to staff and the loss of key talent; and to exploit cost savings and efficiencies as soon as possible. This makes it imperative to implement the first stage of any merger by the end of 2020.

We suggest the council decides whether to approve a merger and if so, appoints a small steering group (made up of representatives from the council and two CCOs with appropriate delegations) to implement the change.

Auckland Transport

Purpose and responsibilities

Auckland Transport's function is to "contribute to an effective efficient, and safe Auckland land transport system in the public interest".[39] It manages the vast majority of Auckland's roads, public transport services (buses, ferries, trains and park-and-ride facilities) and public transport assets (bus stops, train stations and ferry terminals). These assets are valued at more than $20 billion. Funding comes from five sources: the council (31 per cent), the New Zealand Transport Agency (31 per cent), public transport fares (24 per cent), parking charges and infringements (11 per cent) and other (3 per cent). For 2019-20, its operating budget was $915 million and its capital expenditure budget $903 million. At February 2020, it had 1,760 staff, consisting of 511 in service delivery, 388 in transport networks, 306 in customer service, 167 in information technology, 110 in personnel, 96 in finance, 87 in planning and investment, 48 in communication and external relations, and 48 in safety and risk and assurance.

The council is prohibited from disestablishing Auckland Transport or bringing its functions in-house.[40] It can appoint two councillors to the CCO's board, something it cannot do with other CCOs.[41] There have been no councillors on the board since 2016.

Auckland Transport is accountable to the council and the New Zealand Transport Agency and must implement the priorities of both, including the Government's priorities as expressed in its government policy statement on transport. This makes for a trying operating environment for the CCO, answering, as it must, to two masters. Their priorities have not always aligned, prompting the council and the Government to start the Auckland Transport Alignment Project in 2016 to ensure consistency in their respective priorities. The government policy statement on transport is one of many (mostly statutory) planning documents that shape Auckland Transport's planning and investment decisions.

Feedback

We summarise feedback under six headings. Feedback on infrastructure and consents is dealt with in Watercare because of the similarity of the comments. Auckland Transport attracted more public submissions than any other CCO, most relating to how it communicates with the public and

[39] Local Government (Auckland Council) Act 2009, section 39.
[40] Ibid, section 38.
[41] Ibid, section 43.

responds to inquiries and complaints from the public. We deal with these questions in part four on culture. Given the number of points raised by submitters about Auckland Transport, as well as its complicated operating environment, we asked the CCO for information to help us with our review. It has agreed to make that information available, and readers interested in more detail should see the link below.[42]

Service delivery

Auckland Transport has unquestionably improved the city's transport services and infrastructure since 2010, and many pointed to its considerable success in increasing public transport patronage and usage (which rose from 59 million trips in 2009 to more than 100 million in the 12 months to June 2019). It has also reorganised the city's bus network with a minimum of disruption and introduced of a single ticketing system and the AT Hop card. (See appendix C for more on its achievements.)

Despite frequently negative community feedback, few suggested it should not be a CCO. Indeed, many stakeholders said they could not see how Auckland Transport's functions could be brought into the council. Observed one former senior council manager: "There is lots of noise, but [there is] not much wrong." Many stakeholders said Auckland Transport did big projects very well, but let itself down with small projects, which were the main reason for community criticism of Auckland Transport (see below).

Road-controlling authority

A few stakeholders, including some councillors, considered the council, not Auckland Transport, should be the road-controlling authority in Auckland with responsibility for planning, maintaining and making rules about the city's roads.[43] This was the case for every other local authority in New Zealand. One councillor said Auckland Transport should not be a road-controlling authority "without democratic recourse", adding that politicians needed to be "closer to the decision-making process" and this would "provide more democratic control and accountability over decisions". He said transport got the biggest share of rates and decisions about transport had a considerable influence on many other outcomes the council wanted to achieve, such as higher-density housing.

Other stakeholders said the sheer size of the council's existing responsibilities would make such a transfer of responsibilities impractical and would impede getting things done in transport. One councillor was skeptical the council could have made similar progress in the past decade. Others regarded Auckland Transport's road-controlling authority status as unimportant provided the CCO acted consistently with the council's expectations. "It doesn't matter where it sits if it acts as part of the family," said one former council staff member.

We agree that such a change would add an unsustainable burden on the council. It would also go against many of the royal commission's reasons for recommending a CCO for transport, including the specialised skills and expertise of a board.

---

[42] https://at.govt.nz/.

[43] This would require a legislative change. Practically, it would require the council to make all decisions about Auckland's roads. Auckland Transport would simply be a delivery agent, responsible for administering contracts.

Some argued the council could delegate some road-controlling authority functions back to Auckland Transport. We considered the question of delegations long and hard (as other reviews have done).[44] But we are unconvinced by this idea because it would result in two agencies with responsibility for different road-related matters, creating unnecessary complexity – something already found in making bylaws. If the council delegated all other transport functions to Auckland Transport, it would result in the same situation as currently exists but with extra administration.

Transport strategy

Auckland Transport assumed responsibility from the council for setting the city's transport priorities in the regional land transport plan when the Land Transport Management Act 2003 was amended in 2013. The changes amalgamated two planning documents, the council's regional transport strategy and Auckland Transport's investment programme, into a single document, the regional land transport plan, which Auckland Transport was given responsibility for approving. The change left the council in a unique position among local authorities of having no statutory role in developing the transport strategy in its jurisdiction.

This amendment, in our view, was wrong in principle and at odds with the intent of Auckland's local government reforms, which was to give the CCO responsibility for preparing a regional transport plan and the council responsibility for approving it to ensure consistency with its own land use planning as well as central government legislation and policy. We did consider whether to recommend a legislative change to bring about this intent, but we concluded a non-legislative approach could achieve the same outcome more quickly and simply. This would involve Auckland Transport and council staff working collaboratively to develop the regional land transport plan, which the governing body would endorse before going to the CCO's board for approval. Auckland Transport said this approach would help create a "single source of the truth" about Auckland's transport future.

Bylaws

Auckland Transport and the council can both make road-related bylaws. Auckland Transport can make bylaws regulating transport matters (such as maximum speed limits, parking rules and vehicle weights), while the council can regulate non-transport matters (such as public safety, protecting the public from nuisance and minimising offensive behaviour). The council's legal team said this split in bylaw-making powers had created a "grey area" about which entity was responsible for issuing and enforcing a bylaw. The team cited the example of footpath obstructions, which could be transport related (because it impeded traffic) or non-transport-related (because it could affect public safety). To cover their bases, both agencies have introduced what they call "mirror bylaws" (identical bylaws). Examples of mirror bylaws include those relating to signage, trading and events in public places and public safety. In other instances, there is simply confusion over which organisation is the lead agency to regulate a particular matter, e-scooter licensing being a recent example of the problem. Both agencies acknowledge there is a problem and agree the overlap is unnecessary, cumbersome to administer and a source of confusion for their staff and the public. Self-evidently, something needs to be done to ensure greater collaboration between the CCO and the council in setting bylaws to avoid the current muddled situation.

---

[44] Auckland Transport Local Boards and Place Making: Issues and Options Paper, T Perrott, May 2015 and Governance Framework Review report to Governing Body, 28 September 2017.

Small projects

We received many submissions about how long it took Auckland Transport to carry out minor works, such as road improvements, installing bus stops, pedestrian crossings, pavements and signs and changing parking layouts. Local boards confirmed such delays were a source of much community criticism and frustration.

At any one point, Auckland Transport has about 560 projects under way. Small projects, defined by Auckland Transport as less than $20 million, make up about 90 per cent of these 560 projects. We were told that of these 560 projects, about 100 were local board projects. We heard of many examples of delays and unsatisfactory outcomes with these local board projects. In one case, it took Auckland Transport two years to paint yellow lines on a Remuera street to prevent parked vehicles from impeding safe access to and from a property. Another example involved a street upgrade in the West Lynn village that led to stormwater runoff problems for some shops – problems that took two and a half years to correct. Said one business improvement district manager: "It's the local stuff that lets them down." One senior council employee said one local street upgrade became such a fractured and drawn-out process that the council withdrew its support for the project.

One difficulty is that Auckland Transport receives about 10,000 customer requests a year for road improvements – vastly in excess of the 500 small projects it actually undertakes each year.[45] It must necessarily give highest priority to those with safety implications. The inevitable delays for lower-priority projects are behind much of the community frustration expressed to us. As an example, Auckland Transport has currently approved more than 600 requests for new footpaths, but has funding for only about five to 10 a year.

Another difficulty, according to local boards, is that Auckland Transport issues contracts for large projects earlier in the financial year than for small ones, so the latter are more likely to be bumped if funds run low. Local boards said this came back to their lack of control over transport priorities, particularly for small projects. (In part three, we recommend a greater voice for local boards in CCOs' local board engagement plans, which would help correct this problem.)

Local boards also complained more generally about a lack of involvement in the design and implementation of transport projects – as well as other CCOs' projects – in their board areas. (This is another question we examine in part three.) Local boards have an advisory role in the design of transport projects, as well as a budget for the transport component of urban development and redevelopment work. Nonetheless, they said they lacked any influence over new or amended transport services or infrastructure in their communities.

One former Auckland Transport board member said the "super-city had been unbelievably focused on the CBD at the expense of the wider region". One local board said "rural communities need to be more a part of Auckland Transport's thinking". Another said the CCO did not recognise local priorities when planning projects or actively try to implement these projects in conjunction with other CCOs. Yet another local board suggested Auckland Transport should have service-level

---

[45] The way it handles such requests is explained in detail in its briefing notes, but in short it involves assessing the request, looking at available funding, conducting public consultation on a proposed design and finally carrying out the work.

agreements with individual local boards so each could decide in collaboration with the CCO how to quickly and effectively plan and implement transport projects in its area.

We know Auckland Transport is aware of local boards' concerns about small projects, as evidenced by a pilot project with Waiheke Local Board (see part three) showing how collaboration can work to everyone's benefit.

Auckland Transport's processes for approving small projects are, in our view, simply unsuited to the task. A public transport study Auckland Transport commissioned in 2017 concluded the CCO's approval process contained unnecessary requirements, and that it also took longer than comparable Australian cities to complete small projects.[46] The CCO said it planned to look for ways to improve the approval and implementation processes for small projects. It said some of those improvements could include:

- reviewing its project development processes for small projects, including the time taken to design the work, consult the community on that design and obtain the necessary consents (One frustration of local communities is that Auckland Transport doesn't usually seek their input until it has prepared a design concept. Admittedly, the CCO often subsequently amends the design after feedback, but as many local board and ratepayer groups pointed out, it makes obvious sense to seek input beforehand. After all, locals often know what will work and what won't better than a CCO-employed engineer unfamiliar with an area.)
- review its customer response process – in other words, tell communities or individual ratepayers concerned when it has no budget to carry out work they have requested
- make more use of local boards as "proxies" for community views to avoid protracted public consultation
- extend the use of dedicated small-projects teams (the CCO already has some for minor programmes such as maintenance and public safety) to speed up the execution of projects.

All these options are worthy of consideration. Given local board projects are involved in 100 of the CCOs' 560 projects a year, improving the way it manages them should be one of its top priorities, and the council should monitor its progress in this respect. Even Auckland Transport acknowledges that improving the way these 100 projects are delivered could go a long way towards improving local board satisfaction. We would add another option to this list: share the design of local communities' transport programmes with local boards. (These programmes include minor works and educational and road safety awareness activities.) Adopting a genuinely shared approach to local transport would, in our view, address a lot of criticisms levelled at Auckland Transport and also greatly improve the CCO's working relationships with local boards.

Funding

Auckland Transport described the way it received funding from the New Zealand Transport Agency as a "very significant issue". It said obtaining the necessary (50 per cent) funding contribution from the agency could take anywhere from three months to two years, even for the simplest of projects, because the approval process was so lengthy and involved. Plus, it said, any project with an estimated cost of more than $1 million required both a detailed business case and an application for funding before the New Zealand Transport Agency would approve funding. (As we were writing

[46] LEK Consulting Public Transport Business Improvement Review (from Auckland Transport's submission).

this report, the agency increased the value of projects requiring these protracted processes to $2 million.)

Auckland Transport said the agency's funding process was inflexible and bureaucratic, adding that "it would be difficult to design a more complicated process". The CCO told us the biggest component of many small projects was the business case and funding approval processes, which diverted scarce resources from where they were really needed. Even the new $2 million threshold was, it said, "very low". In addition, submitting a strong business case did not necessarily mean approval would be forthcoming – and projects were unlikely to proceed without such approval and funding. Auckland Transport's submission to us included a case study for dedicated bus lanes (and bus interchange improvements) that showed the process for getting funding approval would take a year, even if fast-tracked.[47]

This situation has arisen because the royal commission's recommended shift to what it called "outcome-based funding" never came to pass. Specifically, it said the process for approving individual projects should over time "move to an outcome-based model, where strategic objectives in the overall funding envelope are established by the parent organisations, but the tactical decisions on funding priorities are made by the CCO'". What it meant, in effect, was that the CCO could receive bulk-funding – an amount agreed upon by central and local government each year, depending on the CCO's strategic objectives – and Auckland Transport would be left to execute projects big or small with that funding. Auckland Transport has estimated that such an approach would produce an efficiency gain of 5 per cent – that is, it would save $500 million over its 10-year $10 billion regional land transport capital programme. It would also avoid the huge effort that currently went into preparing funding applications and business cases.

Alternative models

We do not consider there is any practicable alternative to the current model. Using our assessment criteria, we rate Auckland Transport:

- *high* for requiring board and specialist expertise (skills the governing body would be unlikely to have)
- *high* for needing to attract people with industry knowledge and expertise
- *low to medium* for requiring fast decision-making and innovative thinking
- *high* for the ability to tailor business-specific systems and processes
- *high* for activities that intrinsically lend themselves to economies of scale
- *medium* for lack of duplication.

Improvements

Auckland Transport and the council should jointly prepare the regional land transport plan, the draft of which the council should endorse before it goes to Auckland Transport's board for approval.

Auckland Transport and the council should set up a working group to clearly delineate their bylaw-making powers and its work should culminate in a memorandum of understanding setting out the

[47] North Western Motorway Busway.

agreed approach. The council should help Auckland Transport with its bylaw-making activities, given Auckland Transport has acknowledged a lack of capability in this area.

Auckland Transport should urgently review its processes for minor capital works, including how it involves local boards and the potential for local boards to share in the design of its annual work programme during the preparation of local board engagement plans. (See part three.)

Auckland Transport and the council should explore urgently with the Ministry of Transport and the New Zealand Transport Agency how to streamline funding processes, particularly in relation to business case and funding approval requirements.

Panuku

Purpose and responsibilities

The primary functions of Panuku are urban redevelopment and property-related services. Its constitution sets out its fourfold purpose, which can be summarised as:[48]

- to facilitate urban redevelopment, ensuring there is good public transport, infrastructure and public amenities
- to manage the council's non-service property, including surplus property, and give the council advice on managing and developing its other property
- to redevelop underused council assets
- to be involved in any other property-related work specified by the council.

These four purposes translate into the following activities. Panuku is responsible for regenerating 10 of the 24 spatial areas where the council owns substantial amounts of land and which the Auckland Plan has earmarked for growth. These unlock-and-transform programmes support the Auckland Plan's goal of creating a more compact city. Panuku also undertakes the following five activities: selling the council's surplus office space, redeveloping Auckland Transport's park-and-ride facilities, managing further development of the council's long-established Hobsonville and Ormiston projects, facilitating the building of housing on council-owned land and redeveloping Haumaru Housing accommodation for superannuitants.[49] To date, Panuku has helped complete 903 housing units and has 624 under construction. Its plan is eventually to build 11,000.

Panuku manages what the council calls non-service property, that is, property no longer needed for parks, roads or community facilities, together with other council-owned property as diverse as quarries, marinas, industrial sites, shops, offices and landfills. Panuku manages and develops the three city centre marinas – Westhaven, Silo and Viaduct – as part of its redevelopment activity. The other three marinas in its portfolio are merely long-term ground leases. The CCO's combined property is worth is $3 billion. Panuku manages and maintains these assets until needed or sold and it generates income of $68 million a year.

[48] Section 3.1 of the CCO's constitution.
[49] Haumaru Housing Limited is a partnership between the Selwyn Foundation and the council involving 1,400 rental units in 63 retirement villages. Panuku is responsible for redeveloping the villages.

Panuku also sells non-service property on behalf of the council and other CCOs, excluding Watercare. Its current sales target is $24 million a year. Since 2015, it has sold $320 million of surplus property. Before putting up any property for sale, it consults relevant council staff, local boards, mana whenua groups and the Independent Māori Statutory Board about whether the property might be needed for another purpose. If not, it seeks sales approval from the finance and performance committee. If granted, the sale proceeds. Property sales through unlock-and-transform programmes follow a set of rules agreed upon with the development partner. Panuku also buys property at the council's request for such things as parks, stormwater catchments and cemeteries.

Its funding comes from three sources: rent from property, marinas and other commercial interests (38 per cent), proceeds from property sales (50 per cent), and general rates (12 per cent). For 2019-20, its operating budget is $47 million and its capital expenditure budget $130 million. Most of the capital expenditure goes into regeneration work, sales from which fund further regeneration work.[50] Panuku works with Haumaru Housing Limited to redevelop villages with funding largely from the Crown.

As at February 2020 Panuku had 231 staff. Of these, 112 are in urban regeneration, 52 in corporate services, 33 in property-related activity, and 34 in marina management.

Feedback

Feedback about Panuku is grouped under the following six headings:

Purpose

Many of the public we spoke to had little idea what Panuku did and we doubt many ratepayers would be any the wiser after reading its constitution, which describes the third of its purposes as to "recycle or redevelop sub-optimal or underutilised council assets". We note that few will understand the second purpose unless the meaning of non-service property is made plain. Its constitution is equally opaque on the matter of commercial versus public interest considerations. It makes no specific mention of the public interest. Rather, it talks about "aim[ing] to achieve an overall balance of commercial and strategic outcomes". We have no idea what constitutes a "strategic" outcome, or whether this is an oblique reference to the public interest. In any event, this important point needs to be stated explicitly and meaningfully.

Furthermore, the CCO may well understand how its programmes variously "unlock", "transform", "support", "redevelop" and "regenerate" areas of the city, but we are certain ratepayers do not understand the distinctions. We struggled to understand precisely which projects fell under what programme and the differences between them.

Redevelopment work

Many submitters backed a dedicated redevelopment CCO and said Panuku was working well in this capacity. They pointed to various successes, including in Avondale where, as a result of sales

[50] The capital requirements of the Wynyard Point programme are too large for the council to fund in this way. Instead, Panuku submits a funding bid every three years as part of the long-term plan budgeting cycle. Panuku has yet to submit a bid for the Onehunga Wharf programme because it bought the wharf only in 2018.

of land to agencies such as Kāinga Ora, 102 homes, 72 apartments and 35 medium-density dwellings had been built. Another example was its redevelopment of the Wynyard Central precinct, which had already attracted investment of about $1.5 billion from property developers and includes the Westhaven Marina Village. (See appendix C for more on Panuku achievements.)

Many stakeholders considered its role more vital than ever, given the establishment in December 2019 of Crown agency Kāinga Ora, which the Government proposes to give the power to undertake large-scale housing developments within shorter timeframes than currently possible.[51] Some said the council needed a specialist agency like Panuku with which Kāinga Ora could partner, adding that Kāinga Ora's focus on large residential developments meant the council would still be left to do most suburban centre redevelopments on its own.[52] Others, however, said the opposite was the case, and that Kāinga Ora's ability to borrow up to $7.1 billion would put it in a better position to undertake all urban regeneration in Auckland once it was up and running.

Some councillors, senior council staff and stakeholders argued that smaller CCOs such as Panuku should be brought into the council fold. They questioned the sort of return on investment Panuku was really getting, and that the council could easily perform its functions. Panuku told us it had conducted a cost-benefit analysis of most of its unlock-and-transform redevelopments since 2015 using an approach similar to that employed by Treasury and it found the average cost-benefit ratio was 1:1.2 – that is, every dollar spent by Panuku or private sector partners resulted in a benefit of $1.20 to the city as a whole.

Some stakeholders said Panuku was duplicating the council's urban design, planning and place-making functions (the last of these being a reference to the planning and design of public spaces). According to Panuku, there was no duplication because its planning and place-making functions were confined to specific redevelopment projects that were its responsibility. Our sense is this duplication is more perceived than real.

Overall, the feedback was in favour of a separate – if smaller and more focused – urban regeneration agency. Predicted one former councillor: "I can see it shrinking, but I wouldn't want to see it go." Or as another saw it: "Panuku should focus on a few projects as winners instead of being a mile wide, inch deep – they need to be two miles deep."

Property

There was a strong consensus that the responsibility for identifying and deciding which non-service properties to sell should be brought into the council. Many submitters said the fact the council and the Panuku board both had to approve the sale of land was an unnecessary duplication. Others said the vocal opposition that commonly sprang up when Panuku proposed selling surplus property arose from ratepayers' failure to understand that any decision to sell property was always done with council approval. Making the council directly responsible for such decisions would, they said, clear up this misunderstanding.

Views were split about whether Panuku should retain other property-related functions. Many stakeholders, including councillors and local board members, said these functions should move into the council, thereby allowing Panuku to focus exclusively on urban redevelopment. Others said

[51] Urban Development Bill, introduced in December 2019.
[52] Kāinga Ora can act alone or in partnership with iwi, local government agencies or the private sector.

such a move also made sense because the council already had in-house property expertise (in the form of a team dealing with its own office space needs and another team dealing with community facilities such as libraries and parks). Some, however, thought this function should sit in a new stand-alone unit within the council if brought in-house.

Some councillors and local boards favoured a transfer of its property function into the council because they said the CCO's drive to meet sales targets and make profits through property asset sales resulted in short-sighted decision-making. They said slices of open space, car parking, community halls and the like were sold to fund redevelopment without thought for whether they might be needed in future or for other purposes. They also objected to the sale of non-service property in their area if the proceeds were spent elsewhere – particularly if spent in more affluent areas. Some members of the public also favoured such a move. One submitter said Panuku saw itself as a "corporate company seemingly oblivious to the fact it is a ratepayer-owned entity there to service the public and local business interests".

Some submitters doubted the benefits of moving the function in-house, including even the disposal of property. They said Panuku was doing a good job and, moreover, had to "rationalise" property to fund further redevelopment work. There was also a risk that bringing property disposal into the council would allow "a noisy few in the community" to sway councillors and nothing would ever be sold. Several pointed out the benefits of a commercially focused property team separate from the council.[53] One local board said Panuku was in tune with the market and had attracted top people, while another said Panuku had proven a positive addition to the CCO model.

Where exactly the council would place the function within its structure would depend on what the council's property management objectives were and where it saw the relevant skills were within its organisation. We were surprised to learn it had no overall property strategy to guide its decision-making, despite its non-service property portfolio of 10,000 assets worth $3 billion. There would be obvious merit in developing such a strategy, especially since we saw no evidence of a coherent approach to owning and managing property as diverse as campgrounds, forests and marinas. It could set out principles for buying, managing and selling property and also identify and prioritise the objectives for different classes of assets. All of this would greatly ease the task of deciding what to buy and sell and striking the right balance between commercial and public benefits. The council could develop the strategy in partnership with Panuku (and other CCOs that own substantial properties).

Marinas

Several stakeholders and members of the public said running marinas was inconsistent with the rest of the CCO's work and required Panuku to wear an odd assortment of hats – developer, property manager, commercial operator and marine specialist. Others said there were inherent contradictions between public space, marina activity and commercial land objectives. These submitters said Panuku had focused on the commercial aspects of marinas and ignored community interests. They said marinas were strategic assets, and any plans to sell them or change how they worked should be consistent with their empowering legislation and involve public

[53] Since 2015, Panuku has sold 115 properties for $464 million (half of these proceeds from unlock-and-transform project) and bought 88 properties for $211 million for public works (such as open space, stormwater catchments and cemeteries) and urban renewal projects.

consultation. One marina association called for the council to retain ownership of marina land but hand over the marinas themselves to a trust to manage on behalf of all stakeholders.

However, there is no doubt its redevelopment of the three city centre marinas has made them well-loved public spaces, and that the new Westhaven Marine Village will become a hub for the marine industry. This regeneration activity and associated management of shop leases, berths and other marine facilities add up to a complex environment that requires a specific set of skills to run well.

Funding

Some councillors, senior council staff and stakeholders questioned the ability of Panuku to meet its objectives of redeveloping council land to rejuvenate suburban centres when it had no balance sheet or confirmed funding for this work. “Panuku is a bird with one wing,” said one councillor, referring to the CCO’s inherent funding handicaps. A senior council manager said: “I think there is a balance sheet and scale issue with their business. They are too small – frustrating because I like the concept.” The current funding mechanism – recycling proceeds from the sale of redeveloped properties into further redevelopment – is tight at the best of times. COVID-19 will undoubtedly cause the property market to slow, hurting the CCO’s sales and putting more strain on this mechanism.

Overheads

Costs have increased significantly. The key question is whether this has been matched by a sufficient increase in output. Panuku said it incurred a good portion of these extra costs at the time of its formation. However, many submitters said – and we agree – that staff numbers and general overheads were higher than they needed to be. Otakaro, Christchurch’s regeneration agency, has 84 staff. Panuku has 231. A quarter of the staff are in non-service delivery roles (corporate support, communications and so on). This is a sizeable proportion and suggests there is room for efficiency gains. Average salaries are the highest of any CCO and higher than at the council. It shares in some of the council’s services but also provides those same services itself (for example, human resources and financial services). One stakeholder summed up the challenge for Panuku: “They need to be leaner and meaner.”

Another concern is that Panuku consistently underspends its capital budget – and by a significant amount. It has never used up more than half of its capital allocation in any given year. This suggests it either has the wrong capital budget, the wrong target, the wrong measure or unachievable ambitions.

Alternative models

In our view, the only potential alternative to retaining Panuku as a stand-alone agency is to bring its redevelopment function in-house, and we do not consider this a viable option because the existing model offers so many benefits that a council-run operation could not match. Based on our assessment criteria, we rate Panuku:

- *high* for requiring board and specialist expertise (skills the governing group would be unlikely to have)

- *medium* for needing to attract people with industry knowledge and expertise (property development being a highly specialised area)
- *medium* for requiring fast decision-making and innovative thinking
- *medium* for the ability to tailor business-specific systems and processes
- *medium to high* for activities (redevelopment projects) that intrinsically lend themselves to economies of scale
- *medium* for lack of duplication.

We note that stand-alone redevelopment agencies are common elsewhere in New Zealand and overseas. We also note that large-scale redevelopment projects can take up to 20 years to complete and need to be able to ride out political cycles. Panuku is in the necessary arm's-length position to be able to do this.

Improvements

Panuku is, in our view, the right model in terms of operational efficiency, but there are five areas where the model can be improved:

Stable funding

If the council wants a redevelopment agency, it needs to fund it. If a more stable source of funding is not identified in the next long-term plan, then it is not clear how its investment programme will be funded in the medium term (beyond five years). We emphasise that COVID-19 highlights – rather than is the cause of – this deeper problem.

In developing its budget and performance targets, Panuku should clearly outline how its activities and investments influence the achievement of its performance targets.

Constitution

The CCO's constitution should be amended to state clearly its twin purpose of redeveloping Auckland's urban areas and managing the council's non-service property. The constitution should also make clear the CCO has an obligation to strike a balance between commercial interests and public interests, which is especially pertinent when it comes to regeneration activity (see part three). Alternative wording could be "to achieve an overall balance of commercial and public interest outcomes".[54] A related point: Panuku should simplify the language it uses in describing its roles and responsibilities.

Overheads

Panuku should be a smaller agency pursuing its goals with more determination and urgency. It has already identified savings of $6.5 million in the next financial year, of which $5.3 million will come from staff costs and corporate overheads. More savings will be necessary. As part of a more focused approach, it may opt to concentrate on fewer redevelopment areas, although it is for the governing body to give this sort of strategic direction.

[54] Or, to follow the example of Ōtākaro, the equivalent agency in Christchurch, it could be to "balanc[e] a good commercial outcome against regeneration objectives".

Property

Responsibility for identifying and deciding on which non-service properties to sell should be transferred from Panuku to the council. This would also allow Panuku to give more attention to its core business. Panuku should still be able to manage non-service properties in its unlock-and-transform areas so the proceeds of property sales there can fund further redevelopment activities. Also, for cost and efficiency reasons, Panuku should – as is currently the position – transact all property sales. This is good example of one CCO providing a shared service to the group, and indeed Panuku and the council should explore with Watercare whether there are cost savings in Panuku undertaking Watercare's property sales as well. (Watercare told us that its sales last year totalled $22 million and that its property team consisted of just two staff.)

Where exactly the management of other non-service property should go within the council structure is for the council to decide. It will require a detailed understanding of exactly what property functions are carried out and where within the council's own structure, what risks there might be of duplication and what potential savings could be made by consolidating all property-related functions in one place. Until these questions are resolved, we consider Panuku should continue to manage non-service property. There is merit, however, in the council exploring the option of bringing together all its property services in one place – whether into the council or, indeed, a CCO. It could do this through its value for money programme or by appointing an expert or experts to investigate and report back.

Marinas

Panuku should continue to manage and develop the three city centre marinas because its property management and redevelopment roles are so intertwined. Once the waterfront regeneration is complete, the council should decide where management of these marinas best lies. Who manages the other three marinas in the Panuku portfolio (as long-term ground leases) depends on what decision the council makes about the CCO's property-related functions.

Watercare

Purpose and responsibilities

Watercare's main function, as set out in its constitution, is to provide integrated water and wastewater services to Auckland.[55] There are legal constraints on how it provides these services, most notably that it must operate efficiently to keep charges to customers at a minimum and must do this in a way that is consistent with functioning effectively and properly maintaining its assets.[56]

Watercare's water and wastewater networks, with their pipes, treatment plants and pumping stations, are valued at $10.4 billion. Watercare's revenue comes from service charges (75 per cent), what it calls infrastructure growth charges (15 per cent), income assets vested by developers in Watercare (8 per cent) and income from a contract with Waikato District Council to run its water, wastewater and stormwater networks (2 per cent). For 2019-20, its operating budget is $228 million and its capital expenditure budget $618 million. Watercare is the only CCO that receives no

[55] Clause 3.1 of Watercare's constitution.
[56] Section 57 of the Local Government (Auckland Council) Act 2009.

funding from the council. As at February 2020, it had 1,080 staff, consisting of 399 in operations areas, 320 in customer services, 139 in infrastructure support, 100 in digital services, 93 in corporate services, and 29 on the central interceptor project.

Watercare is not responsible for stormwater services. A department within the council called Healthy Waters maintains the city's stormwater network and plans and oversees upgrading and extension work. Healthy Waters also operates about 400 small, self-contained water and wastewater systems at council-owned facilities, such as regional parks and community centres. These are independent of Watercare.

Feedback

Feedback about Watercare is grouped under the following five headings:

Service delivery

Service quality rated very highly among those interviewed, especially members of the public. One comment summed up the sentiment: "They seem to be a well-run and organised operation that provides value for money and is proactively managing for the future." Watercare pointed to various successes, including the fact that many customers were paying less for water per litre today than they were before 2010 when Watercare assumed full control of the water supply. By 2018, customer charges were $177 million below their projected level under Auckland's eight former councils. Watercare has also expanded and upgraded its networks, now worth $2.5 billion more than in 2011, while incurring extra debt of only $470 million. (See appendix C for more on Watercare's achievements.)

Feedback was almost universally in favour of Watercare remaining a CCO. One industry group put it plainly: "Watercare should stay outside [the council]." All local boards wanted Watercare to stay as it was. Commented one: "It is seen to be a CCO that is performing well and delivers a consistently high-quality service for Auckland."

However, as we were writing our report, these comments were tempered by more recent feedback about water restrictions imposed in response to the drought of 2019-20. Many considered Watercare unprepared for such an event, and that some foresight in the form of extra capacity into the network would have made these restrictions unnecessary. Watercare's preparedness for, and management of, the drought are outside the scope of our review. Nonetheless, we note two things. One, Watercare and the council had no joint response plan, as might be expected, (including water restrictions, which require council approval), indicating a lack of communication and co-ordination. Two, the council had no water strategy to, among other things, describe how much capacity the system should have to deal with such weather-related events. We discuss the lack of such a strategy in part three. (Note: we examined Watercare's most recent audit and risk committee report (January 2020), which did little more than describe such a risk as a "failure to meet short-term water demand due to loss of supply or high customer demand".)

Three waters

Some local authorities are integrating or intend integrating their water, wastewater and stormwater services. Their efforts or intentions to do this are typically reflected in a three-waters strategy (referring to the three types of water services). As discussed in part three, Auckland Council has no such strategy (which would, among other things, address security of supply for drinking water). Watercare, as already noted, is responsible for two of the services and Healthy Waters is responsible for the third. A host of benefits flow from such integration, as the council's value for money review, found in 2017.[57] These include lower water charges, more competitively priced supplier contracts, improved all-round efficiency, less street disruption during upgrade work and a generally better customer experience.

A council and Watercare-commissioned study by consultancy MartinJenkins in 2018 recommended Healthy Waters and Watercare formally begin jointly planning and executing network upgrade and expansion work, and that if this proved unsuccessful, the council should transfer ownership of stormwater assets to Watercare to operate.[58] The study noted that transferring the running of the stormwater network to Watercare would have about the same level of benefits as transferring ownership. This joint work would have taken advantage of the forthcoming renewal in 2019 of Watercare and Healthy Waters' long-term contracts. However, negotiations about how this joint approach would work came to nothing and each organisation negotiated separate supplier contracts.

Watercare said to us that it had previously told the council it would be willing in principle to take over the maintenance of the stormwater network on a contract basis. However, it considered all other aspects of operating the stormwater network, such as planning, upgrading and expansion work, should remain with Healthy Waters. For its part, Healthy Waters said the MartinJenkins study had overstated the potential benefits of such a step and that contracting out its maintenance work to Watercare would compromise its ability to carry out its other activities.

Our view is that now is not the time to consider substantial changes in the management of the stormwater network. The more pressing need is to adopt, and implement, a three-water strategy (including security of supply). Developing that strategy would provide the opportunity to consider any change in responsibilities between Watercare and Healthy Waters. Moreover, by that time, the full implications of the Government's recently announced water reforms may be apparent.

Infrastructure for urban growth

Some submitters from the land development sector criticised the way infrastructure in new housing and business areas was developed, saying it was led by Watercare and Auckland Transport, not the council, and as a result development was not occurring in a co-ordinated or effective way. One submitter said the two CCOs formally acknowledged the council's growth plans, but in reality, they "set the pace and control the agenda for managing Auckland's growth." Another said: "Auckland Transport and Watercare, in particular, have become the de facto planning authorities." One submitter said this situation arose because the two CCOs were large organisations with a single focus – water or transport – and that made them more focused on what was easier or more cost-effective for them to develop, not what was best for the council as a whole.

The decisions both CCOs make about where to prioritise their efforts and invest their capital have a substantial impact on where and when Auckland grows, since development cannot happen without water and transport services. Their long-term infrastructure investment plans – Watercare's

---

[57] Auckland Council, Three Waters Value for Money (S17A) Review Report, 2017, reported to the Auckland Council Finance and Performance Committee, 6 November 2017.
[58] This recommendation was subject to clarification of the Government's position on reforming drinking water regulations and services, which potentially includes establishing arm's-length companies owned by groups of local councils.

asset management plan and Auckland Transport's regional land transport plan – should follow the direction set by the council's growth plans. Generally speaking, they do, but there is room for improvement.

Watercare said it was unaware of any instances where water or wastewater infrastructure it had built had constrained current or planned development, although it acknowledged it sometimes worked directly with developers in advance of the council or other CCOs. Said one former employee: "Watercare say so long as you pay us we will put a pipe in, so developers think it is viable, but Auckland Council don't and then we get into problems."

Building infrastructure to cope with Auckland's growth is a difficult task, and the standard of the work we saw was high. However, in our view, the council needs to step up and lead the various planning and policy processes connected with the city's growth. Both the CCOs and the council need to work closely in developing their asset management plans to ensure they align with the council's plans – and vice versa. This requires a much more co-ordinated approach on the part of both of them. It will lead to better value for money and greater certainty for the land development sector and the community generally. The key will be for CCOs and the council to reach a clear agreement about exactly which locations will get priority for infrastructure investment, and the final decision will rest with the council. The council's development programme office needs to play a more active role in determining which growth areas should receive priority for infrastructure investment. Both Watercare and Auckland Transport agree with this.

Consents and code of practice

Some land developers and council staff were critical of the length of time it took Watercare to respond with its contribution to the processing of resource consent and building consent applications. Typically, the council will ask Watercare to assess whether the local water and wastewater network has enough capacity to accommodate a proposed development. And it will ask Auckland Transport to advise whether this development will necessitate more infrastructure to cope with the extra vehicles on the road or the higher demand for public transport. The CCOs' technical assessments help council planners decide whether to grant or decline the development application.[59]

The council is legally obliged to give its decision on most resource consent applications within 20 working days. However, delays by Watercare and Auckland Transport – which can run into months – meant the council sometimes missed the 20-day deadline when the CCOs' involvement was needed. One council manager said Watercare and Auckland Transport lacked a reason to give council requests priority: "They can delay the process [simply because] they are busy." A former council manager said: "They never meet the statutory deadlines … and it is Auckland Council that wears the blame."

Council staff gave us five examples in south Auckland where applications had been sitting with Watercare for more than the 20 working days permitted the council, and it had still not been assigned a Watercare engineer to assess the applications. In another, Auckland Transport took nearly six months to respond to the comparatively simple matter of stormwater discharging into the kerb – a not uncommon event for requests of this type.

[59] Watercare and Auckland Transport both have a separate but complementary role in deciding whether a proposed development can connect to their respective networks.

Watercare said its performance had risen a lot in the past few years, but added there was room for improvement in processes involving numerous parties. Auckland Transport pointed to its faster response times compared with 18 months ago, although it agreed the process could work better. Despite these improvements, we are not convinced Watercare or Auckland Transport fully appreciate the importance of meeting statutory deadlines or their contribution to making this happen. The council has been working on a service-level agreement with both CCOs for three years but has been unable to get final agreement on the draft so it can be signed.

One submitter complained about a lack of any mechanism to challenge how Watercare enforced its code of practice relating to the standard of water and wastewater infrastructure in new developments and subdivisions. This individual said there was no way “short of High Court declarations or some other High Court review” to challenge Watercare’s position of permitting no exceptions to the code. Watercare said it had a voluntary process for objections to the amount payable for infrastructure growth charges. An independent commissioner considered objections and the process was broadly similar to the statutory process for objections to development contributions. Watercare said it would extend independent commissioners’ jurisdiction to include objections to its standards for infrastructure.

The same lack of appeal mechanism applies to Auckland Transport’s code of practice for transport infrastructure such as roads. Auckland Transport said it was currently updating its code of practice to a “design-based” approach that would give the development sector more flexibility in how it met the code.[60] It said it was working with developers, architects and others on how to implement his new approach. We note other councils in New Zealand provide a right for developers to object to the way codes of practice are applied.

Pricing

Watercare largely sets water and connection costs, or charges, according to how much it plans to spend on maintaining and developing its assets, anticipated demand and the legal obligation to keep charges to customers to a minimum while ensuring the long-term maintenance of its networks. Watercare does not set prices with any reference to the council. Several interviewees from the council considered prices were being kept too low. Said one former senior council manager: “To have good reliable services, we will have to pay more.” Another council manager put it more bluntly: “Watercare’s price path is too low.” Watercare’s response was that “past investment had allowed it to keep the price low”.

Several stakeholders thought council input would ensure water was neither underpriced nor overpriced. In our view, the council has the right to influence the broad long-term trend in prices because pricing must reflect the public interest and also affects numerous council objectives, including where development is most attractive, not just financial ones. However, Watercare’s board must still be able to manage its own finances and meet its legal obligations.

Alternative models

We see no alternatives to the current model, especially since, using our assessment criteria, we rate Watercare:

[60] Auckland Transport’s code of practice sets standards about the function, condition and useful service life of transport assets. It has a design manual that is expected to replace the code of practice in July 2020.

- *high* for requiring board and specialist expertise (skills the governing body would be unlikely to have)
- *high* for needing to attract people with industry knowledge and expertise (water and wastewater engineering being a highly specialised area)
- *medium* for requiring fast decision-making and innovative thinking
- *high* for the ability to tailor business-specific systems and processes
- *high* for activities that intrinsically lend themselves to economies of scale
- *medium* for lack of duplication.

Improvements

The council should develop and implement a three-waters strategy, which should contain a reference to Watercare's obligation to consult the council about the broad direction of pricing and water services.

The council should require Watercare and Auckland Transport to submit their asset management plans, along with more detailed supporting information, to the council every year. The council should assess the plans to determine how well they give effect to its urban growth strategy and any other relevant strategy. If the plans do not, the council should require the CCOs to revise and resubmit their plans.

The council should renew efforts to secure an agreement setting out minimum performance levels expected of both CCOs in reviewing consent applications. The agreement should be clear, concise and contain measurable expectations. The council might even require Watercare and Auckland Transport to include reference to the need to obtain agreement on this in their statements of intent to underline the importance it attaches to the matter. The council should also monitor and report quarterly on both CCOs' performance in meeting these performance levels.

The council should run a workshop involving Watercare, Auckland Transport and representatives from the land development sector to iron out consent processing delays. If the council finds there has been insufficient progress after a year, it should assign approval of the water and transport components of the consenting process to its regulatory arm.

The council should work with Watercare and Auckland Transport to establish a formal mechanism to allow objections to the way Watercare – and Auckland Transport – enforce their codes of practice and design manuals. The dispute resolution process for development contributions would be a good starting point for such a mechanism.[61]

The council should review the way it requires all CCOs to monitor and report on risks and risk mitigation measures. One option, as part of such a review, is that CCOs should have to consult the council when developing risk plans, particularly if the council shares responsibility for the mitigation measures in the plans.

---

[61] In this process, an objector must include the legal grounds for the appeal, along with supporting information. An independent commissioner runs a hearing and makes a decision. The objector pays for commissioner's costs.

Part three: **Accountability**

Accountability is at the heart of good local government. It ensures officials, both elected and unelected, are held responsible for their performance and actions, that plans, policies and strategies are followed and targets are met, that proper processes are followed, and that ratepayers' money is spent well. We are concerned with how CCOs are held accountable through formal and informal mechanisms to the governing body, to local boards, to Māori, and to the community. Whether those mechanisms are adequate and working effectively is one of the most critical questions of our review. In important respects, this question overlaps with some of the issues examined in part four on CCO culture. Mirroring our list of issues, the topic is grouped under six broad topics, starting with accountability to the council (governing body and local boards).[62]

Current mechanisms

No useful discussion is possible about whether the council has adequate mechanisms to hold CCOs to account and is using them effectively without first understanding what those mechanisms are. They will be well known to the council and CCOs, but we describe them briefly for the benefit of the ordinary reader who will be much less familiar with them.

Plans, policies and strategies

The Local Government (Auckland Council) Act 2009 says the council must have a policy on the accountability of CCOs, that the policy must be included in its long-term plan (sometimes referred to as its 10-year budget), and that CCOs must give effect to relevant parts of that plan.[63] The long-term plan details, among other things, CCOs' core activities and budgets. The Act further says CCOs must give effect to any other plans or strategies the council specifies. The council has specified five, including the Auckland Plan, its main long-term plan (through to 2050), which all CCOs must give effect to.[64] The council can also require CCOs to act consistently with any plan or strategy by simply directing them to do so in writing.[65]

In June 2018, the council inserted a new section in its accountability policy making explicit its expectations of all CCOs about a range of matters, including building trust and confidence, value for money, improving outcomes for Māori and making explicit that CCOs need to understand that Auckland's governance model is a shared one between the governing body, with its democratically elected mayor and councillors, and local boards. This means CCOs must actively build relationships with the governing body and talk to relevant ward councillors about projects and issues in their ward. It also says CCOs need to recognise and act on the fact local boards

---

[62] See appendix A. We address council policies applicable to all CCOs under CCO culture.
[63] The long-term plan contains Auckland's 30-year Infrastructure Strategy.
[64] In addition, ATEED must give effect to the Auckland Economic Development Strategy; Regional Facilities Auckland must give effect to the Arts and Culture Strategic Action Plan and Auckland Sport and Recreation Strategic Action Plan; and Panuku must give effect to the City Centre Master Plan, which includes the former Waterfront Plan 2012. No plan or strategy has been specified exclusively for Watercare or Auckland Transport. Auckland Transport must itself produce, update and comply with two plans – the regional land transport plan and regional public transport plan. Auckland Transport is also accountable to its other main funder, the New Zealand Transport Agency.
[65] Section 92 (2) of the Local Government (Auckland Council) Act 2009.

are local decision-makers communicating their communities' preferences, and CCOs need to genuinely consult local boards, build relationships and develop engagement plans – and early on – so they can influence decisions that affect their governance role or significantly affect their constituents. And finally, it says CCOs must apply Treaty principles and work collaboratively with mana whenua and mataawaka. (See accountability to Māori.)

The council has plans, policies and strategies dealing with a diverse range of subjects – everything from community grants, alcohol and smoking in public, pest management and Easter Sunday trading through to urban land supply and waste management. Only a modest number, however, have any direct bearing on CCOs' operations beyond the specified plans and strategies mentioned above – a serious deficiency in our view.

Letters of expectation

As a matter of good practice, the mayor issues a letter to each CCO at the end of each calendar year outlining the council's priorities and expectations for the next year to help inform the development of each CCO's statement of intent. The letter may also detail new plans and strategies the council has adopted in the previous 12 months with which it expects CCOs to act consistently. For example, letters issued in December 2019 notified CCOs of the council's expectation that their statements of intent would outline how each would support climate change.[66]

Statements of expectation

This is a new and as yet unused mechanism provided for in the Local Government Act 2002 Amendment Act 2019. It allows the council to spell out, among other things, how CCOs should conduct their relationships with the council, stakeholders and others in the community, including iwi, hapū and Māori organisations.

Statements of intent

The council requires CCOs to produce a statement of intent each year describing how they will contribute to the council's objectives and priorities.[67] Each statement sets out intended activities for the three years ahead, the objectives and priorities those activities contribute to, and applicable performance measures. If satisfied with a proposed statement of intent, the council approves it. CCOs must hold a public meeting each year specifically to consider shareholder comments on the next proposed statement of intent and also a second to consider performance under the current statement of intent.

Statutory reporting

CCOs are legally required to prepare six-monthly and annual reports containing financial and other information about their performance. This enables the council to meet its legislative reporting obligations and also satisfy New Zealand Stock Exchange obligations. Councillors review these reports in committee meetings. CCO representatives attend these public meetings to respond to

---

[66] Specifically, it required them to act consistently with Auckland's Climate Action Framework.
[67] Section 64 and Schedule B of the Local Government Act 2002 and also section 91 of the Local Government (Auckland Council) Act 2009.

questions. CCOs also have to prepare a statement of service comparing actual performance with the intended performance outlined in the previous statement of intent.

Local board plans

Local board plans are three-year plans developed by boards in consultation with their community to guide local board activity and funding and investment decisions. These plans help the governing body when developing its priorities in its long-term plan. CCOs must take account of these plans in their planning processes for their statements of intent, although only to the extent the local boards' activities are funded in the long-term plan.[68]

Local board engagement plans

The council's CCO accountability policy requires CCOs to prepare these plans every three years to ensure CCOs understand local boards' views and local boards understand CCOs' priorities. They are short – typically three to four pages – and detail how CCOs intend to work, communicate and consult with each local board about CCO projects in its ward and other matters of mutual interest. They also serve to shape CCOs' business plans.

Council governance and liaison

The council seeks quarterly reports on CCOs' performance. In addition, it requires CCOs to report to the audit and risk committee and value for money committee and also report to local boards. This last requirement consists of preparing a six-monthly report and appearing in person before boards if required.

The council expects boards, particularly chairs, to co-operate and work closely with it. The mayor's office has traditionally been the main contact point for this interaction. In late 2019, the mayor appointed a councillor to liaise with each CCO. The aim is to improve the relationship between CCOs and the council and also improve the flow of timely information between the two. The five councillors have a range of options available to them to carry out their liaison role, including attending some or all board meetings, attending committee meetings (such as audit and risk) and meeting the chair and/or chief executive from time to time.[69] At the same time, the council also established a CCO oversight committee with responsibility for setting policy relating to the governance of CCOs, approving statement of intents, tracking CCO performance and advising the mayor on CCO-related matters. The council also invites the board and senior executives of each CCO to an annual workshop dealing with strategic matters.

Monitoring

Finally, the council has a statutory obligation to monitor its CCOs and evaluate their performance against their statements of intent. A unit within the council called the CCO governance and external partnership unit carries out this work. It has produced and regularly updates a manual containing guidance for CCO boards, senior executives and senior staff on governance matters. It contains key council policies and documents on the subject. The unit is responsible for developing

---

[68] Section 92 of the Local Government (Auckland Council) Act 2009 says CCOs must give effect to the long-term plan and act consistently with other specified council plans, including local board plans.
[69] In March 2020, the council published protocols setting out the roles and responsibilities of councillors acting in this capacity.

legislatively required policies (accountability policy and board appointment and remuneration policy) and advising the governing body on shareholder matters such as whether to approve major transactions and how to respond to non-performance by CCOs.

Adequacy and use

In this section, we discuss how well the mechanisms work and how well they are used. We examine whether they ensure CCOs respond appropriately to the concerns of the council and local boards. But before we do that, we should be clear: in our view, the council has available to it all the mechanisms it needs to hold CCOs accountable to it and indeed to the public, but in many instances is not using them as effectively as it could – and in one important instance is not using its accountability powers at all.

Plans, policies and strategies

There is little question the council's plans, policies and strategies are extensive and, on paper at least, should produce a high degree of accountability. However, in our view, they do not do so because they are seriously lacking in strategic direction to CCOs. They simply do not contain the level of clear, detailed information about the council's expectations of them to contribute to the outcomes of the Auckland Plan.

Despite all the council's plans, there is a lack of explicit strategic direction to CCOs. The long-term plan and Auckland Plan, both of which apply to the CCOs, are general in nature – although unavoidably so; their 10-year and 30-year horizons respectively mean the content is more visionary and high-level. The Auckland Plan, for example, focuses on six broad outcomes and does not detail what actions CCOs should take to help achieve these outcomes. CCOs are left to interpret through their work programmes how they will do this. An example of a plan that is not high-level but still lacks useful direction for CCOs is the recently approved City Centre Master Plan. One of its outcomes is a prosperous city centre. Yet it makes not one reference to ATEED, its economic development agency, which would presumably have a leading role to play in bringing prosperity and vitality to the city centre.

One council publication that might be expected to provide help in this area, its CCO accountability policy, is equally general in nature despite its considerable length and treatment of matters as diverse as the council's common expectations of CCOs, as well as its expectations of individual CCOs.[70] It describes the objectives of each CCO, how it is to contribute to the Auckland Plan (and any other plans or strategies listed), and methods it is to employ. It also sets out, among other things, reporting requirements (statutory or otherwise), audit and risk reporting requirements, attendance at council meetings, and buying, managing and selling assets.

As for the myriad of other council plans, policies and strategies, we found few have the level of practical relevance to CCOs that would guide their day-to-day operations and create the necessary precision for really meaningful accountability. As an aside, we note that all these plans, policies and strategies result in a level of bureaucratic complexity that is neither necessarily cost-effective nor efficient, and given the financial pressures already created by COVID-19, a thorough re-

---

[70] This is perhaps unsurprising given legislation requires the policy to be part of the long-term plan, itself a 10-year document, and any changes – including to accountability process – must be subject to public consultation.

evaluation of the council's strategy, policy and plan-making processes cannot come soon enough in our view.

Between the council's very high-level plans and polices and its very subject-specific plans and policies lies a clear gap. What needs to fill the gap is the sort of intermediate-level strategic direction envisaged by the royal commission. CCOs are all too aware of the problem. In their joint submission, they said the governing body was responsible for developing strategy, but "[did] not generally develop strategy in the CCO space, which means there are strategy gaps". This lack of strategic direction for CCOs manifests itself in several ways.

Some strategies that should be guiding CCOs in delivering their services are missing. As already noted, the council has no strategies for water or property. Nor does it have one for arts and culture. The council's own value for money review in 2017 pointed out the absence of a three-waters strategy. The council began developing such a strategy in early 2018, even consulting on aspects of it in 2019, but has since put it on hold. Many interviewees also mentioned the lack of a strategy for Auckland's marinas.

Some strategies exist but are outdated – an example being the council's 2012 economic development strategy. Yet the economic development of Auckland is critical to the success of the Auckland Plan – and never more so in a post-COVID-19 world.

Some strategies have been the subject of enormous time and cost involving both the governing body and the CCO in question but have yet to be adopted. As noted in part two, one example we heard about from many stakeholders is the lack of any strategy on Auckland's stadiums. Auckland is one of the few cities in the world without both a square and oval stadium. Regional Facilities Auckland has been working on a strategy since 2012 when the council first made the request. Eight years on, no strategy has been adopted. We heard very different views about why and who was responsible for the failure to produce this much-needed strategy, but it is not our place to attribute fault.

The need for a stadium strategy is particularly urgent given Mt Smart stadium is, to use one interviewee's words, "falling apart" and won't be useable in much more than eight years' time without hundreds of millions of dollars being spent on its redevelopment. Then there is Western Springs, where concerns have been expressed about health and safety during speedway racing. Finally, there is the pressing need to consider the future of all Auckland's stadiums – including Eden Park – to ensure ratepayers' money is spent to maximum effect. And, quite apart from infrastructure investment issues, sporting codes are left uncertain about the future location of their sport. As one stakeholder emphasised: "We need the ability to plan long term."

Some strategies are the result of CCOs filling the gap themselves. ATEED, on behalf of the tourism industry, took upon itself the task in 2015 of developing a destination strategy for Auckland's visitor economy. It was produced with limited input from the governing body before being presented to, and fortuitously endorsed by, it. The risk, however, of a CCO developing a strategy is that it may not fully appreciate the strategy's wider impact on the council or community.

There is an additional problem. The policies and priorities established by the council through the long-term plan require considerable interpretation by CCOs to make them operational. Sometimes their interpretation results in a strategy the governing body is unaware of and/or does not endorse – or is even actively opposed to. One example is Auckland Transport's adoption of a strategy in

2019 to lower speed limits in areas of Auckland to satisfy the council's desire for fewer road deaths and injuries.[71] We heard conflicting views about whether the governing body was aware of this strategy before its adoption, but no one disputes the strategy was met with a "backlash", as one interviewee put it, from both the governing body and Auckland residents. The simple fact is all this occurred in a strategy vacuum that Auckland Transport was merely trying to navigate.

Another serious difficulty is the council often produces plans setting out actions that various agencies are required to undertake but gives them no funding to do it. Examples include local board plans, the Auckland Plan, Toi Whitiki: Auckland's Arts and Culture Strategic Action Plan and the Auckland Climate Action Plan. The lead agency is responsible for funding specific actions in each plan but does not always receive the necessary funding. In addition, these plans contain no performance measures or targets against which to assess CCOs' performance. One measure, for example, in the Auckland Climate Action Plan is "employment in low carbon and climate innovation as a share of employment and GDP in Auckland's economy". What this means, let alone how it might be put into practice and measured, is far from clear to us.

The lack of detailed, well-reasoned strategies for CCOs to implement manifests in another symptom – confusion about roles and responsibilities. CCO boards, quite justifiably, have "painted in" the gaps in strategy by making operational decisions, only to sometimes incur the displeasure or ire of councillors who consider such decisions to be theirs to make. The confusion about roles is, in truth, about a lack of delineation between where the council's strategy responsibilities should end and where CCOs' operational responsibilities should begin. Many councillors, local boards, residents and ratepayer groups complained of CCOs acting with "too much freedom", but this criticism can also be traced back to the lack of well-defined roles and responsibilities. The importance of clear roles and responsibilities was a point emphasised by Deputy Auditor-General Phillippa Smith in her 2015 report into the governance and accountability of CCOs.[72] She said this included everyone – board members, councillors and council and CCO staff – and produced greater transparency and more effective decision-making all round.

Council staff objected to sometimes having no knowledge of, or input into the development of, strategies by CCOs. As one senior council staff member said: "I don't have a problem with CCOs doing strategy. I have a problem when it is done in isolation, when I don't know about it, or I am not allowed to have input." As valid as this sentiment is, CCOs cannot be expected to carry out their roles and fulfil their responsibilities to the council's satisfaction, to read the council's mind as it were, if the council does not develop sufficiently detailed and precise strategies for CCOs to put into effect.

To compound matters, CCO boards and the governing body have little face-to-face interaction over the development of what currently passes for strategy, in particular priorities and programmes of work. Senior CCO managers occasionally attend council workshops on strategy development, as do CCO chairs, but seldom board members.

There appear to be several reasons for this lack of sound strategy for CCOs to implement. One reason, according to several council staff, is that since 2015 the council's strategy-making capability has been "systematically run down", to use one interviewee's words, while at the same

---

[71] See Auckland Transport's safe speeds programme: https://at.govt.nz/projects-roadworks/vision-zero-for-the-greater-good/safe-speeds-programme/speed-limit-changes-around-auckland/.

[72] Controller and Auditor-General, Governance and accountability of council-controlled organisations 2015, Overview p 10.

time allowing – indeed, encouraging – CCOs to develop their own strategy-making capability. In 2015, the council disestablished its 36-strong economic development unit and cut back its strategy work programme to "create more focus and improve council-CCO integration". Said one councillor: "We used to have a proper strategy unit and an economic development committee, but we've slowly decimated the strategy unit in our drive to reduce staff. For everything else, we have staff advice, but in these areas it doesn't exist. We don't have contestable advice to challenge what CCOs tell us." The governing body's high workload is another impediment to better strategy.

The council has a large strategy and planning division, but its 450-odd staff work on plans such as the Unitary Plan and Auckland Plan and supporting strategies such as the City Centre Master Plan. No one is developing strategies to guide CCOs in any practical sense. Given CCOs' central role in providing so many of the council's services and infrastructure, we are surprised the council does not have a team developing such strategies.

Letters of expectation

We reviewed last year's five letters of expectation and consider the expectations in them to be high-level and to not give CCOs adequate guidance in preparing their statements of intent. One councillor told us "statement of intents are quite weak – too wishy-washy. It is easy to show compliance with them". One senior council manager told us many of his colleagues held the same view: "Formal documents like the letter of expectation have just become compliance documents." One interviewee said he was surprised by the degree of reliance CCOs placed on letters of expectation, adding that without a strong process leading up to their approval, they were little more than a formality. CCOs said they were often forced to try to interpret the council's intentions for the year ahead because the letters were so general. We consider letters of expectation in their current form lack the necessary specificity to be of real use to CCOs, nor are they particularly effective in achieving strong accountability.

Statements of intent

Properly developed, statements of intent should be an effective way for the council to influence the direction of CCOs' proposed activities for the year. And properly designed, they should allow the public and the council to understand at a glance what those activities will be. We reviewed each CCO's current statement of intent and found them to be highly individualised rather than each conforming to a clear and consistent template. Most were lengthy (one running to 36 pages), missing financial performance measures or poorly aligned to their activities and objectives. As one councillor put it: "They are all over the place." Or as one senior council manager candidly said: "I haven't read a statement of intent for a couple of years … they aren't specific enough."

Councillors' involvement in the development of statements of intent consists of giving their feedback to the finance and performance committee and giving their approval to the final draft. Our impression is some councillors devote considerable time and effort in reviewing statements of intent, but other councillors treat this task in a cursory fashion. Yet given these documents are, to use one interviewee's words, "the founding document" to guide each CCO's activities for the year and clearly warrant careful review by the governing body.

The Deputy Auditor-General highlighted a deep-seated and continuing problem with the quality of statements of intent, and pointed to an earlier report by her office that criticised the range and quality of performance measures used by some CCOs and how they reported against those measures.[73] The foundation of statements of intent should be relevant council strategies, and key performance measures should link back clearly to these strategies' goals. Otherwise, statements of intent become isolated, stand-alone documents that do not relate strongly to other council plans.

The number of performance measures in the statements of intent we examined varied widely – from five up to 23 measures.[74] Each CCO's unique activities necessarily mean there will be a certain amount of variety in the measures, but establishing some common measures would considerably improve the basis for comparing performance. Two possibilities to consider would be core operating costs as a percentage of total revenue, and core operating costs per employee.

The importance of clear directions (and mutual respect) is illustrated by the competing views of the council and Watercare about whether the latter needed council approval before entering into a contract to provide water services to Waikato District Council. Watercare said it kept the council informed of its discussion with Waikato District Council, noting that its statement of intent plainly stated it intended pursuing alternative sources of revenue. The nub of the matter is that Watercare considered it merely needed to inform, not obtain the approval of, the council beforehand, whereas the council considered its approval to be necessary for such an initiative. This example also illustrates how vital it is that the council's monitoring unit – and the governing body – carefully vet statements of intent to ensure CCOs are not left with too much freedom to make decisions that should properly have the approval of the ratepayers' elected governing body.

The way in which statements of intent are prepared strikes us as more like going through the motions of compliance than taking the opportunity to define the activities for the year ahead in truly measurable ways. It might even be regarded as little more than a box-ticking exercise, and this is not surprising given how little face-to-face discussion there is between CCO boards and the governing body before their finalisation. In our view, statements of intent should involve substantive and collaborative discussion between the council and CCOs, rather than, as currently occurs, a mere formal submitting of a document for council approval.

Statements of expectation

These would seem to be a useful device to specify how CCOs will conduct their relationships with the council, Aucklanders, iwi, hapū and other Māori organisations. The council has yet to use this provision.

Reporting

Six-monthly and annual reports are a well-established mechanism and in themselves are more than adequate. They offer a snapshot of current CCO performance and longer-term trends. From what we could see, these reports contained little advice to councillors on CCO performance.

The council amended the quarterly reporting process in March 2019 so there was a standardised template that ensured consistent reporting by all CCOs as well as an improvement in the quality of content. Councillors said they liked the template approach because it enabled them to make comparison between CCOs, it reduced the amount of information CCOs included, and it forced

[73] Controller and Auditor-General, Statements of corporate intent: Legislative compliance and performance reporting, 2007.
[74] Certain measures are a legal requirement.

CCOs to stick to matters of strategic importance, significant risks and key projects approved through the long-term plan. We welcome these changes. What is still missing, however, is vigorous discussion of CCOs' reported performance, which is paramount to good accountability.

Governance manual

We reviewed the council's governance manual for CCOs, which is intended to "help boards operate effectively in their roles and to clarify their responsibilities" and to help CCO managers "understand the accountability requirements and the expected standards of reporting". It is long – more than 150 pages – and we consider this to be part of its problem and probably accounts for why so few of those we talked to have read it. One CCO chief executive said it was symptomatic of the council's muddled approach. "Council doesn't know what it wants. The governance manual – it gets thicker and I haven't read it once."

Section 92 power

As noted already, the council has the power under section 92 of the Local Government (Auckland Council) Act 2009 to direct a CCO to act consistently with the relevant aspects of any plan or strategy.[75] Yet the council has never once in the 10 years of its existence used this power. One councillor found this inexplicable: "I would ask, why isn't the status quo working when we are not even using the powers like section 92 that we have?"

Local board plans

Local board plans are the means by which local boards can hold CCOs to account for projects proposed in their local board areas. CCOs are legally required to implement projects set out in these plans but only if the long-term plan approves funding for them. The CCO accountability policy says CCOs must understand local boards' role as local decision-makers and administrators and work with and consult with them in the way that achieves the boards' objectives. As best as we can tell, some CCOs do this and some don't. The glaring deficiency is that no one – including the council's monitoring unit – checks CCOs' compliance with local board plans. And local boards themselves could not tell us if they did so. The position is far from satisfactory.

Local boards repeatedly told us they wanted CCOs to act consistently with local board plans. The Auckland Transition Agency said local boards could ensure their communities' wishes were included in CCO work programmes by "providing input to" the governing body about the contents of CCO statements of intent.[76] In other words, it considered the statement of intent the vehicle for turning community preferences into concrete programmes of work. To our knowledge, there is no recognised or consistent process in place so local boards can have a say about how elements of their local board plans can be included in a CCO's statement of intent.

---

[75] As previously noted, this section allows the council to direct CCOs to act consistently with the relevant aspects of any plan (including local board plans) or strategy to the extent specified in writing by the governing body.
[76] Auckland Transition Agency report, Council Controlled Organisations of Auckland Council, May 2010, p 13.

Local board engagement plans

In principle, these plans should help cement CCO-local board relationships and ensure CCO accountability to local boards. CCOs give local boards a copy of these plans, but to our knowledge, again, no one monitors their implementation.

Local boards differed about the adequacy of their engagement with CCOs. Some said their relationships were far from satisfactory and had been that way for years. Some said their relationship with CCOs had improved in recent times, but the turnaround had taken a long time and had been heavily reliant on building individual relationships. Some spoke positively about their relationships with CCOs, especially if the local board and CCO had worked together on local projects and activities. In essence, local boards said CCOs did not understand their role as shared administrators of Auckland. Many objected to the fact some CCOs refer to them merely as ”stakeholders”. They also said CCOs failed to come to them early on about initiatives planned in their wards. There was, as several local boards told us, “too much reporting backwards and not looking forward”.

To turn things around, they said, CCOs needed to be more responsive to local concerns and more flexible in adjusting their work programmes to those concerns. Local boards particularly emphasised the need for CCOs to consult them about which projects they intended prioritising so boards and their constituents “could be fully informed of what will be happening in their area”. This would have two advantages, they said. First, they wouldn’t need to focus so much on operational matters, such as the implementation of projects. And second, if local boards were involved in decisions about which projects to prioritise, they could be held to account by the community about which projects they chose and which they did not. They also needed to employ more senior relationship managers with actual influence or decision-making powers within their organisation. CCOs also needed, as one local board put it, to focus on “transparency and technology” so boards had up-to-date information about when projects in their wards would be completed. As one interviewee observed, “local board liaison officers are at present the ham in the sandwich, tasked, as they are by the local board, to find out information about forthcoming projects”. Watercare and Auckland Transport’s websites should give local boards and their communities easily accessible information that was “not hidden in codes” about the current status of projects. Finally, CCOs needed to co-ordinate their activities better at the local level.

CCOs saw things differently. They said they had tried in various ways to work alongside local boards during the past 10 years, but with limited success. They had tried reporting back differently, appointing dedicated relationship managers and arranging workshops. “We invest 90,000 hours a year into local boards,” one CCO chief executive said, “but we are still receiving feedback that we are not working with them effectively.” Another said CCO efforts ultimately amounted to giving people more information, not more influence or access to the decision-making process. “They get lots of reporting, but not influence.”

In summary, local board engagement plans and accompanying processes are not particularly effective as accountability mechanisms and need improving.

Council governance and liaison

The causes of many of the deficiencies we have described are also apparent in council governance and liaison. This is not surprising. Accountability is not just about legislation, processes and procedures. It is about people, and in particular the relationships between the governing body and staff and CCOs (boards, senior managers and staff). And these relationships are not, in the main, working as they should. The reasons are numerous.

One is an underlying tension about CCOs being both accountable to, and yet at arm's-length from, the governing body. This is the very nature of CCOs. CCOs said some in the council simply did not understand their role in the "council family". Said one senior manager: "There is a lack of understanding that we report through to the chief executive and to a board of highly qualified and experienced persons appointed to oversee the management of the organisation." In our view, the governing body needs to come to terms with this essential fact about the CCO model.

The Deputy Auditor-General's report on CCOs says they work best when councils influence rather than control them.[77] This does not mean all the mechanisms just discussed are redundant. Rather, it means personal relationships – regular interactions based on trust and mutual recognition of a shared goal, the betterment of Auckland – are at least as important as these mechanisms. Good relationships make mechanisms work, but no amount of mechanisms will make relationships work.

Some councillors did not hide their feelings about what they considered to be CCOs' thumbing of their noses at the council. "I think that CCOs dilute my role as councillor," said one. "I thought we had to make those decisions, but the power seems to sit with the CCOs." Said another: "Do not call them controlled. We do not control them." And said a third: "Chief executives of CCOs feel accountable more to their board than us." But other councillors disagreed. One said: "I don't think CCOs are out of control. It's about articulating what [we] want and then holding the boards to account."

A second reason is the failure to recognise the importance of relationships and put the necessary effort into making them work by creating more opportunities for face-to-face discussions and interactions. The relationship between CCO boards and the governing body is weak. Many submitters said current arrangements left few opportunities for them to meet and interact in meaningful ways. CCO interaction is limited to:

- attending the CCO oversight committee each quarter to give a report and respond to questions – usually attended only by each CCO's chair and chief executive
- attending workshops with the same committee (two a year in the case of Auckland Transport and Watercare, and one a year in the case of ATEED, Regional Facilities Auckland and Panuku)
- presenting annual reports to the finance and performance committee
- attending audit and risk and value for money committees
- meeting councillors assigned to liaise with the CCO.

[77] See footnote 72, p 4.

We note views were mixed about the merits of CCO liaison councillors. Many interviewees said the concept was a good one, yet as one CCO board member pointed out, they were no substitute for accountability. Numerous stakeholders also expressed concern about confidentiality when these councillors attended CCO board meetings where often highly commercially sensitive information could be shared. These councillors were then put in an invidious position – did they remain silent because the material was confidential or did they share it with their fellow councillors? There is also the potential for them to be deemed directors.[78] Indeed, many of the public think liaison councillors are, in effect, directors of the board. It is too early for us to be able to say whether this initiative will be successful, although we consider more guidance would be useful about exactly how these councillors should carry out their role in a way that is consistent across all CCOs. At present, there is too much potential for councillors to adopt different approaches or practices in the way they conduct themselves.

CCOs, councillors and staff criticised some councillors' lack of commitment to attending scheduled workshops, induction days and other opportunities (such as site and project visits) arranged by CCOs to learn more about their business. Several CCOs, and council staff, said some councillors lacked a commitment to understanding CCOs' businesses, priorities, strategies and risks, yet showed excessive interest in CCO activities taking place in their ward – "embedded localism" one called it – and focused too little on what was best for Auckland as a whole. This included seeking much more information than usual about specific projects in their ward, and requiring references to them in CCO statements of intent and quarterly reports. To be sure, councillors have a legitimate role in looking after their ward's interests, but equally they have a responsibility for ensuring Auckland is governed as a metropolitan region – the very point of the reforms a decade ago.

A third reason is the general inadequacy of existing forums and how they operate. Many council staff, CCOs and councillors said committee structures and processes discouraged free and frank conversations between councillors and CCOs. Council staff said they did not feel they could challenge CCOs during committee meetings or give councillors on-the-spot advice that differed from CCO advice. Said one: "There is a reluctance to air dirty laundry in public meetings. If it is not there, then it needs to be aired in a different forum."

Many stakeholders said the CCO oversight committee was an improvement on the previous arrangement where CCOs reported to the planning and finance and performance committees, making it hard to get a grasp of each CCO's activities as a whole. They hoped the oversight committee would enable more time and focus to be given to CCO matters, and also more meaningful conversations with CCO board members and senior executives. Some CCOs, however, considered the 30-minute slot for discussions about quarterly performance and future projects to be too little for topics of this importance. We agree.

A fourth reason is the poor flow of information between councillors and CCOs. Regular, comprehensive information is vital to decision-makers in any organisation. Relationships of trust cannot thrive on incomplete or erratic information. Transparency – unless information is truly confidential – is paramount.

[78] Councillors can be deemed to be acting as a director if they are seen to be giving advice, making decisions or overly influencing the decisions of a CCO board through their role as a liaison councillor, and can face all the potential liabilities of a director under the Companies Act 1993.

Every CCO chief executive said he met the mayor regularly and kept his office up to date on important issues and risks – and in so doing complied with the council's no surprises policy, which requires CCOs to keep elected members and senior council staff informed well in advance of anything that could be contentious or of high public interest. But some councillors told us they were sometimes taken by surprise at a CCO's decision or announcement because information given to the mayor's office had not been communicated more widely. Some stakeholders rightly asked whether Watercare had notified the council early enough about the risks and potential costs of the drought. Its January 2020 report to the audit and risk committee fell far short of compliance with the no surprises policy.

The patchy flow of information is not helped by the fact CCOs frequently go straight to the mayor's office or the council's chief executive or chief financial officer when there is a problem (although occasionally they may go to the CCO governance unit). It may be good for individual relationships, and clearly is appropriate when matters are commercially sensitive, but this ad hoc approach doesn't encourage a more structured and comprehensive flow of information between and within the respective organisations.

A fifth reason, and one commented on by a wide range stakeholders, is that councillors are not performing adequately in holding CCOs to account. One councillor lamented the lack of proper oversight: "We don't focus on the end outcome and customers." Another councillor said: "We don't have the capacity or skill to run the whole of this organisation."

A sixth reason is insufficient support for councillors.[79] The royal commission pointed out that many councillors in committee roles had no experience in overseeing such large organisations and said they would need support to do their jobs properly.[80] Several councillors said they would welcome such training, which at present is limited.[81]

Councillors do not receive support about CCO-related policy from the council's policy staff. Ministers of the Crown, by comparison, have dedicated, independent teams giving them advice about Crown entities – a point made by many stakeholders. Treasury, for example, provides advice to Ministers on the Crown's ownership interest in companies and entities that are required to operate as commercial businesses or to meet mixed commercial and social objectives. Unquestionably, central and local governments function differently, but there are nonetheless lessons that can be drawn from the central government model.

A seventh reason is the slowness with which information flows sometimes between councillors and CCOs. Several councillors expressed concern about delays in obtaining information requested from CCOs. They told us they sometimes went directly to the CCO in question, and other times went through the council's chief executive. There will certainly be instances where information should not be shared – such as because of its particularly sensitive commercial nature – but such information should otherwise be made available to those who govern CCOs. Transparency is an essential element of accountability, and its absence is an impediment to councillors' ability to govern.

---

[79] Currently, 17 staff directly help the 20 councillors with diary and constituent matters. Those chairing committees receive extra support.

[80] See footnote 4, p 466.

[81] It consists of several sessions with councillors to cover online training material covering governance and decision-making, legal information, financial fundamentals and overviews of each CCO.

Monitoring

The council's CCO governance and external partnership unit is responsible for council-CCO relationships and co-ordinating monitoring and advice from other parts of the council. With only six staff, a manager and five analysts, the unit is reliant on other areas of the council to do its job. [82] The Office of the Auditor-General noted in its report that councils are ultimately accountable to the community for a CCO's performance and must be able to undertake monitoring that fits the CCO's performance.[83]

A wide range of stakeholders said current resourcing in the council's monitoring unit did not match the size of CCOs' activities, budget and associated risks. Effective monitoring is not without costs and requires a deliberate commitment. As one stakeholder said: "If you decide to have arm's-length entities, you need to let the monitoring agent have a strong voice, just as you would an audit." Or as another summed it up: "Expect only what you inspect." Many stakeholders drew parallels with the seniority and independence of the monitoring units of Crown entities.

CCOs were in favour of a unit focused more on collaboration and less on performance monitoring. Certainly there is merit in fostering collaboration – and the appointment of a CCO relationship manager will help here – but this should not come at the expense of rigorous monitoring of CCO performance.

Improvements

The following improvements have been devised to work as a package. We advise against picking and choosing from among them.

Establish a strategy team

The council should establish a small team with the skills to produce strategies that are detailed, relevant, implementable and give CCOs more explicit strategic direction. The team should carry out this work in liaison with CCOs. To be clear, this team should be a small one – possibly no more than three or four individuals well skilled in formulating strategy. Given its importance, we suggest the team is made part of the chief executive's office. The salary costs of such a team could well be offset by reviewing whether the council's planning team needs fewer people, especially if there is to be more emphasis in future on strategy than plans and policies, of which there are already many (and insufficient monitoring of whether they are complied with).

We do not mean to suggest the council alone should do all the preparatory strategy work – it may well be appropriate at times to delegate the work to CCOs on the basis that the council, as the client, will eventually have the opportunity to amend or endorse it. Nor do we mean to suggest that strategy development is always a long and costly process. If a strategy is clear, specific and practical, it is more likely to be shorter, simpler and less open to debate than a lengthy, visionary but imprecise strategy.

[82] This includes monitoring Ports of Auckland Limited, nine small CCOs, 40 community organisations and external partnerships and joint companies with the Crown (Tāmaki Regeneration Company and the City Rail Link Limited).
[83] See footnote 72, Overview.

We consider such a team should give priority to developing strategies on water, economic development and stadiums.

Develop a strategic planning process

The council should establish a strategic planning process in which CCOs (including their boards) and the governing body have more face-to-face discussion and meaningful dialogue about CCO work programmes and priorities. Both the council's finance team and proposed strategy team should participate in this process. The following steps, started at the beginning of each financial year's planning process to feed into the annual budget cycle, will help achieve this:

- Each CCO's chief executive and board chair and deputy chair should attend a workshop with the governing body before drafting its statement of intent. This would act as a useful "scene setter". Discussion would cover the council's priorities, ways to boost collaboration with other CCOs, and how to ensure effective service delivery. The council may wish to invite local board chairs and representative(s) from the Independent Māori Statutory Board and the Mana Whenua Kaitiaki Forum. Note: we consider it important workshops are run in an informal manner – not as committee meetings – to encourage frank and productive discussions.
- Each CCO should subsequently attend a half-day workshop with the CCO oversight committee to look at specific priorities, funding and strategies for the next year.
- Workshop results should feed into the drafting of each CCO's letter of expectation and statement of intent, as well as into the annual budgeting and planning processes.
- Draft statements of intent should include the outcomes from the workshops before being given, as is current practice, to the relevant council committee for feedback.
- Attendance at these workshops should be a matter of public record. Note: the extra workshops will supplement existing workshops with the CCO oversight committee.

Use workshop results in letters of expectation

As noted above, the council should base letters of expectations on the priorities and expectations agreed on during the one-day and half-day workshop shops to give CCOs sufficiently detailed guidance about the council's intentions for the year ahead. They should not include expectations of a general or unchanging nature, such as compliance with the council's no surprises policy. We did ask ourselves whether letters of expectation were needed at all, given they are not a legal requirement, but concluded that, on balance, they are useful in giving CCOs an idea of the council's high-level expectations for the year, much as Ministers send Crown entities a letter of expectation each year.

Develop a statement of expectation

The council should use this new legislative mechanism to set out:

- how each CCO should conduct relations with the governing body, local boards, Māori entities and the public
- the council's expectations of individual CCOs as well as of CCOs generally[84]

[84] These expectations are currently found in the accountability policy.

- the extent to which the council expects CCOs to consult it when developing significant plans or strategies[85]
- the council's expectations about CCO chief executives' salaries and tenure (which could do away with the need for the council to develop a council-wide policy on the appointment and remuneration of chief executives: see part four).

Admittedly, this would mean the council's various CCO accountability mechanisms would be detailed in three separate documents – the statement of expectation, the accountability policy and a revised governance manual. However, the advantage would be the ease with which any subsequent amendments could be made. At present, the council must follow a special consultation procedure before making any change to the accountability policy, which is contained in the long-term plan.[86]

Introduce a template for statements of intent

The council should develop and require CCOs to use a template to eliminate the often wide variations in length, level of detail and style of presentation of CCOs statements of intent. The template should require CCOs to set out their work programme clearly and concisely, showing the link to relevant council strategies, the link from key performance measures to these strategies' goals, and the link to relevant legislative requirements.[87]

The council should also develop a common set of key performance measures for use in CCO statements of intent to strengthen accountability. On top of those measures required by legislation or for inclusion in the long-term plan, there should be key performance indicators for: meeting strategic priorities and goals, minimum customer and public satisfaction (including complaint resolution), minimum local board satisfaction, financial results and improving Māori outcomes.

Introduce forward-looking reporting

CCOs should report each quarter to the CCO oversight committee on their performance for the previous three months. We consider the first-quarter and third-quarter meetings should concentrate more on any emerging risks or any developments that might require an adjustment in priorities. Quarters two and four, coinciding with six-month and annual reports, should concentrate on performance to date. CCO staff should write short, quality quarterly reports for elected members outlining any risks, notable changes in the environment and progress against key performance measures.

Establish a CCO relationship manager position

The council should create a senior-level position for a person to assume day-to-day management of relationships between the council and CCOs. The appointee should be a member of the executive leadership team and would be charged with nurturing the trust and confidence needed to build good working relationships. Alternatively, this could be a responsibility of a deputy chief

---

[85] An example would be Auckland Transport's regional land transport plan.
[86] Part 6 of the Local Government Act 2002 sets out the requirements for a special consultative procedure if there are certain changes to the long-term plan or if a governing body decision is deemed significant. Under this procedure, the council must develop a statement of the proposal and make this publicly available, allow feedback for a minimum of a month and ensure people have an opportunity to present their views.
[87] Templates are already in use for quarter-performance reporting.

executive – a new role that, recognising the breadth of the chief executive's position, could be worth the council's consideration. Time and again, we heard how such relationships smoothed the way through what one interviewee called the council's "endless processes and paper[work]". The individual in this role would also:

- oversee CCOs' performance
- search out and manage emerging risks
- liaise about matters to be reported to the council under its no surprises policy
- foster more CCO collaboration and co-operation.

Introduce induction days and site visits

Councillors should, at the start of their three-year term, receive a day-long induction on their role and responsibilities as shareholders of CCOs, the separation of governance from management, and generally how to best govern CCOs as arm's-length organisations. The induction should include matters specific to each CCO, such as its financial structure, inherent risks, legislative obligations and proposed plans and strategies for the year ahead. They should also receive guidance on the types of questions to ask CCOs' boards to understand their performance. Local board members could receive a similar induction. CCOs would present at these induction days. In addition, the governing body should spend half a day visiting each CCO to get a better understanding of its business and culture and to informally build relationships. Attendance at inductions should be recorded and reported publicly.

More administrative support for councillors may also be needed (although this is ultimately an administrative matter for the council to decide). Providing this, along with strengthened monitoring and improved training and reporting, could make it easier for councillors to meet their obligations as shareholders of CCOs.

Keep liaison councillor role – for now

We are not convinced about the usefulness of the role of liaison councillor because, like the Auditor-General, we think the role of observer is "unlikely to add anything" if effective monitoring and good council-CCO relationships are in place.[88] However, we consider the role should stay until our recommended improvements have had time to take effect. We suggest a review of the role at the start of the 2021 financial year.

Rewrite the governance manual

The council should rewrite its governance manual to put the focus squarely on its expectations of CCOs. This new document should be more akin to the Treasury's Owner's Expectations document, which is both easier to understand and more useful to its intended audience, and should, in our view, be titled the owner's expectations manual.[89] It should describe expectations about financial and non-financial performance, reporting, disclosure, business cases and governance. It should also outline the role of elected members, boards and directors and the board

---

[88] See footnote72, Part 7 Monitoring – having an effective relationship between a local authority and its council-controlled organisations.
[89] Treasury Owner's Expectations: Expectations for Crown Companies and Entities monitored by the Treasury, 2020.

appointment process. Policies in the manual would be better placed in a separate reference document.

Incoming directors and senior managers should receive a copy as part of their induction pack and should have to sign a form acknowledging they have read it, understood it and will act in accordance with it. Rewriting the document, and requiring it to be read, should fix the reported problem that many CCO senior staff have not opened its pages.

Strengthen the governance monitoring unit

The council should give the CCO governance and external partnership unit more resources to carry out its monitoring role. This will give the unit more influence and properly reflect the size of its workload and the risks associated with CCO activities.

We acknowledge that spending proposals are hard to justify at a time when organisations everywhere are looking to trim their budgets in response to COVID-19, yet the case is a good one: giving the unit extra capability and more authority would, in our view, make monitoring less of a box-ticking exercise and a more meaningful assessment of performance against the council's expectations. The council might need to reshuffle existing resources rather than seek more resources.

The unit should emulate Treasury's and ministries' roles, which are to provide advice on what the Crown hopes to gain from its interests in various entities and how to realise those hopes. The unit's role should be to:

- evaluate and give advice on the activities, priorities and performance measures in each CCO's statement of intent
- assess each CCO's quarterly reports against its statement of intent and give councillors clear, concise advice so they can effectively question CCOs about non-performance, risks and any matters of concern raised in CCO oversight committee meetings
- monitor each CCO's performance to nip in the bud any failings or slide in service and ensure each CCO is accountable to the governing body, local boards, Māori and the public
- provide confidential advice about the performance of boards, the makeup of boards and the recruitment of directors
- assess each CCO's performance in engaging with local boards and the wider community and commission independent performance reviews of CCOs every three years.

Update and clarify the no surprises policy

The council should update the no surprises policy and include more recent and clearer examples of when the policy applies. The Treasury Owner's Expectation Manual contains a more comprehensive list and could serve as a guide. The council should consult CCOs when updating, clarifying and expanding this list, which should make reference to opportunities for elected members to announce CCO work milestones or successes, such as project completions, major new contracts or national or international awards.

The updated policy should give clearer guidance about precisely whom CCOs should pass on information to. The council should develop some principles specifying the chain of responsibility for receiving information. Lower-level matters, for example, could be passed on to the mayor and chair of the CCO oversight committee and/or local board chair, while more significant matters could be shared with the entire governing body. This policy cuts both ways, and elected members should alert CCOs before making announcements that may affect their business or reputation.

The council should ensure CCOs' statements of intent contain a reference to the updated no surprises policy so all concerned can be held to account.

The council should also draw up a simple protocol governing information requests between the governing body and CCOs, covering such matters as when and to whom such requests can be made and how they are handled (whether directly to the CCO or through council staff). One option could be that any such requests are made to the suggested new senior CCO relationship manager.

Section 92 power

The council should not hesitate to use its section 92 power where appropriate. If the council develops, as it should, strategies for water, property, economic development, stadiums and the like, and if it is concerned a CCO is not acting consistently with any of them, it should exercise this power.

Overhaul CCO-local board engagement

We propose seven changes here. First, CCOs and local boards should sit down together and thrash out a more meaningful way of working together. For all the processes, procedures and formal documentation, this crucial relationship is simply not working as it should. A workshop between local board members and CCO senior managers (including chief executives) should come up with improvements to CCO-local board engagement. The workshop should produce a set of principles of local board engagement or a set of CCO commitments to local boards. These principles or commitments would, among other things, acknowledge the value of the relationship, the need to work together constructively, the need for open dialogue and timely information, the role local boards play in their community and the knowledge local boards have about their communities.

Second, following the workshop, CCOs should develop a joint engagement plan for each local board. This would not only reduce the number of such plans from 105 to 21, but also allow more effective reporting on, and monitoring of, the combined plans and generally strengthen collaboration and engagement between CCOs (especially where CCO activities overlap, such as in streetscape and infrastructure upgrades and economic development).

Third, local boards must show more initiative in their relationships with CCOs so their own planning is better integrated with CCO planning. Local boards should present their plans to CCOs during the development phase. This would have three benefits. It would improve engagement, help CCOs genuinely understand local board aspirations and help CCOs identify future work opportunities in local board areas.

Fourth, liaison between CCOs and local boards should be at a more senior level so CCOs quickly respond to and remedy local board concerns. A good example is Auckland Transport's trialling of more tailored services to Waiheke Island in response to concerns about the CCO's priorities for the island. The pilot project led eventually to a memorandum of understanding between the local board and Auckland Transport. On a related point, CCOs such as Panuku and Auckland Transport, whose redevelopment and transport activities overlap, might wish to consider sharing a local board liaison person – an idea they could explore at the CCO-local board workshop. This liaison work must focus more on joint planning and prioritising of projects.

Fifth, CCOs should produce a single combined six-monthly report for each local board instead of the current five that go to each local board. This would cut the number from 105 to 21. These 21 joint reports should be clear, concise and to the point. They should collectively summarise past CCO activity in each ward and also sketch out forthcoming activity, plus any changes to scheduled work or other matters that might be of interest to local boards. They would contain the sort of information local boards could usefully relay to communities to promote community engagement.

Sixth, CCOs should work with local boards to make better use of technology so boards and communities have clear, up-to-date information on projects in their area. This is especially pertinent for Auckland Transport and Watercare.

Seventh, CCOs, particularly Auckland Transport and Panuku, should actively work with local boards at the planning stage of local projects so they can have meaningful input into their design, and also so boards can have a commitment to the projects and publicly support them.

Accountability to Māori

As part of our assessment of the adequacy of accountability mechanisms, we have been asked to consider whether there are accountability requirements at the governance and senior management levels to ensure CCOs are meeting their legislative obligations to Māori and whether CCOs have developed sufficient organisational Māori responsiveness capability.

Mechanisms

CCOs have obligations to Māori by virtue of their council ownership and the functions they perform.[90] We have already examined accountability mechanisms such as the CCO accountability policy, letters of expectation and statements of intent. Here we discuss whether the mechanisms specific to Māori to ensure the council and CCOs comply with their obligations are adequate – and adequately used.

There are more than 30 statutes containing obligations on the council to Māori. The two main ones for our purposes are Local Government Act 2002 and the Local Government (Auckland Council) Act 2009. The former says the council must facilitate Māori participation in its decision-making, develop Māori capacity to contribute to decision-making, take into account the customary interests of Māori on significant decisions, and consult iwi authorities and other representatives of Māori on matters of interest to Māori. The latter requires the council to “establish arrangements to promote issues of significance to mana whenua groups and mataawaka in Tāmaki Makaurau”.[91] It also establishes and sets out the powers and responsibilities of the Independent Māori Statutory

[90] Māori in Auckland includes mana whenua and mataawaka. Mana whenua are the indigenous population of the region, made up of 19 iwi and hapū of Tāmaki Makaurau. Mataawaka are Māori whose tribal affiliations are from outside Auckland and are part of the wider Māori community as residents and ratepayers.
[91] Local Government (Auckland Council) Act 2009, section 3.

Board,[92] as well as specifically requiring Auckland Transport to set up processes so Māori can contribute to its decision-making.[93]

Another worth noting, particularly in relation to Watercare, Panuku and Auckland Transport because of their consenting functions, is the Resource Management Act 1991. This contains specific provisions to take into account Treaty principles, recognise and provide for the relationship of Māori and their culture and traditions with their ancestral lands, water, sites, wāhi tapu and other taonga, and have particular regard to kaitiakitanga.

The Independent Māori Statutory Board has drawn up a schedule of issues of significance to Māori in Auckland and a Māori Plan, which sets out matters identified by Māori as important to them, such as recognising te reo Māori, access to lifelong quality educational opportunities, affordable housing and restoring waterways quality. These documents help the council make decisions and perform its functions.

The board also conducts three-yearly audits of the council's activities to ensure CCOs (and the council) comply with their Treaty obligations. As part of that process, it gives guidance about what they need to do to meet their legislative requirements. The board is also represented on the CCO oversight committee (as well as on other committees), and this gives it another means of ensuring CCOs are accountable to Māori. The board also regularly provides its independent advice into some of the council's more general accountability mechanisms, such as the CCO accountability policy, letters of expectation and statements of intents. For the purposes of this part of our report, we confine our comments principally to the board's auditing role.

The council requires CCOs to produce Māori responsiveness plans every three years outlining how they will achieve the goals in its Māori Responsiveness Framework. These goals are: to empower the organisation concerned to meet its obligations to Māori, to ensure effective Māori participation, and to foster strong Māori communities.[94] The council is currently amending the framework to include outcomes and measures against which CCOs will have to report. The revised document will be known as the Māori Outcomes Framework. The framework will be overseen by the Māori outcomes steering group, which is made up of council and CCO managers and Independent Māori Statutory Board secretariat members, and which directs work – and associated funding – aimed at improving outcomes for Māori.[95]

Finally, it is worth noting the CCO accountability policy (into which the board had input) is especially clear that CCOs must apply Treaty principles, such as shared decision-making, partnership and mutual benefit, in their activities and decision-making. They must also fulfil their statutory obligations to Māori, value te ao Māori (Māori world view), work collaboratively with mana whenua and mataawaka, and facilitate outcomes for Māori.[96] CCO quarterly and annual reports record progress on projects that contribute to Māori wellbeing and Māori outcomes as set out in CCOs' statements of intent.

---

[92] Ibid, sections 81, 82, 83, 84, 85, 86, 87, 88.
[93] Ibid, section 40.
[94] This is a requirement of the CCO accountability policy. The agreed priorities for CCOs are marae development, te reo Māori, Māori business, tourism and employment, and water kaitiakitanga.
[95] This work has a 10-year budget of $150 million.
[96] Outcomes are Papakāinga and Māori housing, whānau and tamariki wellbeing, marae development, te reo Māori, Māori identity and culture, Māori business, tourism and employment, realisation of rangatahi potential, kaitiakitanga, Māori participation and empowerment of the council organisation to achieve Māori outcomes.

Adequacy of mechanisms and their use

We found the mechanisms themselves to be adequate in ensuring CCOs comply with their obligations to Māori at governance and senior management levels. However, the use of the mechanisms requires attention. The feedback we received was that deficiencies in their use mirror those already discussed elsewhere, especially confusion about roles and relationships, lack of clear direction and lack of collaboration. We agree with this assessment. We acknowledge, however, that the effective inclusion of 19 recognised iwi makes the task of managing working relationships and co-ordinating governance a challenging one and is no doubt a cause of much of the confusion about roles and lack of collaboration. Monitoring of CCO compliance is largely effective through the Independent Māori Statutory Board auditing process – but some aspects can be improved.

We group feedback under the following three headings:

Roles and strategic direction

A problem that emerged strongly in feedback was the lack of clarity about the respective roles and mandates – both at governance and management levels – of all the various entities that have obligations to mana whenua and mataawaka. There was uncertainty about whether the governing body, the Independent Māori Statutory Board or the Mana Whenua Kaitiaki Forum, a collective of Auckland's 19 hapū and iwi entities, was responsible for overseeing CCOs' accountability to Māori – and also whether the board or the forum should provide Māori views to the governing body. The result, submitters said, was confusion about roles, which led to a lack of clear direction, duplication and fragmentation of plans and effort.

One example some submitters cited to us was the role of the Independent Māori Statutory Board in the letter of expectation process. It had input into the council's letters of expectation to CCOs and gave the council feedback on CCOs' draft statement of intents. Yet it also this year issued its own "letters of expectation" to CCOs and the council. When we asked why it had taken this apparently duplicate step, the board said it was in response to the unco-ordinated way in which CCOs operate. It added that it wanted to set clear expectations about how CCOs should relate to the board and senior staff, and also to get greater alignment of CCOs' programmes. The board said it had audited CCOs "on several occasions and found significant failings [and] provided numerous recommendations, but we have had slow and limited success [with implementation]". It went on to say that "this letter was not part of [the council's formal] letters of expectations/statement of intent process and timeline but was an attempt to improve clarity, co-ordination and collaboration and across the council group". We understand the board's concerns, but ideally there should be only a single letter of expectation to each CCO. This letter should come from the council but incorporate the board's input.

Pleasingly, though, the effect of the board's letter of expectation was that council and CCO chief executives met the board's chair and chief executive in December 2019 and discussed various ways to improve engagement between CCOs and Māori. In their joint submission, CCOs told us possible improvements identified at that meeting included:

- more engagement between CCOs and the board on joint initiatives aimed at helping Māori (with senior-level CCO representatives attending board meetings on such initiatives) as well as agreeing on outcomes and measures for such work programmes
- better tracking and reporting on progress to achieve initiatives outlined in Māori responsiveness plans, especially those addressing the board's priorities, as outlined in its various reports, including its Treaty audits
- the inclusion of Māori impact statements in all CCO board reports
- regular engagement at the governance level between the board and CCO directors and chief executives.

Regular scheduled meetings have already started. All of this should improve accountability at the governance level. The Mana Whenua Kaitiaki Forum said it, too, would also like to have greater dialogue with CCOs at board level. We suggest CCOs engage at that more senior level with the forum and work together on common initiatives to achieve Māori outcomes.

Our own general observation is that two things need to be made clear for the CCOs. The first is the precise roles (and responsibilities) of each entity. With the Indepenent Māori Statutory Board, that role is reasonably clear because it is a statutory one. As one submitter noted, the board's important role should neither fall short of, nor exceed, its statutory mandate. We agree and note that the board has a particularly vital role to play, given that statutory independence. What is not necessarily as clear is the how the roles of the other entities – the forum and the council's Ngā Mātārae team – interrelate with the board's statutory role. Plainly, the roles of these other entities are important but more clarity is required. The second thing that needs to be made clear is that, just as CCOs need to collaborate more, so too do all these entities in the best interests of mana whenua and mataawaka whle respecting their different roles.

Submitters also mentioned a lack of any clear strategic direction from the council to CCOs about how they were to work with Māori – and also which Māori. For example, we were told the council does not give any guidance to its CCOs about how they should involve mataawaka in their projects and activities. One result, they said, was that each CCO developed its own approach. Another result was too many plans containing broad or hard-to-measure outcomes, as evidenced by the Auckland Plan's Māori identity and wellbeing outcome, the Independent Māori Statutory Board's schedule of issues of significance to Māori and Māori Plan, and the council's Māori Responsiveness Framework. As one council manager said: "We need to integrate [our plans] across the organisation and then be really clear about what we are asking CCOs to do." Or as another stakeholder put it: "There are so many competing frameworks, agendas and processes relating to Māori – we need to integrate all these and be really clear about what we are asking the CCOs to do." Pleasingly, the council's Ngā Mātārae team is working with mana whenua and mataawaka organisations to develop a Māori outcomes and measurement framework that will bridge the gap between these high-level documents and specific council and CCO activities.[97]

Overall, we note that CCOs need to engage with Māori in a way that fully recognises their role as Treaty partner while still respecting, as one interviewee put it, "the strict lines of formal governance and accountability". It is important therefore at a governance level that CCOs form strong relationships with mana whenua, the Independent Māori Statutory Board and the Mana Whenua Kaitiaki Forum. As one submitter noted: "[There is] more opportunity for rangitira ki te rangatira

[97] Ngā Mātārae – Māori Outcomes Department was established in November 2019 and replaced Te Waka Angamua – Māori Strategy and Relations.

engagement." However, it would seem the council has the formal obligation to govern CCOs but plainly with involvement from these other entities. There is little doubt that, at a project level, CCOs should have the primary relationship with iwi, mana whenua and mataawaka.

Collaboration and capability

CCOs' Māori responsiveness plans aim to improve their capability to work with Māori, and this has resulted in such actions as the establishment of Māori engagement, advisory, policy and outcome roles – and in Auckland Transport's case, a Māori policy and engagement team to work alongside its operational and project teams to support involvement by mana whenua and mataawaka.[98] Auckland Transport, Watercare and Panuku have considerable interaction with mana whenua, due, in part, to their consenting obligations in relation to the Resource Management Act 1991. They have structures in place for regular engagement, they have put considerable effort into building relationships, and the quality of their Māori responsiveness plans is much higher as a result than those of ATEED or Regional Facilities Auckland.[99]

But according to both the board and the forum, such activities could have far greater impact if CCOs aligned their responsiveness plans better. We, too, consider CCOs develop these plans in isolation from one another, resulting in a high degree of duplication (as well as considerable variation in content and presentation). One example is marae development, an agreed priority among CCOs. Auckland Transport, ATEED and Watercare all fund or support marae, but they could produce better results by having an agreed plan and targets. Another example cited to us was the use of te reo Māori. Auckland Transport, Regional Facilities Auckland and Watercare used it, respectively, on public transport, during museum tours and to improve staff and board member fluency. But again, there was no common target to measure progress. Sometimes CCOs revealed nothing about the cost of these initiatives, and Ngā Mātārae said that without this information, and common targets, it was difficult to compare benefits, share best-practice processes or set investment priorities.

The forum said the council did not seek input from its members into CCOs' Māori responsiveness plans, the council's letters of expectation to CCOs or CCOs' statements of intent. It also said it was not represented on council committees or joint council-Crown committees. It said this resulted in discrepancies in the strategic priorities of CCOs and mana whenua. It said another problem was the sheer number of meetings Māori entities were expected to attend and contribute to, and the drain this placed on their limited resources. It said CCOs held up to 25 such meetings a month or as required to fit in with the completion of project milestones.[100] Auckland Transport told us it included mana whenua in decision-making about 54 projects in 2019-20. According to council staff, it is often the same individuals present around the meeting table. The forum said CCOs did not co-ordinate these meetings, making attendance more of a drain than it needed to be. It said each CCO worked project by project in a reactive way, rather than according to any strategic direction, which was unsustainable for mana whenua. An integrated approach was essential, it said. We were pleased to hear the council and CCOs are working on just such an approach.

---

[98] Auckland Transport also has a Māori learning and development programme, which 1,015 staff took part in during 2018-19.

[99] For example, Watercare and mana whenua entities with iwi or hapu interests in Tāmaki Makaurau established a forum in 2012 to share views on the management of water and wastewater.

[100] Forums and projects include Auckland Transport forums (south, central and north) and a variety of downtown transport projects, ATEED 2021 (America's Cup and APEC 2021), Panuku Mana Whenua Governance and Kaitiaki Forum, Panuku America's Cup Kaitiaki Engagement Plan Forum, Transform Onehunga Wharf Governance Forum, Watercare Mana Whenua Kaitiaki Forum, Watercare's central interceptor project.

Finally, some iwi said that while capability to work with Māori within the CCOs (and council) had improved, engagement still felt sometimes like "a tick-box exercise". One said CCOs, and indeed the council, needed to understand that "Māori see and think about the world differently to European New Zealand and CCOs should stop trying to make [the Māori world] look like the [European] world or fit like a box into the Pakeha way of things".

Monitoring

We reviewed the Independent Māori Statutory Board's most recent (2018) Treaty audit of council and CCO compliance. The board commissioned PWC to conduct the audit, which resulted in a substantial (59-page) report. The audit assessed the council's guidance to CCOs to develop Māori responsiveness plans. It included a detailed examination of a sample of three plans, including Auckland Transport's, to assess whether CCOs had identified appropriate obligations and established monitoring and other processes.

The main themes to emerge from the audit were:

- The focus of Māori responsiveness plans was on initiatives to improve internal capability to respond to, and engage with, Māori, and the focus of plans in the next update should be more on initiatives to support Māori outcomes.
- The CCO boards and council did not effectively monitor responsiveness plans. (As an example, Auckland Transport did not report on progress in implementing the plan, nor did it forecast completion against the plan, reveal actual costs versus budgeted costs or detail key risks.)
- CCOs had targeted their efforts towards iwi relationships rather than mataawaka participation.[101]

Since 2015, the council and the board have agreed on how CCOs and the council will track actions to address the board's Treaty audit recommendations. Both CCOs and the council's responses to Treaty audits are scrutinised by the audit and risk committee and are also considered by the board when carrying out its next audit. The council told us CCOs had no outstanding audit actions to complete, although it had nine recommendations outstanding (out of a total of 80 from the past three audits dating back to 2012). The council said it was "[not] far away" from completing them.

We consider Treaty audits an effective accountability mechanism. Three issues concern us, however. The first is that the interchangeability of the terms division, department and CCO in audit reports does not properly recognise CCOs' status as arm's-length entities. The second concern is that the council has still outstanding audit actions to complete. The third – and most serious – is that the council has yet to complete the development of outcomes and performance measures to go with the Māori Outcomes Framework – a recommendation of the 2015 audit. Without such a completed framework, CCOs cannot align projects to it, report against it, and be monitored for compliance with it.

[101] Refer executive summary pp 2-5 and audit part 2: Māori responsiveness plan programme and review progress.

Improvements

The council, working with the Independent Māori Statutory Board, the Mana Whenua Kaitiaki Forum and CCOs, should clarify for CCOs what each of these three entities' respective roles are at the governance level, including which has the primary governance role in holding CCOs accountable to Māori and how CCOs should engage with each entity.

The council should urgently complete the Māori Outcomes Framework, which should include guidance on how CCOs engage with mataawaka, and afterwards CCOs should update and align their Māori responsiveness plans accordingly.

CCOs should use a template for their Māori responsiveness plans and should collaborate with one another and seek input from Māori entities during the drafting process.

CCOs should continue to work with the Independent Māori Statutory Board to monitor and report more effectively on Māori responsiveness plans.

CCOs should engage at a more senior level directly with the Independent Māori Statutory Board and the Mana Whenua Kaitiaki Forum to work on joint initiatives that benefit Māori.

Ngā Mātārae, the Mana Whenua Kaitiaki Forum and CCOs should arrange a hui to establish a more co-ordinated and meaningful way of working together to reduce the number of meetings Māori entities are expected to attend and contribute to.

Understanding the need for accountability to the community

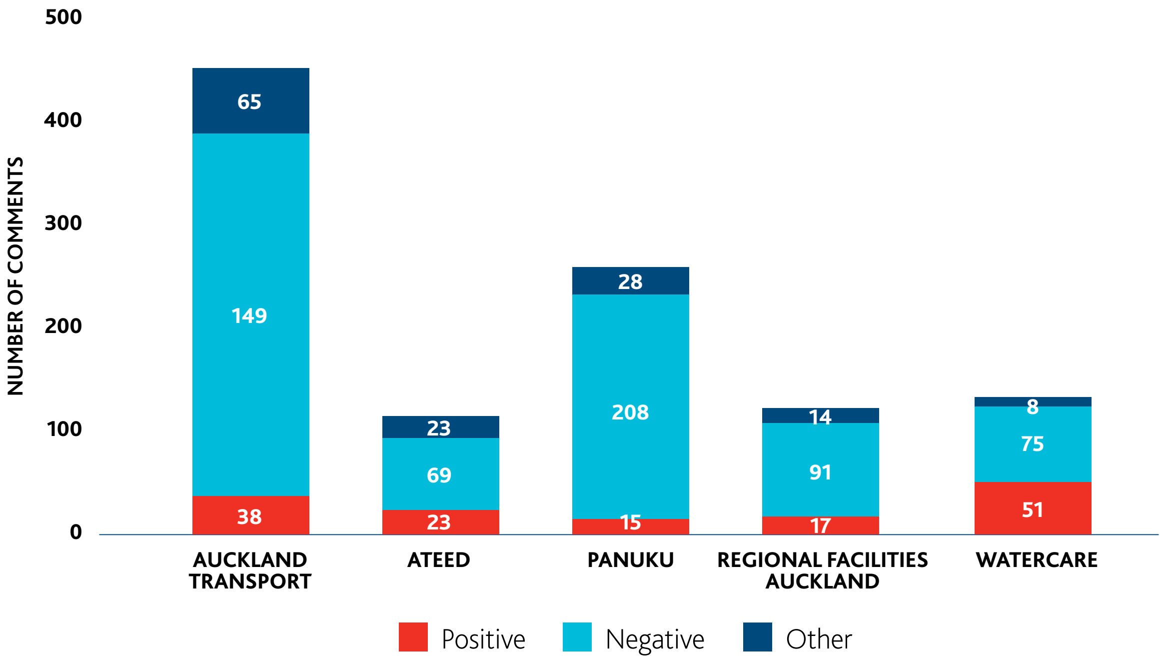
Our terms of reference required us to examine whether CCOs understand the need to act in a way that reflects their accountability to the community, as well as the council's accountability to the community for their performance.

All CCOs told us they considered they understood they were accountable to their customers and ratepayers – and therefore to the public. They also told us they considered they were accountable to the governing body as ratepayers' elected representatives. As one CCO board member said, his organisation had "put a lot of time and energy into accountability". In their joint submission, CCOs said they were committed to implementing the Auckland Plan in their respective areas and meeting their obligations to the council's various priorities, including the Māori outcomes portfolio and climate action framework. They also said they "deeply understand our role in working for current and future generations, our diverse community and creating a positive legacy".

We don't doubt they understand it is the nature of CCOs to be accountable to their shareholder, the council. Nor do we doubt their sincerity in trying to provide the best service possible to customers and ratepayers. However, their performance or otherwise is not the yardstick against which to measure whether they understand the need to act in an accountable way towards the public. Rather, the correct yardstick is their responsiveness to the public, and in particular the concerns of the public. After all, the catalyst for our review was the repeated claims that CCOs were not listening to, and responding to, community concerns.

The feedback we received from the public suggested the community took a different view to that expressed by CCOs. A quarter of the 5,498 comments made in public submissions mentioned CCOs' accountability, and as the graph below shows, comments were overwhelmingly negative (72 per cent). Positive comments were mostly about the reliability and quality of CCO services, but they were overshadowed by comments about such things as the failure to involve local boards early on in important decisions affecting their ward, token consultation and engagement, a lack of responsiveness to complaints or criticisms, an overemphasis on commercial considerations at the expense of the public good (particularly in relation to Panuku) and a lack of transparency.

Figure 3: Public feedback on CCO accountability



We also received 50 submissions from community organisations and business improvement districts (of which 52 per cent were negative). Their main concerns were about the need for a better balance between commercial and public objectives, the need for better council direction to CCOs, in particular the need for the council to do most of the planning of objectives for statements of intent, a lack of CCO accountability to elected members and the public, and opaque decision-making.

In summary, CCOs undoubtedly understand the need to be accountable to the public and are generally responsive when acting in their role as supplier to the customer, but they are not responsive enough to wider community concerns. (See also part four.)

Improvements

Accountability improvements mentioned above, such as instituting a strategic planning process and lifting the quality of statements of intent and performance reporting, should help address the public's calls for more open decision-making and greater direction from the council.

Amending CCOs' constitutions to make explicit that they must balance commercial and public interests should help deal with criticism about a lack of responsiveness to public concerns (see further on).

More coherent and effective communication would also go a long way towards improving the public's perception of CCO accountability (see part four).

We recommend two specific improvements. The council and CCOs should review the quality of the service their call centres provide. This should include ensuring an up-to-date, group-wide phone directory is on hand containing high-level job descriptions and contact details of all staff. A frequent complaint from the public was the difficulty in getting through to the right person for information or a response to some matter or problem.

Public and commercial interests

We were asked to consider whether CCOs have adequate guidance about when to act in their best commercial interests (such as to maximise profits) and when to act in the public interest (such as to achieve outcomes that are fair and equitable to the community). We examined the CCOs' constitutions and found none made any mention of public interest versus commercial interests or offered any guidance about how to balance these often competing interests.

The Auckland Transport constitution makes reference only to the public interest, the Panuku constitution talks about balancing commercial and strategic outcomes (whatever the latter might mean here) and the Regional Facilities Auckland constitution talks only about operating on a commercial basis.[102] The Watercare and ATEED constitutions make no references, however fragmentary, to public interests and commercial interests.[103] And yet all five CCOs by their very nature must take account of both commercial and public interest considerations.

Improvement

The council should give CCOs direction about what it considers commercial interest and public interest to mean and how to balance these objectives. It could do this in the proposed expectations manual, which would prompt CCOs to amend their constitutions to explicitly state that CCOs must balance these objectives.

Board appointments

A question we have been asked to consider is whether the process for appointing CCO board members is appropriate, and this includes the skills criteria used in the selection process. The council's appointments and performance review committee is responsible for appointing CCO

---

102 The respective references are: Auckland Transport: to contribute to an effective, efficient, and safe land transport system in the public interest; Panuku: [to] recycle or redevelop sub-optimal or underutilised council assets and aim to achieve an overall balance of commercial and strategic outcomes; Regional Facilities Auckland: [to operate, administer and develop] various regional facilities on a prudent, commercial basis.

103 Section 57 of the Local Government (Auckland Council) Act 2009 does, however, require Watercare to manage its operations efficiently with a view to keeping the overall cost of water and wastewater services to a minimum, which is in the public interest.

board members (as well as one member of the Independent Māori Statutory Board). The council has the power to remove as well as appoint CCO board members. It can do this by council resolution, although to our knowledge, it has never removed a board member.[104]

The appointment process is a standard one: an external recruitment agency prepares a list of suitable candidates either through advertisements and/or by drawing on its network of contacts, a standard selection criteria is applied (relevant skills and experience) and the most suitable applicants chosen.[105]

Most stakeholders said the council generally attracted good appointments. Several boards had highly qualified and experienced members, they said. Some stakeholders approved of the selection process, but others saw room for improvement. One suggestion was to use internal recruitment resources rather than use an external recruitment agency. Another suggestion was to take on more candidates with an understanding of public sector processes. At present, the emphasis, they said, was too much on private sector expertise.

Others mentioned too few mana whenua, Pacific and other ethnic voices around board tables – as well as training and support for such individuals. As one submitter put it: “We have Māori outside Auckland on CCO boards influencing Māori outcomes in Tāmaki Makaurau.”

And still others mentioned that boards did not have enough members with expertise in CCOs’ area of operations. One example cited to us was Regional Facilities Auckland, a quarter of whose functions are culture-related (the arts, events, galleries and so on), and yet not one board member has a culture background.

Improvements

CCO boards should include more individuals with relevant subject matter expertise and should give more weight to public sector experience in their selection process.

CCO board membership should be more ethnically diverse, and include more mana whenua appointments.

The council, the Independent Māori Statutory Board and the Mana Whenua Kaitiaki Forum should work together to provide training and support for potential mana whenua candidates to CCO boards.

[104] The CCO governance manual sets out the reasons for removing a board member.
[105] The council’s board appointment and remuneration policy is found in the CCO governance manual, along with guidance on directors’ interests and the process for board performance reviews (appendix A4 and A4.1).

Part four: **Culture**

The culture of CCOs, like any organisation, is influenced by tangible elements – policies, procedures, formal reporting mechanisms and so on – as well as intangible ones – values, expectations of staff and the quality of its leadership. Collectively, these factors can have great influence on how effectively CCOs function – and this extends to their relationships with the council and the community. In this section, we examine (as our terms of reference require) whether some elements of CCOs' culture need to change to improve how they consult, engage with and respond to the council and the community. But first we briefly discuss some general points about CCO culture that, although not strictly within our terms of reference, nonetheless warrant mention. Note that many of the improvements that follow are necessarily general because organisational culture is itself inexact. More importantly, our suggestions are more in the nature of approaches to follow, and until they are followed, prescriptive solutions would be premature.

Wider issues

Here we examine four topics: shared values, the distinguishing features of individual CCOs' culture, collaboration and communication.

Shared values

We were surprised to find the council and CCOs lack any common values, such as collaboration, clear communication and serving the community. Managers and staff alike confirmed this fact. We think it hinders the development of any sense of shared purpose, of operating in a collaborative and open manner, and of being able to solve problems together effectively.

There is some overlap in values. The council expects managers and staff to collaborate, develop, serve and achieve. Auckland Transport, ATEED and Panuku mention collaboration and connection. ATEED, Panuku and Regional Facilities Auckland mention acting in a visionary or strategic way. Auckland Transport and Watercare mention being one team, which we were told includes staff, contractors and council staff. A lack of shared organisational values and behaviour is perhaps best exemplified by the absence of any group staff directory. (And at a practical level, it can make it difficult and time-consuming, as some staff pointed out, to contact people, or even to know who to contact.)

We do not suggest one CCO should become indistinguishable from another. Each has a different job to do and service to provide, and this will inevitably mean differences in workplace culture. But a set of agreed common values would be in the full spirit of Auckland's local government reforms and would help produce better results all round. These values could also embrace Tikanga Māori.

Culture of individual CCOs

There is considerable variation in the culture of each CCO, as we learned during the course of this review. We summarise here the chief criticisms expressed to us about individual CCOs, along with their response to those criticisms. Some of these criticisms may be more perceived rather than real, but they are real enough to those voicing them and deserve to be recorded.

Auckland Transport: Submitters expressed frustration at Auckland Transport's slowness in carrying out small local projects and the difficulty in contacting and making complaints to the CCO. The view of many was that the CCO came across as arrogant and unresponsive to the needs and wishes of local communities, and that its general attitude was one of telling, not asking and listening. A council-commissioned survey in 2020 found only 22 per cent of respondents trusted Auckland Transport to make the right decision.[106]

Auckland Transport briefed us on its work to change its culture and become more collaborative and customer-focused. Its determination to make this change happen impressed us, as did the information it shared with us about its cultural transformation programme. Cultural change does not happen overnight but there are early signs of improvement. Change has been measured, and peer-reviewed, and there has been a notable shift, we were told, towards a "more constructive culture" (see link below).[107] It said it was also strengthening its communications and engagement practices. But as one business association manager observed: "As much as I, as a business improvement district manager, have seen a difference, my business members have not. Auckland Transport still has a big job to sell its story and vision – and do it early so that we can be part of it."

Auckland Transport made it clear it had been responsive – albeit not sufficiently so – even before the changes just described were set in train. It said it had amended more than a third of small safety or parking-related projects in response to public, stakeholder and local board feedback. It also pointed out that it met its statement of intent targets for response times to customer services requests regarding roads and footpaths. Budget limits constrained any significant increase in response times.

ATEED: Submitters told us ATEED didn't understand the needs of individual small and medium-sized businesses, didn't promote local business precincts and was too focused on the city centre. Some local business associations said ATEED had not formed a close working relationship with them. ATEED disagreed that its activity was overly concentrated in the city centre and gave examples of tourism work on Great Barrier Island and Waiheke Island and in Matakana and south Auckland, film studio investment work in west Auckland, and grants facilitation work to small and medium-sized businesses throughout the region. It also said it had close working relationships with the Southern Initiative and Tāmaki Regeneration Company (a Crown and council-owned company responsible for regenerating Tāmaki).[108] ATEED told us it accepted it could improve co-ordination with the 50 business associations, but the fact remained that local business improvement districts and regional economic development were often different activities in both nature and scope.

Panuku: The chief complaint we heard about Panuku was its closed-door decision-making. We also heard it had overly bureaucratic processes, was "too slow" in delivering results, was reluctant to consider alternative views or opportunities, lacked understanding of local interests, and drew up plans before ever discussing them with stakeholders or considering what might be the best solution for their needs. Panuku told us it had become more open by publishing more board reports and official information-requested material on its website. It said it was in the business of change, and the outcomes of that change were sometimes hard for some people to accept. It cited changes to

---

[106] Citizen Insights Monitor. Conducted by Colmar Brunton (3,000 interviews with Aucklanders a year). In the same survey, the council scored virtually the same (23 per cent). Watercare was higher on 33 per cent.
[107] https://at.govt.nz/
[108] The Southern Initiative is a programme that supports social and community initiatives (such as those related to employment, health and education) in the local board areas of Papakura, Manurewa, Ōtara-Papatoetoe and Māngere-Ōtāhuhu.

car parking as an example of an issue that provoked a lot of adverse public attention. It said lead times in its line of work were long because of lengthy planning, budgeting and approval processes, whether the council had other projects on its plate at the time, and market conditions. However, it had begun using “new tools” for earlier engagement with more people. Panuku disagreed that it lacked any understanding of local issues in areas where it was working, saying the people, character and needs of a neighbourhood dictated the shape of an urban regeneration project, not the other way round.

Regional Facilities Auckland: Community groups said they struggled to make their voice heard in the running of community places such as Aotea Square. Submitters told us the CCO’s decision-making was too hidden from view and too many board papers recording its decisions were not made public. Regional Facilities Auckland replied that it had to juggle its obligation to protect commercially sensitive information with the need to keep the public informed about its activities. “In earlier days, all board meetings had an open public session,” it said. “However, rarely, if at all, would any members of the public attend. The number of these public sessions was reduced through lack of public interest, not lack of transparency.” We consider attendance or otherwise at meetings in no way alters the need to hold meetings or to make information public. It also made the point that it had to balance commercial and community interests, especially when the council required it to make a commercial return to reduce reliance on council funding.

Watercare: Some submitters and stakeholders considered that Watercare, like Auckland Transport, could come across at times as arrogant, a view that seemed to be strengthened by the way the CCO has handled itself over the drought. Many stakeholders considered Watercare acted too independently. Several cited the example of Watercare’s provision of advice to the Government about national reform of water services without first consulting the council. They said it made submissions independently of submissions the council was itself making. Watercare told us it always complied with the approval requirements in the accountability policy and also kept the council informed of any sensitive matters. It said it was appropriate to make separate submissions occasionally because it was a resource consent applicant, whereas the council was a regulator.

Collaboration

A lack of collaboration is an unmissable aspect of CCO culture. One local board summarised the situation: “The CCO culture exposes a disconnect with the rest of the council, entities and the community. There is little evidence of collaboration on projects, little alignment on strategies and policies and very little internal communication.” The public and business associations commented frequently about CCOs’ disjointed efforts, particularly when carrying out infrastructure work. CCO staff commented on the “silo” approach within and between CCOs and also towards the council. Without a common purpose or unifying team spirit, CCOs and the council operated in isolation and their activities sometimes overlapped, they said. A solution was “more emphasis on working together and fostering collaboration”.

There have been some improvements in recent years – and we were given examples of CCOs working together – but we found no evidence of any concerted effort to embed collaboration into the way CCOs and the council function. We consider some sort of formal collaborative structure is needed to force a shift in the status quo.

Communication

CCOs and the council do not communicate in a coherent way to the public. To take transport as an example, Auckland is “awash with red cones”, as so many interviewees and members of the public noted with frustration. Such a situation cries out for negative publicity and creates public confusion about what is going on and why. Auckland Transport said the council was the “rightful owner and lead communicator for Auckland’s transport story”. Yet the CCO has the task of turning plans into reality and, understandably, is best placed to tell that broader story. CCOs acknowledged they often missed opportunities to “tell a coherent, compelling and joined-up story”.

Improvements

The council and CCOs should have common values and expectations of staff and management behaviour that collectively set the tone for the broader culture applicable to all council organisations. Effective collaboration, communication and public service should be among the core values, supplemented, where necessary, by individual CCO values.

CCOs should, when involved in joint projects, appoint one CCO to act as the lead agency with co-ordination responsibilities.

The council, Auckland Transport and Panuku should jointly communicate to the public so they can tell a shared, more consistent and broader story about urban development and transport infrastructure.

Working relationships

Mutual trust, respect and confidence are indispensable to good working relationships and effective public administration. For this reason, we have been asked to look at whether the relationships between the council and CCOs – and between CCOs themselves – are based on mutual trust, respect and confidence.

Our observation is that relationships between the governing body and CCO boards and chief executives are generally based on mutual trust, respect and confidence. Undoubtedly, tensions arise from time to time, but there is clear goodwill to make the current model work and to respect one another’s roles in that model, whether it be to govern or manage. The grumbles we did hear from some councillors about a CCO board or chief executive’s handling of a particular matter invariably arose from the lack of strategic direction from the governing body to the CCO concerned. Without such direction, relationships will inevitably become strained at times. That said, several councillors were quite open about the fact they did not trust CCOs, adding that the communities they represented held similar views about CCOs’ lack of transparency and poor performance. “I have tried dialogue and not got anywhere,” said one councillor. “It doesn’t work when you have a CCO that is resistant.” However, we were confident this was far from the majority view among councillors.

Another point of tension for councillors (and indeed local board members) was a lack of involvement in, or influence over, important decisions affecting the communities they represented.

For their part, CCO board members said they would feel aggrieved if the council sought to get involved in operational matters after having set a general course for them to follow.

As noted earlier in this report, communication between the governing body and CCO boards is limited (as it is between the Independent Māori Statutory Board or Mana Whenua Kaitiaki Forum and CCO boards). Where it does occur, it is mainly between CCO board chairs and the mayor. Many councillors said they found this situation frustrating. “We need more engagement – rangatira to rangatira – and more time spent together and debating,” said one. “Then if we are aligned on what we think should happen, implementation should [follow].”

CCOs also said they would appreciate more support from elected members as “advocates and champions” for the work they did. One CCO board member said CCOs had the necessary technical competency to do the job, but needed councillors to help sell the results, or, as he put it, “take on the conversation with the community”. Part of the role of liaison councillors, as noted earlier, is to strengthen council-CCO relationships. Our recommended review of the role will establish whether this is happening.

Relationships between the top management of the various CCOs are more developed. Chief executives and senior managers met regularly, we were told. Executive leadership teams gathered every quarter, and these meetings, noted CCOs’ joint submission, could do with a formal agenda.

We found relationships between senior staff at the council and CCOs to be based on respect and confidence, although we did not detect any sense that everyone felt part of a bigger team effort. CCO staff said council staff, and indeed staff at other CCOs, lacked sufficient understanding of what they did. CCOs themselves said their interactions with council staff sometimes revealed a confusion about which hat individual council staff were wearing – that of the “shareholder, the regulator or the collaborative partner”. This confusion, they said, could test relationships.

Improvements

Improvements outlined elsewhere in this report will indirectly strengthen relationships across the council group, obvious examples being those relating to collaboration and engagement between CCO boards and others such as local boards, the Independent Māori Statutory Board and Mana Whenua Kaitiaki Forum. A shared policy on developing leadership talent, discussed below, is another example.

We suggest four specific improvements. First, chief executives should establish a chief executives group, chaired by the council’s chief executive, which would meet monthly to deal with any common or significant problems, risks or developments. This would help boost wider collaboration.

Second, CCO chairs should meet four times a year. This would strengthen relationships, build trust and generally provide a forum to share information and views.

Third, the quarterly meetings of council and CCO executive leadership teams should have a formal agenda.

Fourth, newly recruited council and CCO staff should receive, as part of their induction, some instruction in the need for CCOs to operate at arm’s-length but also be accountable to the council.

Job descriptions and recruitment processes

The question we have been asked to answer here is whether job descriptions and recruitment processes sufficiently address the need for CCO chief executives and senior managers to respond to council directions and work effectively with senior council managers. To that end, we obtained the job descriptions of all CCO chief executives and members of their executive team – 45 in total – and examined them for evidence of these requirements.

Taking chief executives first, none of their job descriptions require them to respond to council directions in any general sense. (As arms-length companies, CCOs cannot, of course, be legally directed by the council, except using its section 92 power in relation to compliance with plans and strategies.) Chief executives at ATEED, Auckland Transport and Regional Facilities Auckland are required to be responsive to the council's strategic directions, and these are stated in very broad terms. The job descriptions of chief executives at Panuku and Watercare contain nothing similar.

As for working effectively with senior council managers, which we took to mean working collaboratively or co-operatively with these managers, the chief executives of ATEED, Panuku and Regional Facilities Auckland must collaborate with, and develop successful working relationships with, the council and other CCOs – but not specifically senior council managers. At Auckland Transport and Watercare, there is no mention of any such requirement.

We also reviewed chief executives' key performance indicators for 2019-20. They all contained some references to collaboration, either to contribute to certain big projects (such as America's Cup infrastructure) or to improve engagement and decision-making with local board members. But again, none referred to responding to council directions in any general sense or collaborating with the council.

As for the job descriptions of executive team members, those at ATEED, Auckland Transport, Panuku and Regional Facilities Auckland contained general references in their responsibilities to collaborating with the council and other CCOs. At Watercare, there was no such references in executive team members' job descriptions.

There is also an absence of any reference in senior CCO managers job descriptions to contributing to Māori outcomes. The council introduced this requirement into their job description template in 2019. CCOs, however, have not done likewise.

In summary, we consider there are shortcomings in some senior CCO job descriptions regarding council directions and working relationships with senior council managers. A lack of time and resources prevented us from examining this question in relation to recruitment processes.

Improvements

CCO chief and senior executives' job descriptions should include requirements about collaborating with the council, following council directions and meeting council expectations.

Job descriptions should refer to the need to contribute to Māori outcomes.

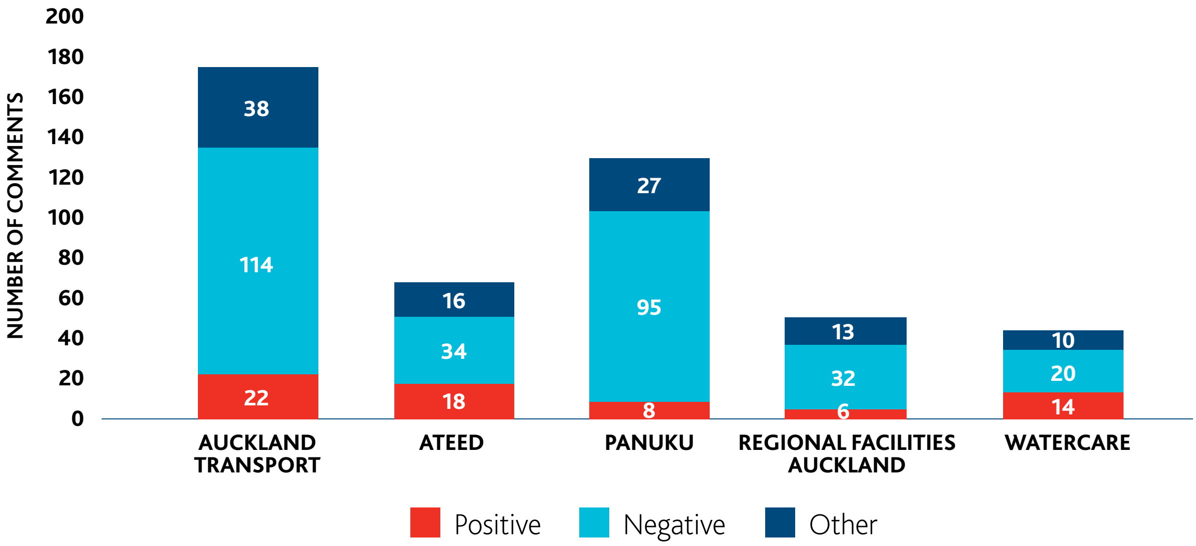
Consultation

The question of whether CCOs sufficiently consult Aucklanders and sufficiently respond to their concerns was another aspect of our terms of reference. (There is some overlap here with accountability to the public.) The feedback we received was overwhelmingly negative, with most considering CCOs didn't sufficiently seek out their views and were also deaf to what they heard. Of the 10 per cent of comments from the public mentioning matters relating to CCO culture, 60 per cent were negative. Most was about how CCOs interacted with the community.

There were positive comments about information CCOs distributed during street upgrades, but the majority of comments were about a lack of responsiveness, a lack of community input into projects, a use of "ready-made" plans that disregarded the declared preferences of people, and a general failure to listen to the community – particularly by Auckland Transport and Panuku.

The CCOs pointed out that they received much of the negative feedback while implementing council plans and decisions (such as changing road layouts to improve cycling safety or disposing of surplus council property), which might not be popular with some ratepayers.

Figure 4: Public feedback on CCO culture-related issues



Of the 50 submissions from community organisations and business improvement districts, 60 per cent contained criticisms of culture-related matters. The biggest complaints were a lack of co-ordination between CCOs (typically Panuku and Auckland Transport) while undertaking redevelopment projects, a lack of early and consistent consultation with the community, and insufficient acknowledgement of businesses' views or wishes in the design and development of projects.

Specifically, CCOs did not ask for public input and feedback enough and when they did, they failed to give adequate weight to those views. Said one resident association: "We have experienced a consistent lack of community consultation on decisions. Where this has occurred, it has seemed ad hoc or reactive."

One community group expressed dissatisfaction with how Auckland Transport responded to issues it raised, saying the CCO was "very much focused on getting work items closed down as quickly as possible rather than resolved satisfactory". However, several business improvement districts said Auckland Transport had worked actively with them to minimise disruption during maintenance and construction activity, and they cited as examples capital works along Karangahape Road and more recently near the Westfield mall in Newmarket. In both instances, they said, Auckland Transport did an excellent job managing traffic, altering public transport, redirecting pedestrian traffic, installing temporary lighting and shelters and communicating the measures to the public.

Some submitters said it was difficult to get a response to a complaint, or what CCOs refer to as a service request (such as to fix a broken water pipe or pothole). Said one resident association: "CCOs perform very poorly in responding to requests for action from the community, or even from the local boards as our representatives. People attempting to get action, or even have a conversation with an informed staff member, invariably face a brick wall." CCOs acknowledged the problem in their joint submission: "The public can find it difficult to make contact with the right people in the council group, to seek information and discuss issues."

We looked at CCOs' websites and found Watercare's and Auckland Transport's had a clear complaints process. The other three CCOs' websites did not. (The council's complaints team sometimes resolves complaints to those CCOs on their behalf.) Notably, the CCOs do not record how many complaints they received, how long it took to resolve them or what the outcomes were. It is generally accepted wisdom that complaints offer organisations a goldmine of insights into how to improve customer satisfaction.

Two parting thoughts: First, the public unquestionably regards CCOs and the council as not taking sufficient account of their views – one reason, no doubt, why their trust and confidence scores are so low. In our view, they need to consider more innovative ways to connect with Aucklanders. As one CCO chief executive said: "We need to explore using technology and social media to engage with Aucklanders, particularly our youth, and elicit their views outside formal consultation processes." Other sectors – energy and banking being but two examples – are increasingly recognising the need to give the consumer a more effective voice. The time is right to look at ways CCOs and the council could engage early on, and outside formal consultation processes, with the community to get a feel for the likely public response to a proposed project.

Second, several submitters expressed concern about the lack of any remedy – short of court proceedings or a complaint to the Parliamentary Ombudsman – to challenge CCO or council decisions. One councillor suggested a “people’s panel” – a panel of experienced mediators as a possible way to resolve complaints and disputes. The concept of a complaint resolution body is a good one – and again, other sectors have such mechanisms – but plainly the idea would need careful thinking through, although this does not mean it is not worthy of consideration.

Improvements

CCOs should make greater effort to co-ordinate how they consult on and implement local projects.

CCOs should report regularly on the nature of the complaints they receive and how long they take to resolve them. Their statements of intent could contain a key performance indicator dealing with these points.

The council and CCOs should explore options to give ratepayers a more effective voice in what happens in Auckland and also how, short of court proceedings, to challenge CCO or council decisions.

Branding

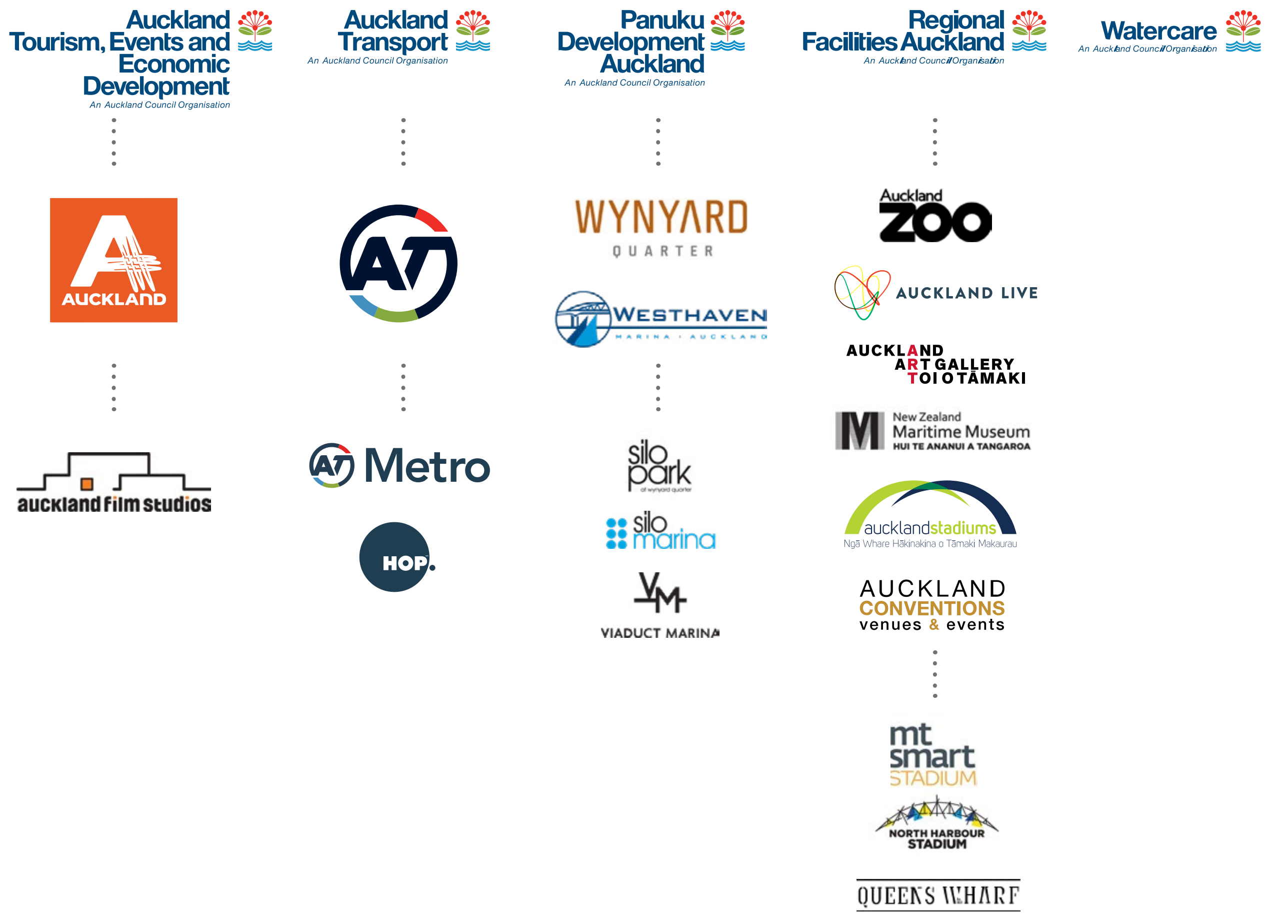
We have been asked to consider whether CCOs adequately acknowledge to the public that the council funds or helps fund their activities, particularly through such means as branding. The council adopted the pōhutukawa as its corporate logo in 2011 and required all council communications, marketing and advertising to feature the logo.[109] The council also required CCOs to use the logo when promoting any activity, service or facility receiving council funding.[110] Figure 5 shows how CCOs have incorporated the pōhutukawa into their main brand. The council requirement extended to placing the pōhutukawa alongside individual CCO brands, called operational brands or sub-brands.[111] Only Watercare, however, complies fully with this requirement because it has no operational brands. It uses the pōhutukawa logo – and no other – at all its sites, on all its vehicles and in all its marketing and communications material.

The other CCOs do not on the whole comply, and so the pōhutukawa logo is either absent from, or incorrectly displayed on, the majority of council-funded CCO services and facilities – with the obvious exception of Watercare. The pōhutukawa, for example, is not on the AT Hop card or used with the AT metro brand on buses or at Auckland Transport’s head office or on the front cover of its 2019 annual report. Panuku does not use it on its Westhaven marina signage and does not display it correctly on the marina website. Regional Facilities Auckland does not always display it alongside the Auckland Zoo brand and does not use it on Auckland Art Galley Toi o Tāmaki advertising material. We were told the council has not monitored CCO compliance with its corporate logo requirement.

---

[109] Memorandum from Chief Executive of Auckland Council to CCOs 28 February, 2012.
[110] This includes events, collections, facilities, venues, cultural institutions, stadiums and public transport.
[111] CCOs currently have 18 operational brands, linked to a variety of services and facilities (see figure 5).

Figure 5: CCO operational brands



A survey conducted for the council in 2020 found many Aucklanders recognised the pōhutukawa brand, identified it with the council and wanted to see it used more widely to make it clear what services the council provided.[112] It was far from clear to us why CCOs are not using the corporate logo as they should. Some said they were, in fact, following brand guidelines the council sent to CCOs in 2017. Others said they were unaware of any directive or the need to follow it and we could find no evidence of the council ever formally requiring compliance with the 2012 request from the council's chief executive to use the corporate logo. Some senior council staff considered the failure to acknowledge council funding by using the corporate logo was one reason why public trust in the council and satisfaction with its work was low. They described council branding as essential, adding "we ask citizens to fund CCOs, but CCOs brand these services [as] their own". Another councillor said: "I thought it was odd that we broke the branding up – I thought we were one family." Other councillors considered branding irrelevant. "It should be all about delivery, so who cares about brand attribution," said one. "What needs to happen more is ratepayer understanding of CCOs."

[112] Trust and Confidence Attribution study, March 2020. Conducted by Colmar Brunton (1,500 Aucklanders).

Whatever the position in the past, we were pleased to read in CCOs' joint submission that they acknowledged corporate branding should reinforce Aucklanders' understanding of the full range of council-funded services. The council's communications team is reviewing the brand guidelines, which it said were outdated and one reason, in its view, why CCOs were not adhering to them. The team is exploring the use of the pōhutukawa image alongside CCOs' operational brands. We support this work.

Improvements

The council should update its brand guidelines to ensure the pōhutukawa logo is used in a clear, consistent and flexible way on all council-funded services, activities and facilities, including when used alongside CCO operational brands. The council should also monitor CCOs' compliance with the guidelines.

Quality of CCO advice

Whether CCOs give the council quality advice is another aspect of CCO culture we have been asked to examine. The amount of formal written advice CCOs provide to the council to help it make decisions – as opposed to progress and performance reporting – is limited.

The council conducts a survey every 18 months to track the quality of advice and support the governing body and local boards receive from council staff and CCOs.[113] The last survey in early 2019 found 60 per cent of elected members were satisfied with the overall quality of written and verbal advice they received. However, we could not get a clear idea about the specific question of CCO advice (whether written or verbal) because the survey combined CCO advice with CCO engagement, which could include a considerable variety of relationship-related matters. In addition, Panuku and Regional Facilities Auckland were not rated for engagement with the governing body, and Watercare was not rated for engagement with local board members.[114] We were not, therefore, able to place much weight on the survey.

We note the council engages the New Zealand Institute of Economic Research to review a selection of governing body and local board reports each year and benchmark the results against those from other councils and government departments. The results show performance has lifted steadily since 2012, and that in 2019 the council was rated, for the second year in a row, the top-performing local government authority among those assessed.

The council has standards about the quality of the written advice it expects staff to meet, and the council's governance unit also runs a programme to lift the quality of advice prepared by staff.[115] CCOs are not required to meet the council's quality advice standards, although Auckland Transport and Panuku have taken part in the quality-improvement programme. Watercare said it did not

[113] https://www.aucklandcouncil.govt.nz/about-auckland-council/how-auckland-council-works/elected-members-remuneration-declarations-interest/Pages/elected-member-surveys.aspx.
[114] Watercare scored highest for engagement with the governing body (81 per cent), followed by ATEED (63 per cent) and Auckland Transport (44 per cent). Panuku scored highest for engagement with local board members (51 per cent), followed by Regional Facilities Auckland (46 per cent), Auckland Transport (35 per cent) and ATEED (25 per cent).
[115] The standards say advice should focus on the decision-makers, contain credible analysis and be written clearly and concisely: https://governance.aucklandcouncil.govt.nz/media/1095/quality-advice-standards.pdf.

participate in the programme, but its senior staff received the same report writing training as that available to council staff.

Some councillors said the quality of what advice the council did receive from CCOs was variable. They said they wanted more rigorous advice from both CCOs and council staff. “Reports have no proper financial implications or risk,” said one. Some local board members also said they were not particularly satisfied with the quality of CCO advice, which typically was included in funding proposals submitted to local boards about how they proposed spending capital funds in their area. One local board said advice from one or two CCOs in particular was “often poor and responses to questions raised by the board are incomplete or inadequate”.

CCOs defended the quality of the reports they submitted to the council. Auckland Transport and Panuku said the New Zealand Institute of Economic Research had reviewed the quality of a selection of their reports, and it had given Auckland Transport’s an average of 6.5 out of 10, while those from Panuku had scored an average of 7 out of 10. Auckland Transport also said it had established a position to lift the quality of reporting and had worked with local boards to improve reporting templates. ATEED, Watercare and Regional Facilities Auckland said they prepared few reports for the council. When they did, they typically advised or gave technical information to council officers, who would draft the reports.

A final point. In the course of our review, we examined many CCO and council documents. Despite the reportedly significant improvement in standards brought about by the quality advice programme, we found many CCO and council documents were still lengthy and impenetrable. We also have considerable sympathy for councillors and local board members who receive monthly agenda and papers running to many hundreds of pages. We sighted agendas and accompanying papers that were variously 316 pages (finance and performance committee), 415 pages (Ōrākei Local Board) and 608 pages (environment and community committee). There is, in our view, a pressing need for council and CCO staff to write clearly and concisely.

Improvements

CCOs should follow the council’s quality advice standards. CCOs should encourage staff to participate in the council’s quality advice training and, where access is possible, use the council’s online tools and guidance.

The council should include a selection of CCOs reports among its own selection sent to the New Zealand Institute of Economic Research for review each year. The council should consider reviewing the questions in the elected members survey to get a clear and accurate picture of elected members’ satisfaction with the separate matters of CCO engagement and CCO advice.

Group policies

The council has asked us to look at whether council policies applicable to all CCOs (group policies) are adequate or should be extended to other areas, such as remuneration. There are currently five such policies, all adopted between 2017 and 2019 to replace individual – and slightly different – CCO policies. The five, all finance-related, are: insurance; business case standards, sensitive spending (staff travel, hospitality, gifts and conflict of interest), treasury management[116] and procurement.[117]

Under the treasury policy, the council runs borrowing and investment activities on behalf of CCOs. (A similar approach applies to the insurance policy, providing for consistent policies, coverage, claims management and insurers.) Both CCOs and the council said the treasury policy worked well – as, indeed, did the insurance policy. The procurement policy – like the business case and sensitive spending policies – is more a set of principles, and implementation is up to each CCO to implement individually. A business owner said: “CCOs should be giving more contracts to Māori and Pacific-owned businesses and should have targets that were set in their statements of intent.” The business case policy says CCO boards must ensure capital and operating investments have an approved business case that justifies expenditure on the initiative. The policy also says the council and CCOs should work together when buying goods and services – but this is not mandatory. One interviewee said the “policy lacked teeth”. The procurement policy is not, in our view, working adequately. The others largely are.

The council’s recently adopted charter on behaviour expected of staff could almost be a group policy, having been adopted by all CCOs bar Watercare. Asked why it had not done so, Watercare said its policies were by and large aligned with the charter’s principles.[118] We fail to understand why Watercare did not simply adopt the charter.

We examined two areas where all CCOs might adopt council policies. One was remuneration and the other was shared services. CCOs said they “[tried] to align their remuneration policies with the council’s policy, including having similar job salary banding and grades”, although this alignment applied only to non-executive staff. (They all said they used consultants to help set salaries for senior managers in order to be competitive with the market and attract individuals with the necessary level of skills, although Panuku said its consultants used council policy as a benchmark.) A senior council manager said that on the whole CCOs paid more for similar roles. “Some of them may use the same structure,” he said, “but they do not make the same decisions we make.” We know ATEED, Panuku and Regional Facilities Auckland have the same salary bands as the council for non-executive staff, although we know that in practice Panuku pays higher average salaries than the council due to a different workforce composition. We also know Watercare and Auckland Transport have their own separate bands, which they said was necessary to attract and retain staff.

Annual reports tell us CCOs’ top-paid individuals – presumably their chief executives – receive salaries ranging from, at the bottom, ATEED (on a possible maximum of $429,999), up to Watercare on a possible maximum of $780,000. The top salary at the council, that of its recently departed chief executive, was by comparison $698,000. This range is understandable, given the corresponding differences in the size and responsibilities of individual chief executive roles, although many expressed surprise that the salary of Watercare’s chief executive was higher than

---

[116] https://www.aucklandcouncil.govt.nz/plans-projects-policies-reports-bylaws/our-policies/Pages/treasury-management-policy-.aspx.
[117] https://www.aucklandcouncil.govt.nz/plans-projects-policies-reports-bylaws/our-policies/docsprocurement/procurement-policy.pdf.
[118] Our Charter, updated in 2020, deals with six broad areas of staff behaviour: te Tiriti O Waitangi – the Treaty of Waitangi, value for ratepayer and residents, workplace culture and practices, customer interaction, information management and health and safety.

that of the council's chief executive. Those salaries are set by each CCO board (after taking external advice on market remuneration).

However, in our view, the council needs to have some say about chief executives' pay (as well as their appointment and tenure). CCOs are, after all, public sector entities, not private commercial companies, and their chief executives' remuneration must reflect this fact. We also consider CCO chief executives should be required to consult the council before undertaking collective bargaining negotiations so CCOs and the council have a consistent position during such negotiations.

The council has no policy about sharing services with CCOs to reduce duplication and costs. Currently, the council provides payroll, recruitment, information technology, financial transaction and legal services to ATEED, Panuku and Regional Facilities Auckland. (Watercare and Auckland Transport are completely self-sufficient.) All three CCOs' statements of intent say they intend, where appropriate, broadening the scope of shared services.[119] However, we could find no evidence of the council having taken action to give effect to that intention. The council's value for money programme recommended in 2019 that the council and CCOs develop a strategy for sharing all back-office functions.[120] To our knowledge, no steps have been taken to implement this resolution.

We asked CCOs about their experience of shared services. One said the council had developed some shared services solely with its own needs in mind, overlooking the specific requirements of smaller CCOs. Examples cited to us were the council's online health and safety and human resources systems, which were designed for the council's large-scale needs. CCOs had no involvement in their design and found them unsuited to their purposes.

CCOs also criticised the performance of some council services. The council's legal department provided effective service, but human resources and information technology services were, they said, frustratingly poor and slow, affecting their ability to carry out their work. One CCO talked of delays of up to a month in issuing employment agreements, which "risked losing candidates at the final stages of the recruitment process". On the other hand, one senior council manager said CCOs "expect[ed] a gold-plated service" and were increasingly "moving away to build their own capability". The council has no agreements with CCOs, as would be expected in the commercial world, setting out services to be provided and to what standard.

One service that CCOs said lent itself to sharing was leadership programmes for future managers. The council and CCOs currently run their own such programmes, and there may be merit in the council and CCOs exploring some common programmes for other skills development, which would put an end to the current arrangement, where, as one senior council manager put it, providers of these services "effectively play[ed] one off against the other".

---

[119] Auckland Transport's Statement of Intent 2019-2022: says it "will continue to seek to optimise efficiency and value for money, through removal of duplication and different approaches to core systems, and will pursue shared back-office delivery, including investment in information and communications technology, where appropriate", p 16.

[120] Auckland Council Governing Body, Value for Money Finance Review, 27 June 2019, Resolution GB/2019/60: That the Governing Body: a) request that council's chief executive collaborate with the chief executives of the council-controlled organisations to develop and implement a shared services strategy and operating model for all back-office services.

Improvements

The council and CCOs should work together to draw up group policies on:

- shared services (This would include coherent criteria about which services to share, and which not to, recognising that a one-size-fits-all approach does not work in some instances, and that council services must be of a high standard and cost-efficient.)
- the development of leadership talent
- remuneration. (This would contain common salary bands for all staff except chief executives, common rules on placing staff in, and progressing them through, bands, and a common process for dealing with exceptions to the rules. Chief executives' salaries would be dealt with in a statement of expectation.)

Shared services should have formal supplier/purchaser agreements, with agreed service levels (subject to any policy for such services).

CCOs should discuss their proposed collective bargaining strategy with the council.

The council should make compliance with the procurement policy mandatory on all CCOs to reduce costs and minimise duplication, noting that the council or a CCO should lead individual procurement processes, according to the circumstances.

Appendix A: **Independent review of council-controlled organisations: list of issues**

This list is intended as a guide to the high-level issues on which the review will focus. The issues in this list may be subject to revision during the course of this review.

Objectives

The review's overall objectives are to examine:

- whether CCOs are an effective and efficient model for delivering services to the council and Aucklanders
- whether the CCO decision-making model provides sufficient political oversight, public transparency and accountability.

The terms of reference require us to examine the following three issues:

CCO model, roles and responsibilities

The essential question here is whether the CCO model delivers council services with the maximum of operational efficiency, transparency and accountability, or whether there are better ways to deliver such services. In particular:

- Are there any problems, real or perceived, with the current model, including the risk of duplication with in-house council activities?
- Is the purpose of each CCO clear and current, and is the council giving each adequate direction?
- Are the roles and responsibilities of CCOs and the council towards one another clearly defined and well understood?
- Are there viable alternatives and what are their advantages and disadvantages?

CCO accountability

Here the key question is whether the council has adequate mechanisms to hold CCOs to account and is using them appropriately, and whether improvements, including new mechanisms (such as those provided for through the Local Government Act 2002 Amendment act 2019), are needed. In particular:

- Do current accountability mechanisms, monitor CCOs' performance effectively and ensure CCOs respond appropriately to the concerns of the council, local boards and the public?
- Do CCOs understand the need to act in a way that reflects their accountability to the community, as well as the council's accountability to the community for CCO performance?

- Are there adequate mechanisms to ensure CCO board members and senior management meet the legislative requirements towards Maori, and that CCOs have developed sufficient capability to achieve this?
- Do CCOs have adequate guidance about when to act in their best commercial interests and when to act in the best interests of the public?
- Are council policies that are applicable to all CCOs (group policies) adequate, or should they be extended to other areas, such as remuneration?
- Is the process for appointing CCO board members, including the skills criteria used in the selection process, appropriate?

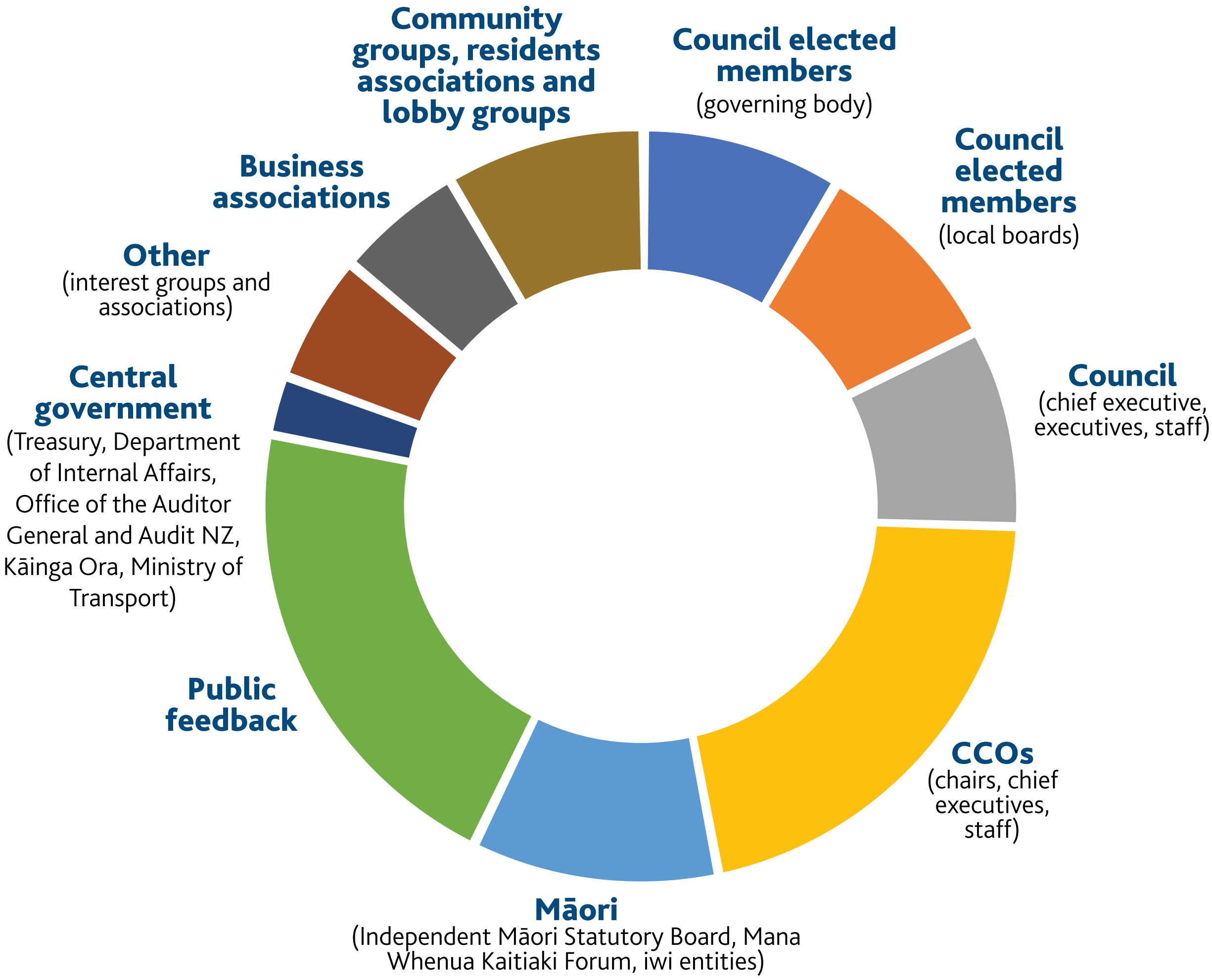
CCO culture

The central issue here is whether CCOs need to improve how they consult, engage with and respond to the community and council. In particular:

- Are the working relationships between the various levels of council (political, executive and staff) and CCOs (and between CCOs themselves) based on mutual trust, respect and confidence?
- Do recruitment processes and job descriptions sufficiently address the need for CCO chief executives and senior managers to respond to council directions and work effectively with senior council managers?
- Do CCO boards, executives and staff demonstrate accountability to Aucklanders, including by consulting sufficiently with Aucklanders and responding sufficiently to their concerns, or could their performance be improved?
- Are CCOs giving adequate public acknowledgement (such as through branding) to council-funded activities?
- Do CCOs give the council quality advice?

The full terms of reference can be found at
https://infocouncil.aucklandcouncil.govt.nz/Open/2019/11/GB_20191126_AGN_9506_AT_WEB.htm

Appendix B: **Stakeholders involved in the review**



Appendix C: **CCO accomplishments**

10 YEARS OF AUCKLAND TOURISM, EVENTS & ECONOMIC DEVELOPMENT (ATEED)

2010
- Established as part of the 'super city' in November 2010, **combining eight legacy organisations into a unified team focused on growing Auckland's economy**.

2011
- Developed the Auckland Major Event Strategy and helped deliver Auckland's hosting of **Rugby World Cup 2011 matches, welcoming 100,000 international visitors** and promoting us as a world-class major events city.
- **Set up The FoodBowl – Te Ipu Kai** – a food and beverage innovation facility in Manukau.

2012
- Launched **Auckland's first ten-year Visitor Plan**.
- Helped secure international events for Auckland including the return of **Supercars**, and the **Volvo Ocean Race Auckland Stopover**.

2013
- **Launched The Show Never Stops** marketing campaign to promote Auckland domestically.
- Announced the NRL Nines, an innovative new sporting major event developed with the NRL.

2014
- **Established the Mayor's Youth Employer Pledge,** a network of Auckland employers committed to employing young people.
- Opened **first permanent building in the GridAKL Innovation Campus** to support business - now home to three buildings with 140 companies.
- Worked with partners to **launch the Rangitoto Motutapu Haerenga – A Journey Through Sacred Islands**, a new multi-day walking experience.

2015
- Helped deliver the **ICC Cricket World Cup 2015** and **FIFA U20 World Cup**.
- **Launched the first JobFest,** connecting youth to employment opportunities.

2016
- **Delivered inaugural Techweek AKL 2016,** showcasing Auckland's world-class innovation and kicking off what is now a national event.
- **Co-founded Tāmaki Herenga Waka Festival** to celebrate Auckland's Māori heritage and culture.

2017
- **Delivered World Masters Games 2017**, declared the 'best ever' by the International Masters Games Association.
- Oversaw the **expansion of the GridAKL Innovation Campus** footprint with two new buildings.
- **Delivered the Auckland Prosperity Index** highlighting the needs of Auckland's south and west.

2018
- **Released Destination AKL 2025 strategy with industry** to guide visitor sector development.
- **Expanded the ATEED-run Kumeu Film Studios** to support Auckland's booming screen sector.

2019
- **Helped attract international screen productions** like Amazon Studios' series based on The Lord of the Rings, growing the billion dollar screen sector and supporting thousands of jobs.

2020
- **Supported more than 2,000 Auckland businesses** to gain much needed support and advice during lockdown.
- Produced Papatūānuku is breathing video, **capturing the beauty of Tāmaki Makaurau / Auckland during lockdown (viewed more than a million times)**.
- Attracted deals/productions to Auckland in the last twelve months with combined spend of **$700m-plus and supporting approximately 1440 new jobs**.

Since our inception in 2010, ATEED has made a huge difference for Auckland. We've attracted investment and built international relationships; fueled a billion-dollar screen production industry; built industry and business capability; developed an innovation precinct and ecosystem; delivered jobs, skills and talent attraction programmes; attracted and delivered world-class major events generating $450m GDP and 2.9m visitor nights; and supported the sustainable growth of Auckland's visitor economy.

Auckland Tourism, Events and Economic Development
An Auckland Council Organisation

10 YEARS of Auckland Transport

2010

- **The Super City and AT are officially established, in November 2010.** AT begins with less than 1000 staff and is based at the former Waitakere City Council offices in Henderson.

2011

- **Auckland hosts the Rugby World Cup increasing public transport for major events is identified as a legacy outcome of the tournament.** On the opening day/night of RWC 2011 more than 370,000 people used buses, trains and ferries.

2012

- **AT Hop ticketing is introduced**/rolled out on the rail network, with 83,000 cards activated. Later in the year ticketing is introduced on ferries.

2013

- **The first double decker bus is introduced** on express services from the North Shore to the city centre.

2014

- **$30m Tiverton-Wolverton road upgrade is completed, ahead of schedule**
- **Less than a year after its launch, AT HOP has 361,000 users, and 3.6m trips are made on public transport**

2015

- **Te Ara I Whiti Lightpath opens to the public**

2016

- **A completely redesigned new bus network is rolled out in south Auckland**
- **By now, 82.9m trips are being taken on public transport**

2017

- **AT Mobile app is launched**, along with AT Park
- **AT HOP card sales exceed $1m and it is now used for 91% of public transport trips**
- **AT's Call Centre manages over 650,000 phone contacts, AT's website is accessed by more than 4.3m users**

2018

- **Waterview Shared Path opens** – a $25m project
- **Regional Fuel Tax is introduced with a number of projects earmarked for delivery by AT**
- **New figures show that 38% of Aucklanders now ride bikes**

2019

- **AT and other partner agencies adopt the Vision Zero strategy;** one of the first key initiatives was the adoption of a Safer Speeds Bylaw which came after significant public consultation.
- **3.77m cycle movements recorded (up 8.9% on the previous year)**
- **AT Park moves past 100,000 registered users**

2020

- **In Alert Level 4, AT provided over 3,000 free AT Hop cards and quickly updated the AT Mobile app to include real-time patronage.** This enabled customers to plan a public transport journey while meeting their physical distancing requirements.

Auckland Transport
An Auckland Council Organisation

Panuku Development Auckland

Shaping spaces for Aucklanders to love since 2015

Panuku is delivering place-led urban regeneration in 12 town centres. Sustainability is at the heart of everything we do. We work in partnership with mana whenua to deliver great outcomes for Aucklanders.

Delivering homes and communities

Facilitating 11,000 new homes:

- 905 completed, 624 underway, 9,500 planned
- 40 new homes for older people in Henderson with Haumaru Housing and more planned
- By partnering with the private sector, iwi, community housing providers and the government

Transformation of the waterfront

Urban regeneration of the waterfront through high quality design, placemaking and development agreements.

- $1.547b of private investment has been catalysed in Wynyard Quarter
- Award winning sustainable new homes and public spaces
- New jobs and business opportunities through the marine sector expansion and innovation precinct
- Enabling the six-star Park Hyatt Hotel

The regeneration of Manukau

Catalysing more than $500m of private sector investment in the next three years.

- Enabling MIT's new TechPark campus for 1200 students
- Partnership with Te Ākitai Waiohua and the New Zealand Housing Foundation to build 330 new homes in Manukau
- Supporting the redevelopment of Westfield by the Scentre Group
- Transforming Putney Way into a people-friendly main street with Auckland Transport
- Beginning the restoration of the Puhinui Stream

Significant sales to deliver community outcomes

- 115 properties and sites sold to the value of $464 million
- $227 million of sales supporting the urban regeneration of town centres, with new housing and commercial development
- Negotiating the sales of Auckland Council's corporate buildings. For example, the sale of the Henderson offices to Laidlaw College will boost business in the town centre and enables future development of homes and student accommodation.

Supporting Auckland Council

- Panuku manages $3b of Auckland Council's assets
- $65m of revenue generated for the region each year
- Purchasing 88 properties for $211m on Auckland Council's behalf, for a wide range of uses.

Panuku Development Auckland
An Auckland Council Organisation

RFA: Delivering for Auckland

Growing cultural activity

RFA has become New Zealand's largest provider of cultural heritage, performing arts and sports events:

Grown events portfolio by more than **300%**

Enhanced Auckland's reputation as a major concerts and theatre destination

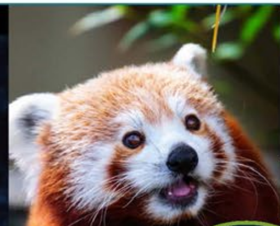
Secured and curated many significant new exhibitions

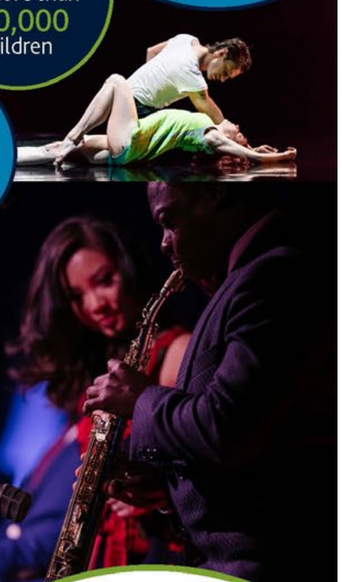
More than **25,000** event days programmed

More than **190** major exhibitions

More than **50** stadium concerts

Over **1,000** theatrical productions





Investing over $370m in cultural infrastructure

Opened the **award-winning** new Auckland Art Gallery building

Opened the **award-winning** Te Wao Nui NZ fauna precinct at Auckland Zoo

Fully refurbished the **Aotea Centre**

Invested **$150m** in the world-class, ten-year Future Zoo programme

Reducing cost to Council

RFA's entrepreneurial business model has generated over **$422 million** in commercial revenues; and it relies less on Council funding than ever before

Reducing RFA's operating subsidy

Down by 1% per year; when Council costs increased 2.2% per year and funding to other cultural institutions increased by 3-11% per year

Free and subsidised programmes for **12 million** attendees

Growing participation

Attracting over **3.5 million** visits each year to its performances, events and exhibitions

Increased audiences by 52%, attracting **24.3 million** visits to performances, events and exhibitions

Learning programmes for more than **700,000** children

450,000 hours invested by passionate community volunteers

Nurturing struggling venues

Five new venues brought under RFA management, with significant benefits:

Increased programming and improved revenues for Bruce Mason Centre and North Harbour Stadium

Enhanced planning support and new capital investment for New Zealand Maritime Museum

72% increase in events and **159%** attendance boost for Shed 10 and The Cloud

Contributing to Auckland's economy

Stadium concerts and major musicals have attracted more than **700,000** visitors to Auckland:

1 million visitor nights

Over **$210m** in tourism spend

Regional Facilities Auckland
An Auckland Council Organisation

Watercare: Delivering value for Aucklanders: 2010 – 2020

Safe, reliable and affordable services for customers and community

- **'Aa' grade water supply** for all of Auckland
- **Transformed** Franklin's water supply network and water quality **($161m)**
- **Standardised** different water and wastewater prices, increasing fairness and savings of over **$175m per annum** to customers
- The average Auckland household spends **less than 1%** of their monthly income on water and wastewater.

Investing in infrastructure for growth, resilience & security of supply

- Invested **$2.7 billion** to build water and wastewater assets since 2010, with debt extended by only **$463m**
- Invested **$1.8 billion** to maintain the water and wastewater assets
- Budgeted to spend **$5.7 billion** on water and wastewater projects over the next 10 years, with a further **$3.8 billion** in the following 8 years
- New water treatment plant for **Warkworth ($25m)** using a secure water source
- Expanded Mangere wastewater treatment plant with **multi-award winning BNR plant ($141m)**
- **Upgraded** Ardmore water treatment plant **($67m)** for resilience
- Close to completing the last stage of **32km** Hūnua 4 Watermain **($400m)** and the new reservoir at Pukekohe East **($40 million)**
- **Refurbished** Army Bay wastewater treatment plant ($31m), with award winning innovative "no-dig" pipeline
- Upgrading Pukekohe wastewater treatment plant ($60m) to **improve quality of wastewater discharge.**

Protecting and enhancing the environment and ecosystems

- Building the Central Interceptor wastewater tunnel **($1.2 billion)**, to **reduce wet weather overflows by at least 80%** in conjunction with the Western Isthmus Water Quality Improvement Programme
- Regeneration of 1,900 hectares of commercial pine forests in the Hūnuas, to deliver **8 million native trees over the next 30 years** (over 300,000 to date)
- **Rehabilitation** of the former quarry at Puketutu Island with biosolids, will be a public park when complete
- Inflow and infiltration **investigations** across Auckland to stop stormwater from entering the wastewater networks and causing wet-weather overflows
- **Consented and progressed construction of new wastewater plants** at Snells Algies, Army Bay, Waiuku and Pukekohe.

Tackling climate change

- Implementing a comprehensive **climate change strategy** with an adaptation and mitigation programme
- Energy efficiency and neutrality programme is underway to achieve **net-zero emissions** by 2050 (Mangere and Rosedale wastewater plants generate 55% and 75% of their energy needs)
- Commitment to reduce infrastructure emissions by **40 per cent by 2025**
- Installed three large **solar arrays** to power operational sites, with a fourth floating solar array planned at Rosedale.

Watercare
An Auckland Council Organisation