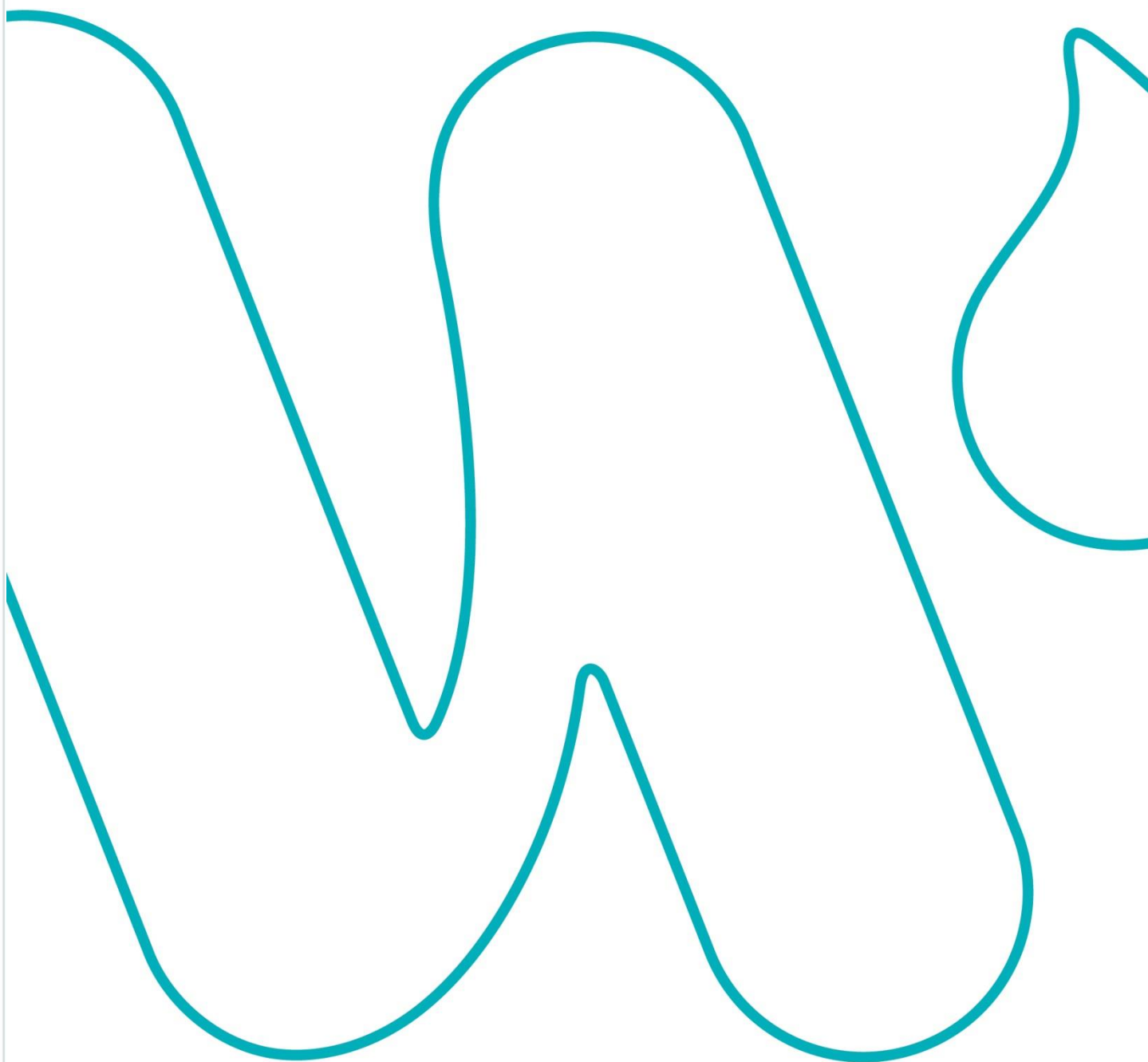




Wellington Water Response to Contract Optimisation Review Conducted by FieldForce4



Our water, our future.

WELLINGTON WATER RESPONSE TO CONTRACT OPTIMISATION REVIEW CONDUCTED BY FIELDFORCE4

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Purpose

1. The purpose of this paper is to advise the SLT and Board, and Water Committee (if requested), that:
 - Wellington Water has been provided with both a final version of an Executive Summary and a redacted final version of the detailed Contract Optimisation Review (together referred to as “the report”) conducted by reviewer FieldForce4 at the request of Wellington City Council (WCC),
 - To provide a detailed and comprehensive account of the Wellington Water (WWL) view on the report.
2. WWL does not accept the report or its recommendations.
3. This document is intended to be read alongside the report to indicate WWL’s position.

Executive Summary

WWL’s Position

4. WWL does not accept the report, and is unable to approve or sign off on the report’s recommendations.

Reasons for our position

5. In May 2023, WCC decided to invest an additional \$2.3m into fixing more leaks in the WCC drinking water network. This additional funding came with the condition to undertake a review of WWL’s frontline operations: *“the increase in Opex funding committed to Wellington Water Limited (WWL) is conditional on WWL agreeing to a part of the funding being used to undertake a review of its services with the objective of improving its efficiency, identifying potential cost savings, and improving transparency/reporting.”*
6. WWL was grateful for the additional funding and agreed to the condition as it was the right thing to do. At a time when the region is losing up to 45% of its drinking water to leaks, WWL will always do what we can to secure more funding to find and fix as many leaks as possible.
7. WCC and WWL jointly developed and agreed a Terms of Reference (TOR) for the review. The purpose of the review identified in the TOR was largely to provide an independent review of WWL services with the objective of improving its efficiency, identifying potential cost savings, and improving transparency/reporting in line with the request from council. There was also a stated desire to share a greater understanding of a number of elements of the WWL model including the Customer Operations Group (COG), the Alliance Agreement, how our funding and financing works, and the shared ownership between six council shareholders.
8. WWL agreed in good faith to FieldForce4 being engaged as the reviewer by WCC on the basis of the TOR and supported FieldForce4 in undertaking the review with provision of a wide range of documents and access to relevant personnel during the review.

9. During the review, it became apparent to the WWL team that FieldForce4 were operating under a different set of instructions than the terms of reference. This was raised with WCC officers, and it would now appear that FieldForce4 were not provided with the agreed TOR nor asked to revise their SOW to reflect it.
10. The WWL and WCC teams have worked together throughout the review. WWL has expressed serious misgivings about the scope and content of the draft reports and we have raised these with WCC on multiple occasions.

Concerns with the report

11. The findings in the final document reflect the findings in the draft, despite our feedback. Again, here are our concerns with the Report:

- The Report suggests major organisation change (such as moving the customer first point of contact from WCC to WWL) as well as additional reviews of other parts of Wellington Water. Water reform is the vehicle by which transformational change will occur for Wellington Water.

That remains the case with the direction indicated by the new Government. Wellington Water people and their knowledge, our systems and process and our operating model will transition into a new entity. That new entity will decide the best operating model in order to meet water quality standards set by Taumata Arowai, and the economic regulation that will be established.

- The scope is much broader than the terms of reference. There is an element of lost goodwill when it appears that FieldForce4 were instructed by WCC officers in contradiction to the Terms of Reference, but at no stage was Wellington Water advised of the change of direction or FieldForce4 redirected to comply with the TOR.
- One of the key reasons for keeping the TOR tight was to minimise the impact on our staff who are already stretched, focused on significant priorities such as helping the region to manage a potential water shortage, and dealing with the uncertainty of the reform process. There is little point in putting our people through one change process that would be followed in short order with another. Undertaking a change process now would also be a costly exercise and we don't view this as a good use of our councils' or ratepayers' money.
- The review does not acknowledge the role of the Wellington Water shareholders or the governance of the Wellington Water Committee. The changes proposed impact all shareholders who are, like Wellington City, also customers. The other councils have not been included or consulted in the process.
- The report does not provide options or analysis. As an example, there is an absence of a detailed analysis comparing the advantages and disadvantages of both the existing operational model and the proposed changes. There are no other options considered or assessed, and it fails to assess the potential costs and productivity impacts on the work performed by the COG of a different model.
- The report contains numerous inaccuracies: for example, it has conflated WWL Management and Advisory fees with Alliance Management costs, the latter of which is made up of WWL staff costs and COG overheads.

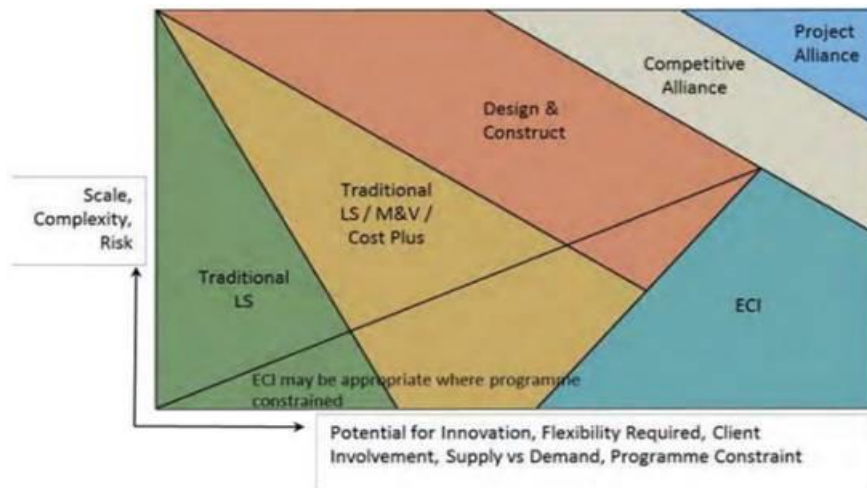
- There are some obvious overstatements and recommendations that are not backed by evidence – for instance, the report gives an assessment of the capital delivery programme. Neither the GM responsible for capital delivery or any of her staff were interviewed or consulted in the review process, therefore FieldForce4 will not be aware of the programme’s quality assurance processes, reporting or governance.
- The report states that the Management Service Agreement between WWL and WCC lacks specific performance measures. However, WWL sets the performance measures each year through its Statement of Intent, in response to the Letter of Expectations from its shareholders. The current SOI contains 16 measures.

It is also required to meet 25 mandatory performance measures set by the Department of Internal Affairs, 5 additional LTP measures set by WCC, and must also comply with and report against 250 Drinking Water Quality Assurance Rules set by Taumata Arowai.

- There are no practical recommendations for new operational efficiencies. Many of the system improvements are things that WWL was already aware of and are either underway or are known but not currently funded by the shareholders to implement.

Conclusion

12. As an organisation WWL is always looking for efficiency improvements to the way it runs its operations in order to achieve the best outcomes for its shareholders and the residents of the region. We had welcomed the review but unfortunately the report missed the opportunity to focus on operational improvements which WWL is, and continues to be, open to.
13. We are not averse to adding performance measures provided that:
 - The measures are agreed to by all our other shareholding council customers,
 - Drive the right behaviour (for example balance customer experience with keeping costs down), and
 - Targets are set at a level the shareholding councils can afford.
14. In 2020, the WCC Mayoral Taskforce on the Three Waters was established to investigate the condition, funding and management of the network, and to develop recommendations for its future. The Taskforce Report concluded “that tinkering is not going to cut it. Transformational reform is required.” This will need to come through water reform and a potential new CCO model under development.
15. We believe the Alliance, while not perfect, is the right model for the highly complex, high-risk work in the Wellington Region. Modern procurement practices favour agility and collaboration, allowing contractors to share in the vision of the company. An alliance model was selected based on internal and external procurement advice and Fulton Hogan was selected to partner with us in a competitive process. We are constantly working on our performance as an Alliance. We would have enjoyed some input on further efficiencies.



16. In the meantime, WWL remains focused on its priorities: supporting our people through water reform, providing the region with sufficient safe drinking water, improving the performance of our Wastewater Treatment Plants and delivering the capital programme. This is on top of our urgent and short-term goals of getting ready to respond to a potential water shortage this summer, finding and fixing as many leaks as possible, and providing councils with long-term planning advice.

Introduction

Background on Wellington Water's contractual arrangements

17. Wellington Water (WWL) is the Wellington region's water services provider. WWL is a fully council-funded, council-owned, not-for-profit shared service organisation that provides drinking water, wastewater and stormwater services on behalf of its shareholding councils: Wellington City Council (WCC), Porirua City Council, Hutt City Council, Upper Hutt City Council, South Wairarapa District Council and Greater Wellington Regional Council.
18. WWL is akin to a joint venture company formed for the purpose of serving all of its shareholders. WWL has separate Service Level Agreements with each shareholder council, last reviewed in April 2022, setting out the levels of service for each of the council's communities.
19. The Alliance is a partnership between WWL and Fulton Hogan to operate the Customer Operations Group (COG). It is a fully integrated model meaning that staff from both companies work in the COG to provide operations and maintenance services for shareholder councils.
20. WWL adopted a strategic approach to procurement, opting for an Alliance model. This model was tendered, and Fulton Hogan emerged as the selected partner through a robust competitive process. The Alliance, known as the COG, is a fully integrated collaboration between WWL and Fulton Hogan.
21. References to WWL in this context encompass members of the COG. The COG is a distinctive partnership formed between WWL and Fulton Hogan, dedicated to operating and maintaining water services for the shareholder councils. This integrated model ensures that personnel from both Wellington Water and Fulton Hogan collaborate within the COG to deliver effective operations and maintenance services, reflecting a shared commitment to the Wellington region's water infrastructure.
22. For a detailed understanding of WWL and the Alliance model, additional details can be found in Appendix 1.

Background on WCC's investment and conditions

23. At its meeting on 31 May 2023, the WCC Long-term Plan, Finance and Performance Committee agreed *"to the Mayor's proposal to fund Wellington Water Limited (WWL) an additional \$2.3m to fix urgent leaks. Operational pressures will be managed closely through joint prioritisation and monthly reporting to ensure budgets are efficiently managed by WWL (NB: the Mayor's proposal to provide additional funding to WWL has been reviewed and is supported by Officers)"* (page 7 of minutes)
24. The Committee also agreed *"that the increase in Opex funding committed to Wellington Water Limited (WWL) is conditional on WWL agreeing to a part of the funding being used to undertake a review of its services with the objective of improving its efficiency, identifying potential cost savings, and improving transparency/reporting."* (page 8 of minutes)
<https://wellington.govt.nz/-/media/your-council/meetings/committees/long-term-plan-finance-and-performance-committee/2023-05-31-minutes-ltpfpc.pdf>

25. In response, WWL's CEO agreed to this review, "*noting we look forward to getting underway with an initiative that benefits both of our organisations.*"

Purpose of the review

26. The intended purpose of the review was to improve efficiency, identify potential cost savings, and improve transparency and reporting.
27. WWL agreed to the review on the basis that both the increase in funding for leak repairs and the opportunity to find operational efficiencies were welcome.

Great news that Council have approved the lift in budget for next year's opex above what was initially proposed. Thank you, every dollar spent on a leak is valuable. We also appreciate that this funding has come at the expense of other work so understand the importance of a review in providing assurance to Council that the money is well spent.

[email from Tonia Haskell to Siobhan Procter, 1 June 2023]

Scope of review

28. The TOR provided that WWL and WCC were to jointly "*approve the project scope (consultant brief)*". This did not happen. WCC provided a brief to potential consultants in advance of the TOR being agreed as demonstrated in the FieldForce4 Statement of Work (SOW) dated 13 June 2023, and did not subsequently amend the brief to align with the TOR.
29. The FieldForce4 Statement of Work (SOW) proposal was written on 13 June 2023 (before development of the TOR), and states:

Wellington City Council wished to undertake, jointly with Wellington Water, a contractor review of maintenance service and costs pertaining to the alliance contract that Wellington Water has with Fulton Hogan. This will primarily be a contract management and cost eviwe (sic) rather than an operations asnd (sic) service review.

The scope of this SOW is a Contractor Review for Wellington City Council and Werllington (sic) Water with respect to the performance of their contract. This review will assess the commercial and some operational elements of the contractual relationship to confirm that the contract is delivering to the corporate objectives of Wellington City Council and is delivering value for money.

30. WWL did not agree to the FieldForce4 SOW. Upon review of the SOW, WWL provided feedback to WCC that the scope of the SOW was too wide-ranging and strayed into organisational structure and contract specifications. However, despite this feedback, the SOW was not updated to incorporate this feedback nor to align with the agreed scope of the review as agreed in the TOR. FieldForce4 and the WCC signed the SOW in its original unamended form on 20 June 2023.

31. The scope as defined in the TOR was:

Scope:

- *Review the COG and Alliance Agreement that underpins it, and the service delivery model and the Alliance governance that sits over the top*
- *Review of contract performance management*
- *Review the commercial model and billing arrangements*
- *Review improvements already identified, inflight or programmed*
- *Recommend further potential areas for improvement, taking into consideration the operating context, unique features of Wellington City Council and Wellington Water and reform timeframe*
- *Any possible changes or improvements identified will be owned and implemented by WWL*

Out of Scope:

- *Anything not related to the Customer Operations Group*
- *Any employment related matters – e.g. organisation structure, performance of individuals*
- *The purpose of this review is to focus on performance of the COG and Alliance for WCC. If there are service improvements they could be shared with other councils, but we recognise that not all councils would benefit from this.*

32. This has led to a fundamental disagreement between WWL and WCC about the scope of the review. FieldForce4 has continued to include matters in its report that WWL considers are out of scope and were not part of the agreed TOR. This includes commentary on the state of WWL's asset management practices and capital programme, despite the reviewers not having interviewed some key WWL people or reviewed relevant documentation in respect of these workstreams.

Deliverables

33. The deliverables agreed in the TOR were:

- A detailed commercially sensitive report that includes current state and operating context and identifies opportunities for improved service efficiency and potential savings.
- A summary document that can be shared with councillors (and other parties as appropriate)

34. The first of those deliverables was received as a draft presentation in August 2023. It was not marked commercially sensitive; did not include an overview of current state and operating context; and identified very few opportunities for improved service efficiency and potential savings.

35. WWL provided feedback to the reviewers in writing and at two workshops on matters where WWL disputed findings. The reviewers acknowledged that there were some areas to be modified (such as acknowledging that WWL does already have a number of the recommended processes and capabilities in place). This is reflected to a degree in the executive summary, but the detailed report has not changed in any material way from the draft received in August 2023.

Timeline

31 May 2023	WCC agreed to provide \$2.3m additional Opex funding to WWL on the condition of a <i>“review of its services with the objective of improving its efficiency, identifying potential cost savings, and improving transparency/reporting.”</i>
1 June 2023	WWL responded with thanks for lift in budget and agreed to the review
Date unknown but before 3 June 2023	WCC sent brief to potential reviewers. (To date, WWL has not seen this brief, nor agreed to it.)
13 June 2023	FieldForce4 provided a proposed Statement of Work (SOW) to WCC.
13 June 2023	WWL and WCC met to develop the Terms of Reference (TOR)
16 June 2023	WWL and WCC met to develop the TOR and review two proposals (including the FieldForce4 SOW) and agreed to appoint FieldForce4. WWL provided feedback on FieldForce4 proposed SOW that its scope was too broad and doesn’t align with the draft TOR
21 June 2023	WWL and WCC met to agree in principle the Terms of Reference (TOR)
29 June 2023	TOR signed by WWL CE
24 July 2023	TOR signed by WCC CE
19-26 July 2023	FieldForce4 conducted interviews based at WWL
14 August 2023	FieldForce4 provided draft initial report to WWL and WCC
18 August and 25 August 2023	WWL and WCC met to discuss draft initial report
25 August 2023	WWL provided feedback on draft initial report that <i>“overall the outcome and key findings of the review have missed its purpose”</i> and <i>“much of this commentary [on the WWL model] is out of scope”</i> . WWL also provided a detailed list of Errors, Omissions and Concerns
28 August and 31 August 2023	WCC, WWL and FieldForce4 met to discuss draft initial report
14 September 2023	FieldForce4 provided draft executive summary report
19 September 2023	WWL provided feedback on draft executive summary report that <i>“the review lacked independence, balance and recognition of the hard work the front line teams are delivering in a challenging environment”</i> , <i>“many of the recommendations about the operating model were not backed by evidence, analysis and comparison against alternative operating models”</i> and pointed out errors
20 October 2023	WWL and WCC met to discuss draft executive summary report
1 December 2023	WCC, WWL and FieldForce4 met to discuss draft executive summary report
5 December 2023	FieldForce4 presented findings to WCC councillors

19 December 2023	WWL received final FieldForce4 executive summary report from WCC
20 December 2023	WWL responded to WCC with concerns
29 January 2024	WWL received redacted final FieldForce4 report from WCC
1 February 2024	Redacted versions of FieldForce 4 Report, Summary document and Presentation to councillors publicly released by WCC

Terms of Reference (TOR)

36. The TOR notes that WWL and WCC will “jointly develop the TOR”, with Chief Executives of both organisations “to approve the TOR, final reports and recommendations”.
37. Staff from WCC and WWL worked together in June to develop the TOR. The agreed objectives were:

The purpose of this review is to inquire into and report upon the following:

- *Provide an independent review of WWL services with the objective of improving its efficiency, identifying potential cost savings, and improving transparency/reporting.*
- *Shared understanding of how the Customer Operations Group (COG) works and the underpinning Alliance Agreement*
- *Shared understanding of how our financing model works including how funding is applied to opex/capex/ management fee, and the shared ownership between six council shareholders*
- *Shared understanding of the operating context and associated constraints*

This review will aim to minimise impact on management and frontline staff and morale.

Note: *The current environment with regard to water reform, shortage of people and funding may impact on WWL’s ability to implement any recommended changes.*

Process of review

Independent reviewer

38. The TOR provide that WWL and WCC will jointly select the independent reviewer. WWL and WCC met on 16 June 2023 to review the proposals from two companies submitted in advance of finalising the TOR.
39. WWL were comfortable with choosing Melbourne-based company FieldForce4 as the reviewers because they promote themselves as workplace performance specialists, who offer a ‘practical, experience-driven approach to productivity improvement’ but provided feedback that the scope in their proposed SOW was too broad. WWL made an assumption that WCC would provide the TOR to FieldForce4, who would amend their SOW accordingly.
40. The list of consultants to be part of the review included a water operations expert, previously operations improvement officer at Sydney Water.

How the review was conducted

41. WWL provided a large number of documents (over 90 documents) to FieldForce4 before their arrival to Wellington, and while they were in Wellington.
42. Based on a review of WWL's organisation structure, FieldForce4 provided a list of 28 people they wished to interview. WWL were concerned that this was too many people, and too wide-ranging, looking into areas of the business that were out of scope of the review such as capital delivery, regulatory services, health and safety, and people and capability. The TOR stated that the review would aim to minimise impact on management and frontline staff and morale, and that WWL will provide access to COG senior managers. On this basis, the list of WWL interviewees was reduced to 17 staff and FieldForce4 conducted 21 interviews with staff from WCC, WWL and Fulton Hogan.
43. Two consultants from FieldForce4 spent a week in Wellington talking to staff of WWL and Fulton Hogan. Other consultants from FieldForce4 located in Australia reviewed documents provided by WWL.
44. The first draft of FieldForce4's report contained a number of factual errors and misinterpretations. WWL, WCC and FieldForce4 held a workshop to address these. Subsequently FieldForce4 provided an executive summary document that summarised key aspects of the first draft of the report with a series of recommendations. WWL's concerns and feedback were not fully addressed in the executive summary document.

WWL concerns and disagreements with review findings

WWL's concerns about the report

45. Many of the findings were things that WWL was already aware of and were provided to the reviewers from earlier internal reviews undertaken by WWL. These potential improvements are either already underway (e.g. asset condition assessments; asset data completeness and quality; continual improvement of use of the existing Maximo functionality for asset data collection and work scheduling; customer process improvements – duplicates, job management) or are blocked by obstacles such as: limited funding; potential to be regretful spend should water reform proceed; system limitations.
46. Several of the recommendations are for actions that were out of scope of the TOR. For instance, despite organisation structure being explicitly out of scope, there are recommendations around restructuring teams and moving the first point of contact from WCC to WWL.
47. The detailed report and the executive summary contain different text and recommendations. The Presentation to WCC councillors contains different information again.

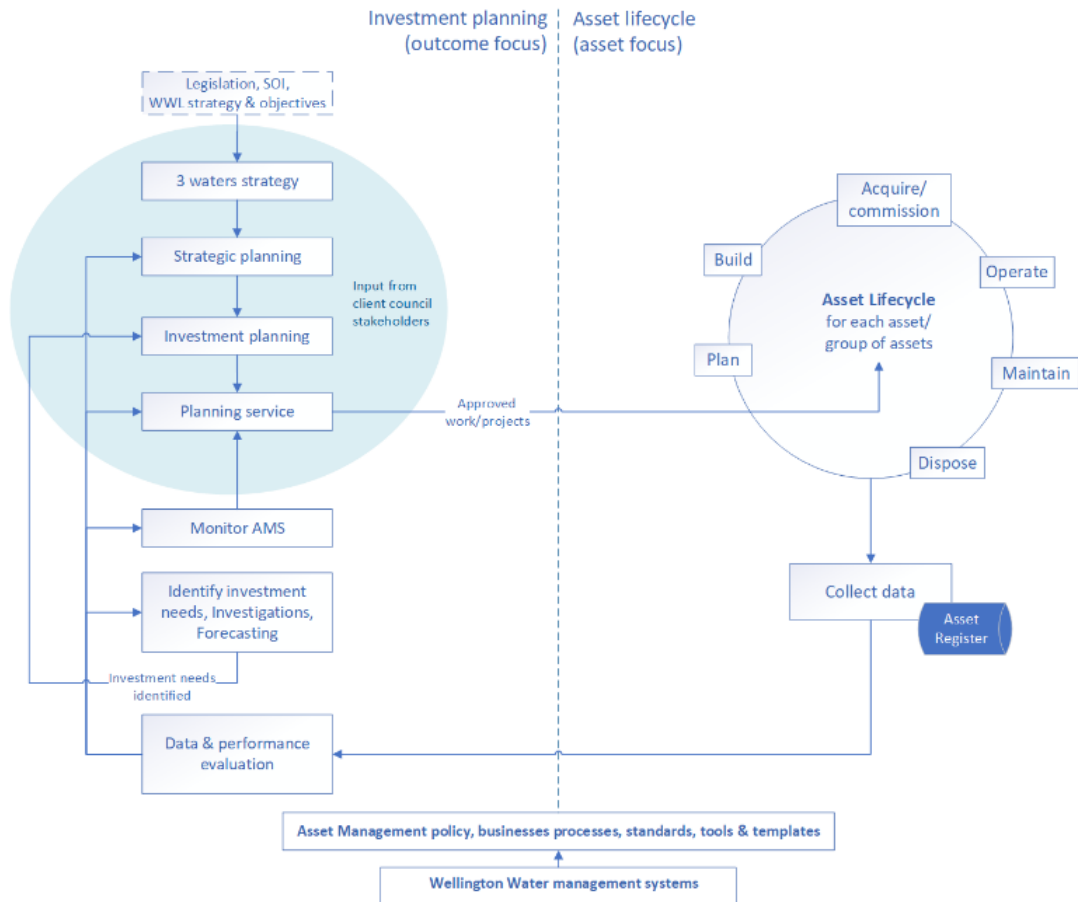
Inaccuracies in report

48. The report states that the Management Service Agreement between WWL and WCC (MSA) and the Alliance Agreement between WWL and Fulton Hogan lack specific performance measures. This does not reflect the situation, as set out below:
 - WWL sets performance measures each year through its Statement of Intent, in response to the Letter of Expectations from its shareholders through the

Committee, and reports on its performance measures quarterly to shareholder councils and six-monthly to the public.

- WWL is required to meet mandatory performance measures set by the Department of Internal Affairs, for which each shareholder council sets targets – these measures cover safety of drinking water, maintenance of the reticulation network, response times, customer satisfaction, discharge compliance, and system adequacy.
 - WWL must also comply with and report against 250 Drinking Water Quality Assurance Rules set by Taumata Arowai.
 - Combined, these cover the same ground as many of the suggested KPIs suggested in pages 98-100 of the report.
 - Any additional Key Performance Indicators (KPIs) in the MSA (or other service level agreements with other shareholding councils) would need to be funded to develop the systems required in order to meet those KPIs.
 - Key Result Areas (KRAs) and KPIs have been developed for the Alliance agreement between WWL and Fulton Hogan; however, external market challenges (in particular COVID-19) hindered KRA and KPI implementation. In any event, recognising the significance of aligning these indicators with the specific nature of the work and fostering the desired behaviours is paramount. Given the reactive nature of much of WWL's work, a nuanced approach to KPIs becomes imperative. WWL recognises that a uniform set of KPIs may not adequately address the distinct requirements of planned versus reactive work. Consequently, WWL is formulating a dual-tiered system of KPIs, distinctly tailored to each operational facet.
 - WWL maintains a resolute commitment to Health and Safety (H&S). Understanding that generic KPIs may not comprehensively address H&S concerns in the varied contexts of WWL's work, WWL is instituting a dedicated set of KPIs specifically designed to prioritise and monitor safety standards. H&S considerations should not be compromised, particularly in the dynamic landscape of reactive tasks.
 - Procurement specialists will be involved in any development of KPIs to ensure that they align with industry standards and support WWL's organisational objectives.
49. The report states that 'Over the previous 3 years there has been a 54% increase in the total alliance costs (planned and reactive maintenance)' (page 33) without providing context for this – for instance:
- WWL has increased capacity to find leaks which has added to backlog and expense;
 - CPI inflation has been over 6% per annum, and infrastructure costs have increased approx. 10% per annum based on information from the Infrastructure Commission and Stats NZ Business Price Indices;
 - The latest market survey report from Bond CM showed that labour, plant and material costs led to an overall 14-17% cost increase for "typical" WWL three waters construction capex projects between August 2022 and January 2024. Since 2020, costs have risen between 34% and 63%;
 - WWL has implemented new services, for example WWL now has a drainage investigations team and a water loss team and has three 3 FTE assigned to WCC to manage escalated complaints;

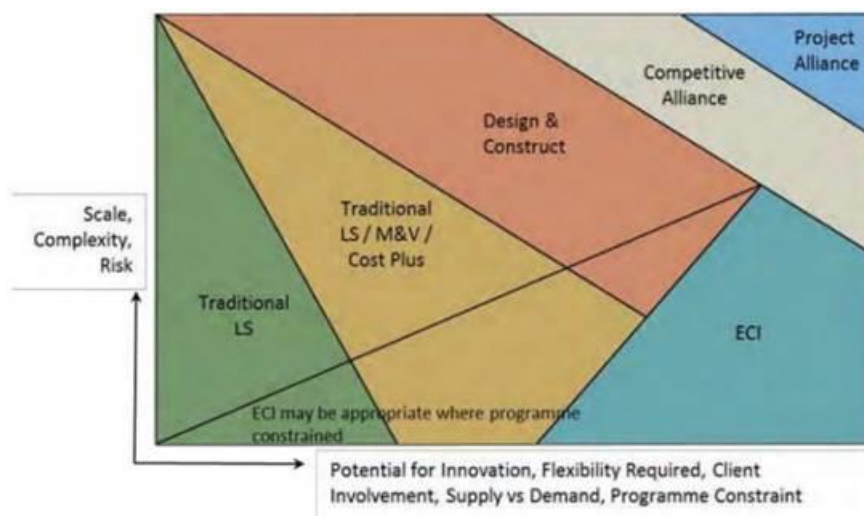
- In the base year FY20/21 there were no reinstatements because of the restrictions on activity caused by COVID-19;
 - Regulatory costs have increased e.g. traffic management requirements;
 - WWL has had high vacancies due to tight labour market, so WWL used more subcontractors who cost more because they are on commercial rates;
 - The trend of increasing network failure rates is continuing, and a number of events occurred that required responses beyond what is normally planned for. A sample of these is provided as Appendix 2.
 - There is no mention of the Government's Stimulus Funding grant to WCC of \$20.2m, of which \$12.8m was spent on operational costs in FY22. This accounts for much of the increase from 20/21 to 21/22.
50. The report has conflated WWL Management and Advisory fees with Alliance Management costs, implying that there are multiple layers of overhead charges. 'WWL Management Fee' is actually the labour costs of WWL employees who are part of COG. The increase in this is likely due to recruitment of more WWL employees to the COG.
51. The report states that 'Asset Management and the development of the Annual Works Program is fragmented' (page 51). It does not acknowledge the existence of the Strategic Asset Management Plan or the Annual Planned Maintenance Works programme.
52. The report recommends changes to the process and timeline of setting an annual works programme, and states that "*the current interface/narrative between WCC and WWL is focused on a financial perspective rather than a network risk and asset performance basis*" (pages 43 and 51). This process (through LTP, 3 years programme, Annual Plan), is in place with all shareholder councils, and responds to Local Government Act 2002 requirements and council timelines. WWL acknowledges that the current processes do not fully align with timeframes set out in the MSA, but WWL does what shareholder councils ask of WWL, which is aligned with council planning processes, and this has been mutually agreed.
53. Asset management is carried out within the framework of the Strategic Priorities agreed with the Wellington Water Committee and with shareholder councils: looking after existing infrastructure, sustainable water supply and demand, supporting growth, improving environmental water quality, achieving net zero emissions, and resilience to natural hazards. WWL's advice starts from an unconstrained viewpoint, with deliverability lens added, then incorporates options for councils, taking into account what the councils can afford. It provides advice as to the associated risks and impacts of funding decisions. Assessment of network risk is always part of this advice, but before 2021 this was largely theoretical based on the age of assets to develop renewals programmes. In 2021 and 2022 the government-funded asset condition assessment programme enabled physical inspections of critical assets, which has led to a much deeper understanding of the network risks. This work is continuing with council funding. All investment for projects that contribute to an increase in level of service or growth are generated from investigations of which risk is an important factor.
54. Asset management is at the core of what Wellington Water does. The diagram below shows the scope of asset management activities carried out across the company.



Impact of recommendations on the current operational model

55. Many of the report’s recommendations would require changes to the contractual arrangements between WWL and WCC, and between WWL and its Alliance partner Fulton Hogan. Appendix 1 provides an overview of these arrangements and why WWL entered into the Alliance partnership. WWL is not in a position to agree to or adopt any recommendations required by an individual shareholder that would require material changes to the operating model of WWL and affect WWL's ability to provide services to all other shareholders. The review does not acknowledge the complexity of the multi-owner CCO model, or the role of the Wellington Water Committee to provide shareholder input via each respective shareholder's elected member.
56. The report fails to acknowledge the potential costs and productivity impacts that may arise from the wide-ranging changes proposed in the recommendations. A thorough assessment of the financial implications and productivity outcomes is crucial for understanding the feasibility and sustainability of the proposed alterations to contractual arrangements. Without detailed consideration of the potential economic effects, there is a risk of overlooking critical factors that could significantly impact the overall efficiency and effectiveness of WWL operations.
57. The report falls short of conducting a comprehensive assessment of various potential operational models. It neglects to explore alternative frameworks that could potentially enhance efficiency, cost-effectiveness, and transparency. A thorough evaluation of different models is essential to ensure that any recommended changes align with the strategic objectives of WWL and meet the diverse needs of the six shareholding councils.

58. One notable deficiency in the report is the absence of a detailed analysis comparing the advantages and disadvantages of both the existing operational model and the proposed changes. A comprehensive evaluation of these factors is imperative for informed decision-making. Understanding the strengths and weaknesses of each model is crucial in determining the optimal approach that aligns with WWL's goals and responsibilities. The oversight in conducting such an analysis diminishes the report's ability to provide a nuanced perspective on the potential impacts of the proposed recommendations.
59. FieldForce4's recommendation is for a traditional contractual arrangement. Modern procurement practices favour agility and collaboration, allowing contractors to share in the vision of the company. This is particularly so when the service provided is high risk and/or complex. Water services are high risk and complex as most of the assets are below ground, with unknown asset condition, often in roadways and repairs carry risk to public health that need to be managed.



(Source: NZTA's project procurement model)

60. In their recommendations, FieldForce4 failed to consider WWL's obligations under the Local Government Act 2002, the New Zealand context and the impact that the government's water reforms programme would have had on WWL's operating model.

Lack of recommended operational efficiencies

61. There are no practical recommendations for operational efficiencies.
62. The reviewers proposed in the Executive Summary that additional reviews are needed to identify potential gaps within the existing business processes and further identify delivery improvements that may exist.

Response to recommendations

63. WWL has not accepted the report, the recommendations contained in the report or the recommendations contained in the Executive Summary (noting that these do not match).
64. That said, there are some recommended actions that WWL is already making progress on in the areas of:
- Making better use of the monthly performance meetings between WWL and WCC and ensuring that the appropriate operational representatives are involved,

- Making improvements to reporting on the opex and capex work programmes, and
- Continuing to develop the existing technology and data architecture, such as asset data capture procedures and supporting applications.

Conclusion

Summary of key points

65. In reflecting upon the review conducted by FieldForce4, WWL acknowledges and appreciates the positive recognitions of the WWL team's dedication and operational strengths. However, it is essential to address certain concerns arising from deviations beyond the agreed scope of review and emphasise the imperative consideration of operational models in collaboration with all stakeholders.

- **Positive Acknowledgements:**
 - WWL appreciate the reviewers' recognition of several positive aspects within WWL.
 - The acknowledgment of the dedication and competence of WWL's teams, particularly the commendable performance of the front-line staff.
 - The genuine commitment to delivering a cost-effective service within the Alliance contract.
 - The commendation of WWL's well-structured executive data and system architecture, operating efficiently within current constraints.
 - The continuous efforts in developing and improving system capabilities.
 - The recognition of WWL's excellent analytical capability to produce detailed dashboards.
- **Concerns and Scope Deviation:**
 - However, it is crucial to highlight that the review extended beyond the agreed scope set out in the TOR, delving into areas that fall outside the primary objectives of improving efficiency, identifying cost savings, and enhancing transparency/reporting.
 - Instances where recommendations were made that did not align with the review's primary objectives raises concerns about the overall effectiveness of the review process.
- **Operational Model and Shareholder Considerations:**
 - Much of the report is about the operational model of how WWL performs its obligations as a jointly owned CCO. It is imperative to note that alterations to the current model would necessitate agreement and implementation from WWL's board and management, or integration into the design of a new water services entity, aligning with the intentions set forth by the previous Government's water reforms programme.

Next Steps

Efficiency measures underway

66. The COG has recently developed a better reporting dashboard on Alliance KRAs/KPIs. At present these are pitched at a regional level, and WWL is working on providing this at a council level for shareholder councils.
67. WWL capital delivery teams are considering what improvements are possible to reporting on capex spend and outcomes.
68. Improvements in asset data have been enabled through extra funding from WCC (and other councils) in the FY2022/23. WWL will continue to develop the Asset Data capture procedures and supporting applications (Asset Management, field mobility), to the degree achievable within funding and system constraints.
69. WWL is investing in improvements to the existing systems to support job planning, scheduling and dispatch functions to the extent that they are not regretful spend in the event that future water reform means moving to a different system of record. Maximo is a shared system with Fulton Hogan which puts limits to its development capacity. WWL is indicating in the LTP advice the level of investment in systems needed if water reform does not proceed. This would include corporate IT, systems of record, CRM, possibly billing – estimated to be \$30M over 5 years.
70. Other areas which WWL has identified as having potential cost savings:
 - WCC to consider waiving CAR reinstatement fines. Currently these are costing WWL approximately \$50,000 a month, giving WCC back money that the council had allocated to fixing leaks. This seems counter-productive.
 - Develop collaborative work processes for managing access to the road corridor – WWL believes that there are efficiencies in the way that WWL work with WCC as the Road Controlling Authority that would be beneficial to both organisations.

List of relevant documents

- Minutes of the 31 May 2023 meeting of Wellington City Council Long-term Plan, Finance and Performance Committee
- Terms of Reference signed by CEs of Wellington City Council and Wellington Water
- FieldForce4 Statement of Work (NB Commercial in confidence)
- FieldForce4 Report: “Contract Review” (Redacted by WCC)
- WWL Response to FieldForce4 Report - detailed response
- FieldForce4 Executive Summary: “Contract Optimisation – Opportunity Report”
- Response to summary report from Wellington Water and covering email dated 19 September 2023
- Memo to WCC CE regarding Contract Optimisation review conducted by FieldForce4 dated 20 December 2023

- FieldForce4 Elected Member Summary (Redacted by WCC)

Appendix 1: Overview of CCO and Alliance Model

Council-Controlled Organisation (CCO) relationship between WCC and WWL

71. WWL is the Wellington region's water services provider. WWL is a fully council-funded, council-owned, not-for-profit shared service organisation that provides drinking water, wastewater and stormwater services on behalf of its shareholding councils: Wellington City Council, Porirua City Council, Hutt City Council, Upper Hutt City Council, South Wairarapa District Council and Greater Wellington Regional Council.
72. WWL's principal objectives include to manage drinking water, wastewater and stormwater services in the greater Wellington region for its local authority shareholders, and to achieve the objectives of its shareholders as specified in its Statement of Intent.
73. WWL was incorporated on 9 July 2003, that operates under a Shareholders and Partnership Agreement (Shareholders' Agreement) with six council owners, and a company constitution. WWL is akin to a joint venture company formed for the purpose of serving all of its shareholders. WWL has separate Service Level Agreements with each shareholder council, last reviewed in April 2022, setting out the levels of service for each council's communities.
74. Each shareholder council owns its own water services assets (pipes, pump stations, reservoirs and treatment plants), and decides on the level of service it wishes to provide to its ratepayers, the policies it will adopt, and the investments it will make, in consultation with its communities.
75. The shareholders have jointly established, maintained and operated (and continue to do so) a Wellington Water Committee (Committee) in accordance with the Committee Terms of Reference and the other provisions of the Shareholders' Agreement. A representative from each shareholder council sits on the Committee, which provides overall leadership and direction for the company.
76. The purpose of the Committee is to provide overarching governance in relation to water services in the greater Wellington region. This includes governance oversight, performance and other monitoring of WWL, considering the half yearly and annual reports, agreeing an annual Letter of Expectation, matters related to the Statement of Intent, and recommending the appointment of directors and the level of their remuneration.
77. WWL is governed by a board of independent directors and managed by a Chief Executive and Senior Leadership Team. The role of the directors is to assist WWL to meet its objectives and any other requirements in WWL's Statement of Intent.
78. WWL provides financial and programme status reports monthly to officers of each shareholder council, and reports on non-financial performance measures quarterly.

Comparison of commercial models and why WWL entered into the Alliance

79. The Alliance is a partnership between WWL and Fulton Hogan to operate the Customer Operations Group (COG). It is a fully integrated model meaning that staff from both

companies work in the COG to provide operations and maintenance services for our shareholder councils.

80. WWL chose to move from a traditional term maintenance contract to an alliance model for a number of reasons:

- The original service delivery strategy was all about regionalising our services. The Alliance allowed us to keep the capability that came from our shareholder councils when they set up WWL and bring in additional external capability alongside that, while retaining public accountability.
- The Alliance model enabled access to, and allowed WWL to have some direction over, the following:
 - Additional resources - for example, service crews, strong maintenance experience etc.
 - Cohesive IT systems, data management systems & standards
 - Fulton Hogan having sufficient finance to buy equipment, technology, vehicles, in field technology etc.
 - Customer support functions
- The previous contracting model did not achieve this.
- The Alliance model aligned better with WWL's collaborative culture, but also gave WWL more control with flexibility to adapt to change (for instance, the Kaikoura earthquake had occurred not long before the change to the Alliance model).
- There was high interest from the market at the time, with potential suppliers being much more receptive to an alliance than a traditional model, which was communicated to WWL at engagement sessions. Among other reasons, an Alliance model would enable better management of operational and technical risks associated with the network managed by WWL.

81. Characteristics of a traditional model include:

- Financial model is standard rates card, plus charge up for non-standard jobs;
- Standard rate includes risk, contingency and profit margins;
- Risk is transferred to the contractor and factored into pricing;
- Arms-length management – i.e. principal and contractor relationship;
- More suitable in a stable environment dominated by standard and repetitive jobs.

82. Characteristics of an alliance model include:

- Financial model is direct cost, agreed overhead + profit margin – i.e. open book;
- Joint governance, with a focus on customer outcomes and continuous improvement;
- High degree of integration and collaboration;
- Incentivises working on the highest priority activity first, and doing high quality work so that re-work is minimised;
- Get closer to the customer – call centre/customer dispatch brought in-house;
- Use of asset management systems and processes;
- Greater control and influence over health and safety;
- Closer relationship with sub-contractors;
- Integration of staffing, e.g. 50% of COG staff are WWL employees. This retains partial in-house capability;

- More suitable when there is high amount of reactive work, where each job varies to a larger extent from a standard.
83. WWL undertook a thorough procurement strategy, incorporating a comprehensive competitive procurement process, resulting in a strategic partnership with Fulton Hogan as the selected supplier. From WWL's perspective, this Alliance has proven effective in delivering services, evidenced by its successful operation. Notably, the contractual commitment with Fulton Hogan extends through to 2029.
 84. A review of WWL's established operating model would need to be proposed and adopted by WWL's Board, and then implemented by WWL management. Shareholder input would be provided through the Committee via each respective shareholder council's elected member. Acknowledging the multifaceted nature of such a review, it becomes crucial to entrust the re-evaluation to skilled contract specialists. This specialised team must meticulously assess the legal, contractual, commercial, staffing, and financial implications associated with any potential modifications to the existing framework.
 85. From WWL's perspective, it is important to balance the success of the current Alliance while remaining open to potential improvements. WWL's approach is underpinned by a commitment to carry out a thorough assessment and provide strategic decision-making for the continued success of our operational partnerships.

Appendix 2: Sample of significant and unexpected events

The trend of increasing failure rates is continuing, and a number of events occurred that required responses beyond what is normally planned for. The largest of these, for just FY2022-2023, are listed below:

Event	Cost
21 Petherick Crescent, sewerage discharge due to collapsed wastewater main, depth of excavation required complicated the repair (August 2022)	\$ 40 k
Murphy St, Thorndon, remediation for wastewater overflow in main interceptor pipe (August 2022)	\$ 61 k
Cashmere Avenue, repair and clean up following burst drinking water main, which flooded downstream property, complications due to depth of excavation (October 2022)	\$ 43 k
Ngauranga Gorge, investigation and contingency plans required for drinking water main leak repair due to risk to surrounding infrastructure at the Ngauranga interchange (October 2022)	\$191 k
65 Victoria Street, wastewater rising main failure in the CBD with sucker trucks needed to reduce/prevent wastewater discharge into the environment (October 2022)	\$ 98 k
Broderick Road, multiple failures of drinking water main with large area for reinstatement (November 2022)	\$149 k
Cyclone Gabrielle, grid clearing of large amounts of debris following the storm (February 2023)	\$ 74 k
Victoria Street, another wastewater rising main failure in the CBD with sucker trucks needed to reduce/prevent wastewater discharge into the environment (March 2023)	\$ 58 k
Fault 92 Maida Vale Road wastewater discharge over a section with restricted access and difficulty due to trees and power lines (May 2023)	\$ 43 k
250 Middleton Road, Churton Park, wastewater failure exposed by stream and weather events, multiple parties involved in consultation for suitable solution (May 2023)	\$ 47 k
41 Aparima Road, Miramar, burst potable water main pipe collapse creating a void in the road, and damage to nearby stormwater pipe (June 2023)	\$ 63 k
Burst drinking water main Rongotai Road, with complications due to location and other critical infrastructure services (June 2023)	\$ 91 k
Total for events listed	\$958 k