



Contract Review Wellington City Council / Wellington Water

Elected Members Presentation
December 2023

Wellington Water Contract Review

Background

Wellington City Council is a territorial authority in New Zealand, governing the country's capital city Wellington. It has a population of approximately 217,000.

Wellington Water is 100% council owned with Wellington City Council being a part owner, along with other councils in the Wellington district that contract their water management and maintenance activities through Wellington Water.

Fieldforce4 have been engaged by both organisations to provide an independent review of the existing contract between Wellington City Council and Wellington Water and also the alliance agreement between Wellington Water and Fulton Hogan with a view to improving efficiencies and identifying potential cost savings.

The scope of this engagement is a Contractor Review for Wellington City Council and Wellington 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.

This will primarily be a contract management and cost review rather than an operations and service review. Through a series of interviews, data analysis and document assessment, FF4 will look at all elements in the work delivery value chain from work initiation and work planning through to delivery and analysis.

About Us:

- FF4 have been operating since 2014 (9 years) and we now have 50 staff across Australia and NZ.
- We are specialists in frontline services workforce productivity for utilities and councils.
- We are a NZ company with one of our first major clients being WaterCare in Auckland where we worked with a team of 25 consultants over 2 years to implement their workforce management solution
- Our mission is to enable our clients to deliver better services and outcomes to their customers and communities – we achieve this by improving service delivery and productivity
- Our goal is to deliver exceptional value and exceed our client expectations - to deliver on our goal we have:
 - Specialised – we only do one thing and we do it exceptionally well: **Field workforce productivity for utilities**
 - We are a coal-face company – **most of our staff have managed large field workforces** (we wear steel capped boots and hard hats). We have walked the walk and can talk to and relate to both field delivery staff and operational management
- NZ water clients include WaterCare, Tauranga City, Western BOP, Matamata Piako, Buller, Westland, Dunedin, Gore, Southland.
- Our international water clients include Sydney Water Hunter Water, Queensland Urban Utilities, Unity Water, Coliban Water, Toronto Water

Key Consultants:

- For the Wellington Water review, FF4 used 4 specialist consultants:
- **Ian Hough**
Contract Operating Model Specialist.
35 years of running, managing and reviewing contracting models (alliance, standard and performance), including reviews of Southland District Council Water contracting model and Northland Transportation Alliance Contracting model
- **Warren O'Neill**
Water O&M Expert.
35 years at Hunter Water and 6 years or reviewing water companies and contracts for FF4, including reviews of WaterCare Services, Tauranga City Council & Western BOP Water contract delivery, and Buller Water contract renewal
- **Mary Wilson**
Contracts Lawyer.
7 years of reviewing and drafting operations & maintenance contracts including Buller Water contract renewal and Westland contract review
- **Murray Niederer**
Accountant & O&E Cost Expert.
20 years of governance and cost management for council O&M services, including quality assurance of Watercare workforce management implementation (2 years), Tauranga City Council & Western BOP Water contract renewal and Asset Management replacement, and Buller Water contract renewal

Marlon Bridge, CFO, WaterCare Services

“Over a period of 6 months from when FieldForce4 completed the transformation project, the change in business performance was profound with productivity increasing by 15%, open work orders dropped from over 4,000 to less than 1,000 and work orders, where SLAs had been missed, reduced from over 700 per month to less than 100”

Mike Duff, Director, Transition, Three Waters National Transition Unit, Buller District Council

“Buller District Council engaged FieldForce4 to review the utilities maintenance contract with their CCO WestReef followed by the contract renewal process. FF4 developed delivery and performance schedules to define roles, responsibilities and accountability, along with schedules of rates, reporting and performance measures. FieldForce4 consultants demonstrated in-depth knowledge and understanding of the NZ water industry, contract management and performance. FF4 provided excellent service to BDC and we would happily use their services again.”

Wellington Water Contract Review

Objective & Scope

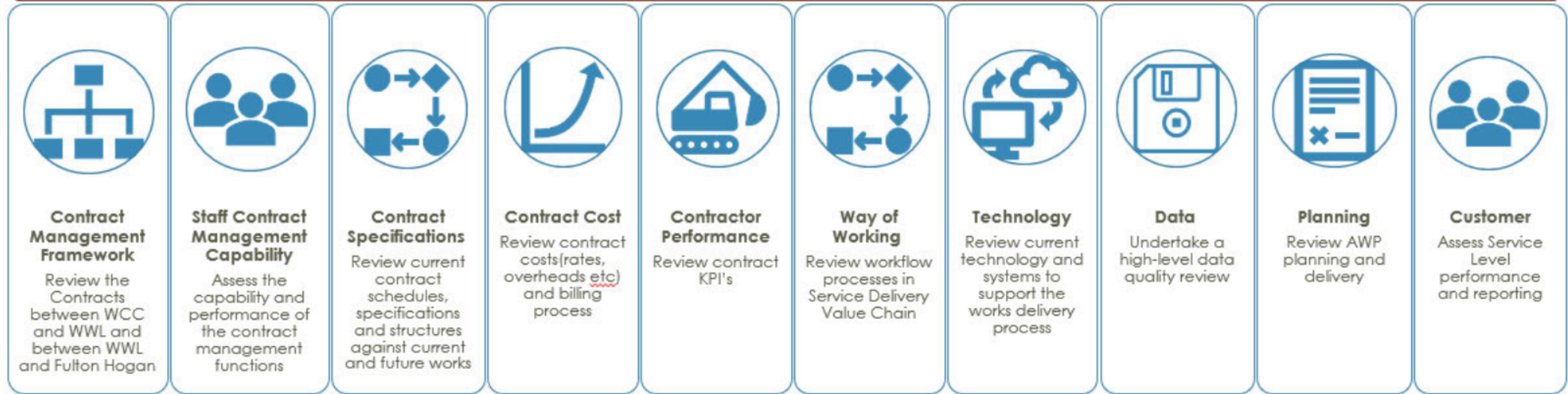
The purpose of this review is to inquire into and report upon the following:

- 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

Terms of Reference



Statement of Work



Out of scope items include:

- 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.

Wellington Water Contract Review

Approach

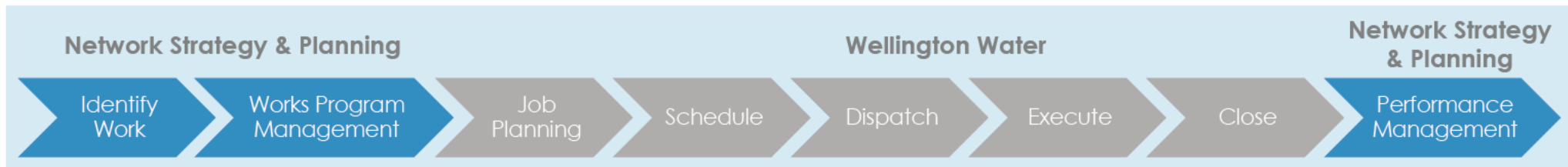
The objective of this review is to identify opportunities for contract management and operational performance improvements to deliver 'value for money' for Wellington City Council, Wellington Water, their customers and the community.

To achieve this objective FF4:

- **Reviewed the current contract framework** for both contracts (WCC – WWL, WWL – FH) to further understand the contract/service obligations of all parties
- **Undertook a current state analysis** of the management and service delivery performance in accordance with the Service Delivery Value Chain
- **Conducted a series of interviews** with appropriate staff in the Customer Operations Group and also staff in other areas that provide support to CoG
- **Reviewed the provided documentation** including reports and data analysis to support findings
- **Recommended potential areas for improvement**, taking into consideration the operating context, the unique features of Wellington City Council and Wellington Water as well as the reform timeframe

Contract Review Objectives

The contractual responsibilities across the Service Delivery value chain are allocated between the two parties as shown in the diagram below.



Wellington Water Contract Review

Key Findings

Problem Statement:

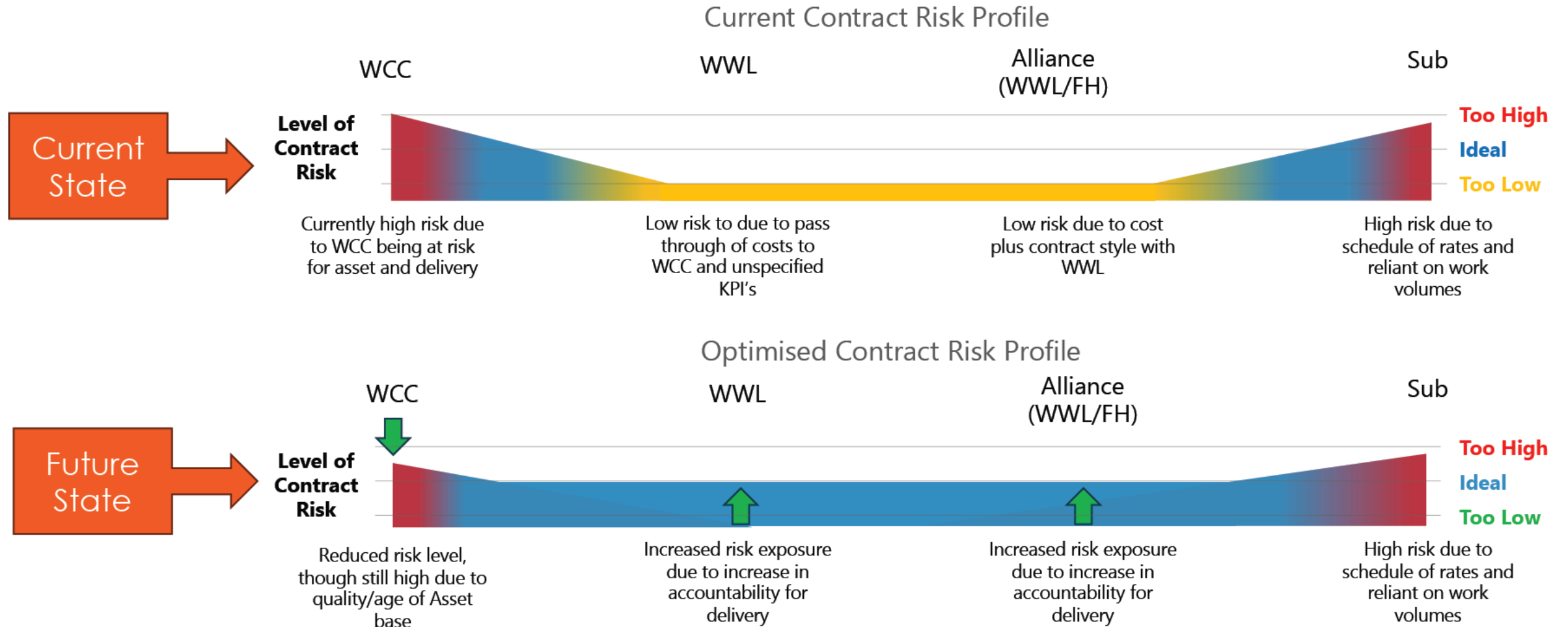
- There is insufficient contractual accountability assigned to Wellington Water from Wellington City Council and there is a lack of clarity on roles and responsibilities between the parties.
- WWL views their role as a trusted advisor while WCC view WWL's role as an accountable contracted service provider.
- Without contractually clear accountability and performance measures, WCC has effectively given WWL an open cheque book without the ability to manage the quality and efficiency of the services delivered, while all the risk and performance accountability sits with WCC.

Immediate Solution/Actions to transfer/share risk and accountability with WWL:

- The MSA (Master Services Agreement), without any contract changes, can be augmented with schedules and practice notes to:
 - **Define a JRM** (Joint Responsibility Matrix) to define roles, responsibilities & accountability between WCC & WWL
 - **Create a schedule of services, performance measures and SLAs** (as is standard with most contracted services)
 - **Create a schedule setting out monthly reporting standards** for each service delivered by WWL

Note: To allow the risk to be commercially shared by the contracting parties, the MSA schedules and practice notes need to be applied back-to-back by WWL to the FH alliance contract, and any other contracted parties

From a conceptual perspective, it doesn't appear that the end-to-end risk profile is proportionate to the intent of the contract.





Contract Management Framework

Both the management services agreement (MSA) and the alliance agreement do not adequately support the overall objective of WCC



Staff Contract Management Capability

Effective contract management is limited by the lack of specific requirements and a focus on issues at an operational level



Contract Specifications

The current contract does not specify the level of services and deliverables at an appropriate level of detail



Contract Cost

A lack of a consolidated view of contract costs impacts the ability to accurately assess the level of funding requirements and risk



Contractor Performance

The lack of appropriate performance monitoring and management measures inhibit the ability to effectively manage the contract risk and performance



Way of Working

Inconsistent processes impact effective service delivery across the value chain



Technology

A number of disparate systems with little or no integration to support the end-to-end delivery service model



Data

Data is not being used to effectively to manage and drive the performance of contract/business



Planning

Asset Management and the development of the Annual Works Program is fragmented with an emphasis on the funding requirements as opposed to Service Delivery and Network risk management



Customer

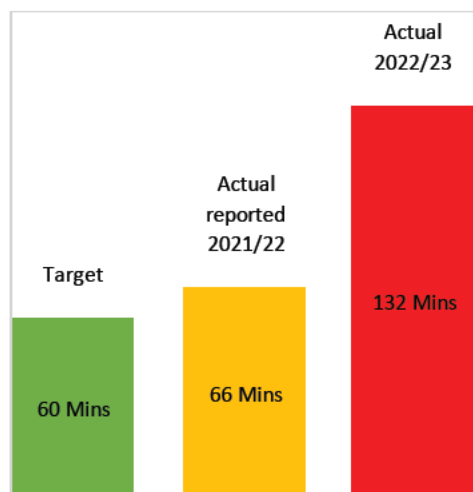
Current customer supporting systems and processes are ineffective in delivering on the desired customer experience

WWL Current Performance – Reactive Response Times

There appears to be an overall decrease in Water Supply reactive works performance

Medium response times to attend **urgent** call-outs:

Targets are currently being missed by over 100% and have been getting worse



Water Supply

Performance Measure	Target	2021/22 Result (Reported)	2021/22 Result (Restated using the updated methodology)	2022/23 Result
3A Median response time to attend urgent call-outs	<60 mins	66 mins	114 mins	132 mins
3B Median response time to resolve urgent call-outs	<4 hours	2 hours	17.4 hours	13.4 hours
3C Median response time to attend non-urgent call-outs	<36 hours	67 hours	334 hours	654 hours
3D Median response time to resolve non-urgent call-outs	< 5 days	3 days	22 days	40 days

Medium response times to attend **non-urgent** call-outs:

Targets are currently being missed by over 1,000% and have been getting worse

Wastewater

Performance Measure	Target	2021/22 Result (Reported)	2021/22 Result (Restated using the updated methodology)	2022/23 Result
3A Median response time to attend a sewage overflow resulting from a blockage or other fault in the sewerage system	<=60 mins	162 mins	100 mins	85 mins
3B Median response time to resolve a sewage overflow resulting from a blockage or other fault in the sewerage system	<= 6 hours	21 hours	17.7 Hours	7.9 hours

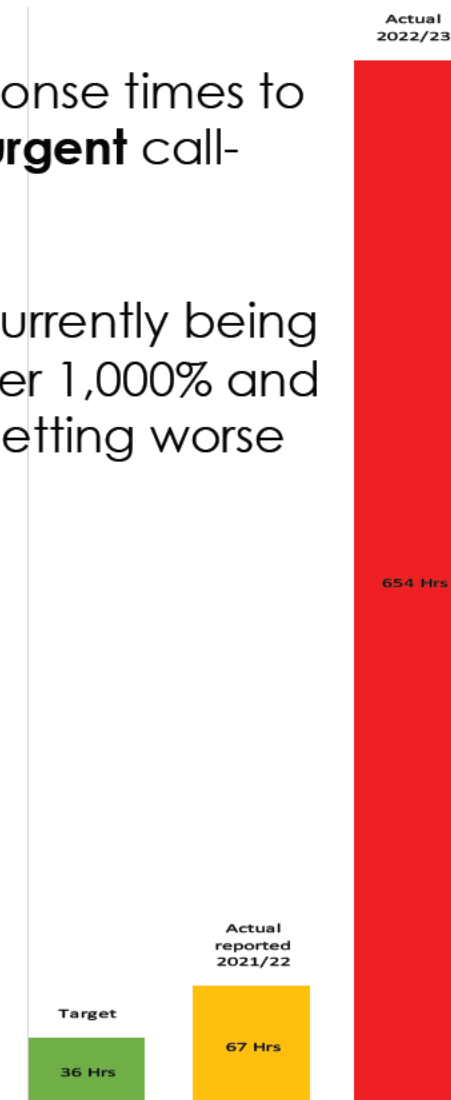
Proposed disclosure:

Correction of misstatement of attendance and resolution times

We have made improvements to the methodology used to measure the attendance and resolution times for water supply and wastewater. These changes relate to excluding records that were previously included, the most significant of which was the inclusion of duplicate records (where multiple people reported the same incident).

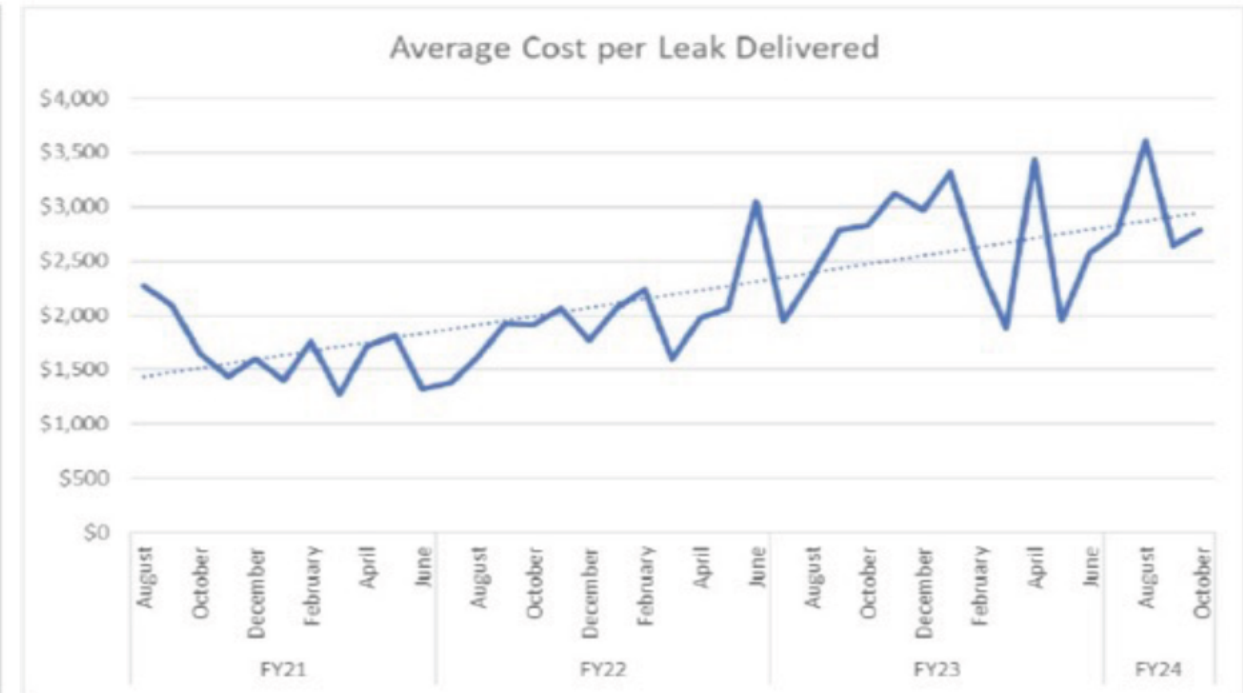
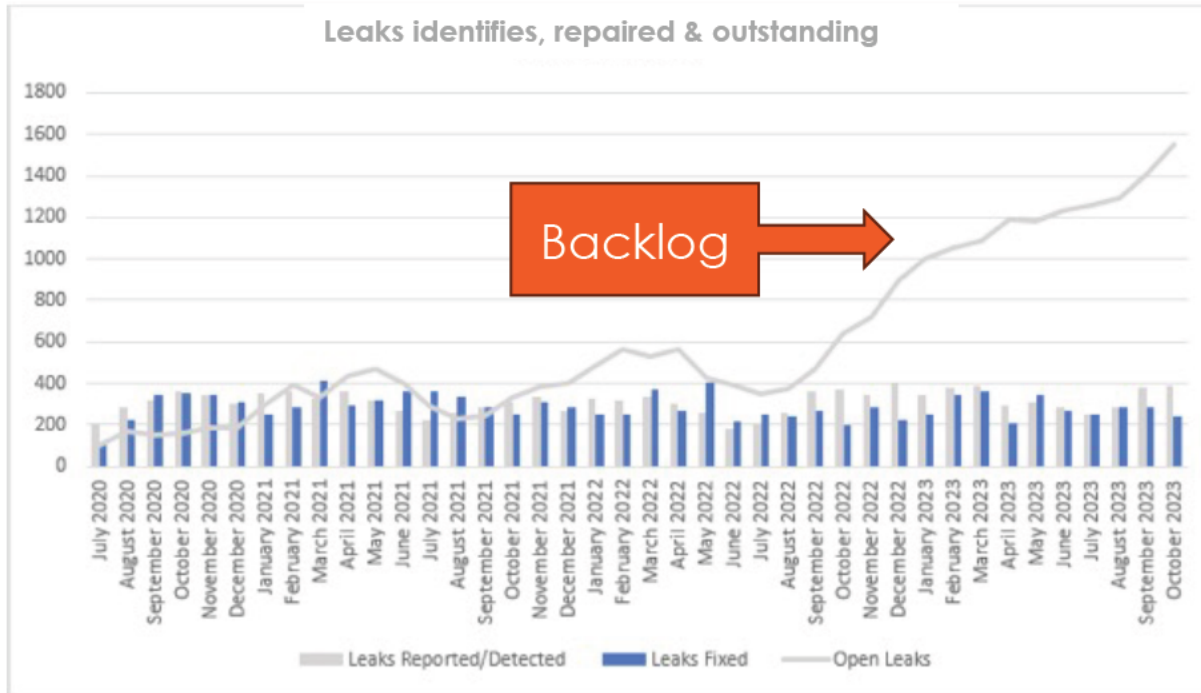
Due to the treatment of this data, duplicate records are closed before the job is complete, impacting the results. We have also removed additional jobs that were not strictly in line with the performance measure guidelines.

The times for the 2021/22 Financial Year have been restated and can be identified with a † in the DIA performance measure tables.



Leak detection and repair costs (data supplied by WWL):

- Over the past 3 years the leaks repaired completed have gone down slightly (blue bars on the left) while outstanding leaks have accelerated (grey line on the left) even after additional \$4.2M has been paid by WCC.
- At the same time the average cost to repair a leak has doubled over 3 years from \$1,500 to \$3,000 (trend line on the right)
- This shows increasing costs while a bow wave of unresolves leaks is creating a large backlog



Wellington Water
Contract Review

**Opportunities
for
Improvement**

A number of key improvement opportunities have been identified

1. **Revise the contract document to specify the delivery requirements**

To optimise the value of the contract and align expectations, a significant change is required to the contract documentation to improve commercial and contractual obligations and outcomes.

2. **Improve Contract Management Capability and Processes**

The Contract Management capability and processes across both businesses needs to be improved with a clear focus on improving delivery of services, commercial outcomes, contract performance and issue resolution.

3. **Consolidate the Asset Management function and develop the technical capability**

Consolidate the asset management functional alignment in the business to provide a coordinated approach and support the development of the annual works plan and capital program.

4. **Redefine the processes associated with the development of the AWP**

Review and improve the processes behind the creation of the AWP to ensure a robust and coordinated plan of works.

5. **Review the Functional Alignment and End to End Works Delivery Processes**

Review the functional areas and internal/external processes to improve support to service delivery, better planning through to scheduling and overall productivity and cost performance reporting.

6. **Review existing systems, applications and data architecture**

Review the existing systems to improve integration, reporting and service delivery

7. **Consider and implement a number of proposed improvements within the Alliance to improve operational efficiencies**

Opportunities to make improvements to the functional areas of the alliance to improve overall service delivery management

Improvements:

1. Review and establish clearly defined and measurable KRA's/KPI's across the MSA and the Alliance contract (back-to-back). In addition, this also includes the delivery of the CAPEX program
2. Review and define the overall reporting requirements. The objective being to provide WCC and WWL with the appropriate clarity and transparency of the actual performance from both a program delivery (OPEX and CAPEX) and financial perspective.
3. Revise the Annual Works Program (OPEX and CAPEX) and shift the narrative from a financial justification to a network risk and exposure perspective
4. Develop and implement standard task unit of rates for all reactive and planned works
5. Review the current works delivery processes including centralising job planning and scheduling. This also includes the prioritisation of all non-urgent (P2, P3, P4) works and the alignment to the Annual Works Program

**Wellington Water
Contract Review**

Supporting Documents

3-year financial maintenance costs

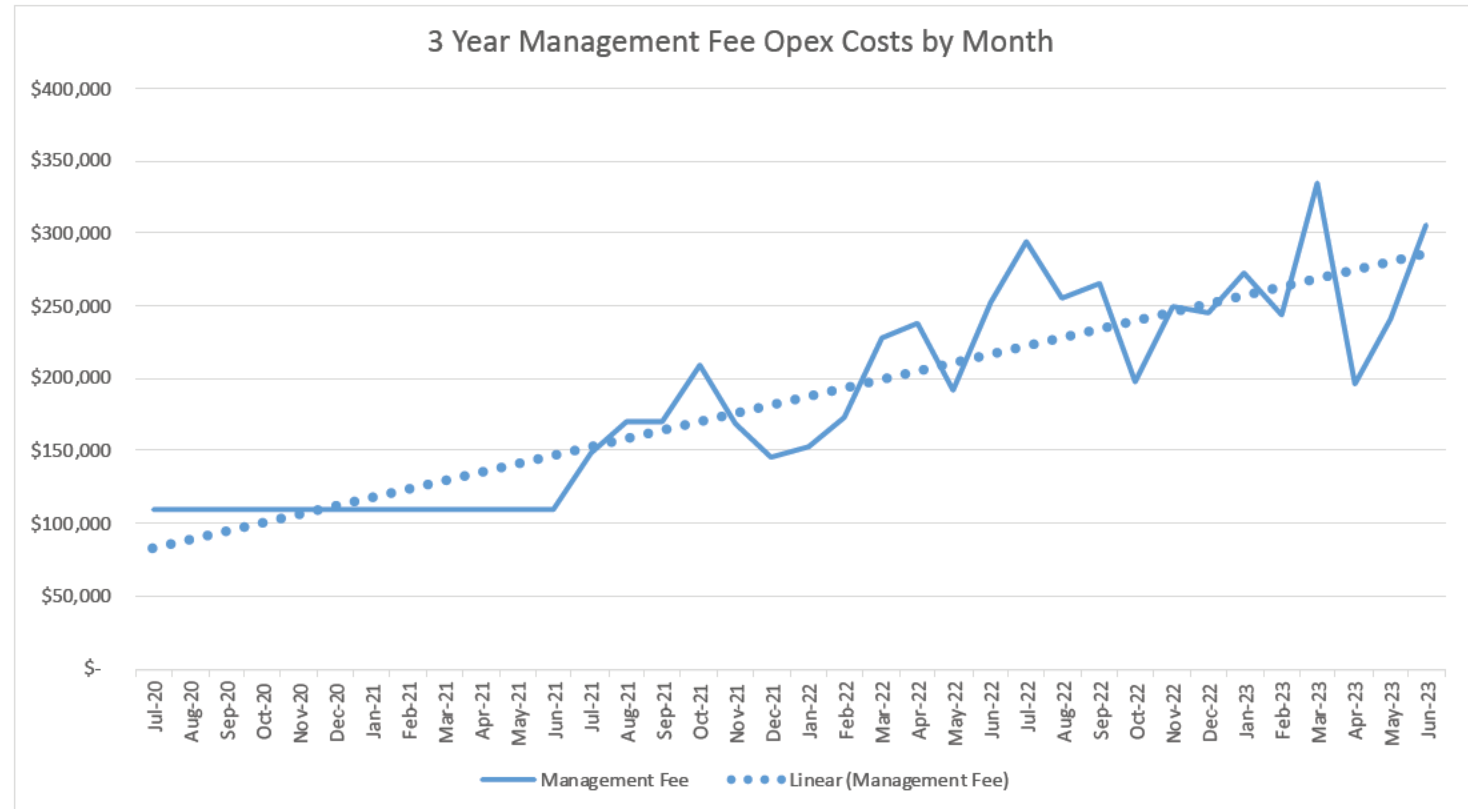
Actual costs and budgets

Investment Category	Sub Category	2020/21 Actual	2021/22 Actual	2022/23 Budget	2022/23 Actual	2023/24 LTP Budget	2023/24 Draft Budget	2023/24 Recommended Budget	Difference between 20/21 Actual and Rec Budget	3 Year % Change FY 2020/21 to 2022/23 Actual	3 Year % change FY 2020/21 to 2023/24 Rec Budget
Planned and Reactive Maintenance	FH Labour										
	Materials and Sundry										
	Plant Hire										
	Sub-Contractors										
	Direct Overheads										
	FH Profit										
	FH OH Recovery										
	FH IT recovery										
	WWL Management Fee										
Planned Maintenance		3,251,872	3,540,181	4,458,000	4,322,767	4,436,000	4,782,853	6,208,000	2,956,128	33%	91%
Reactive Maintenance		9,400,297	13,566,414	11,844,000	14,755,618	13,967,000	14,387,398	15,401,000	6,000,703	57%	64%
Sub Total Planned and Reactive		12,652,169	17,106,596	16,302,000	19,078,386	18,403,000	19,170,251	21,609,000	8,956,831	51%	71%
Monitoring & Investigations		2,725,657	4,356,757	5,855,000	4,442,166	6,292,000	5,095,592	7,672,000	4,946,343	63%	181%
Operations		325,187	216,456	346,000	281,519	371,000	361,069	420,000	94,813	-13%	29%
Treatment Plant		13,544,606	14,287,825	15,238,000	16,997,709	15,618,000	18,803,249	18,785,000	5,240,394	25%	39%
Management & Advisory Services		4,976,892	5,431,839	5,887,000	5,886,785	6,342,000	7,102,740	7,103,000	2,126,108	18%	43%
Total		34,224,511	41,399,472	43,628,000	46,686,565	47,026,000	50,532,901	55,589,000	21,364,489	36%	62%

Key Findings – Contract Cost

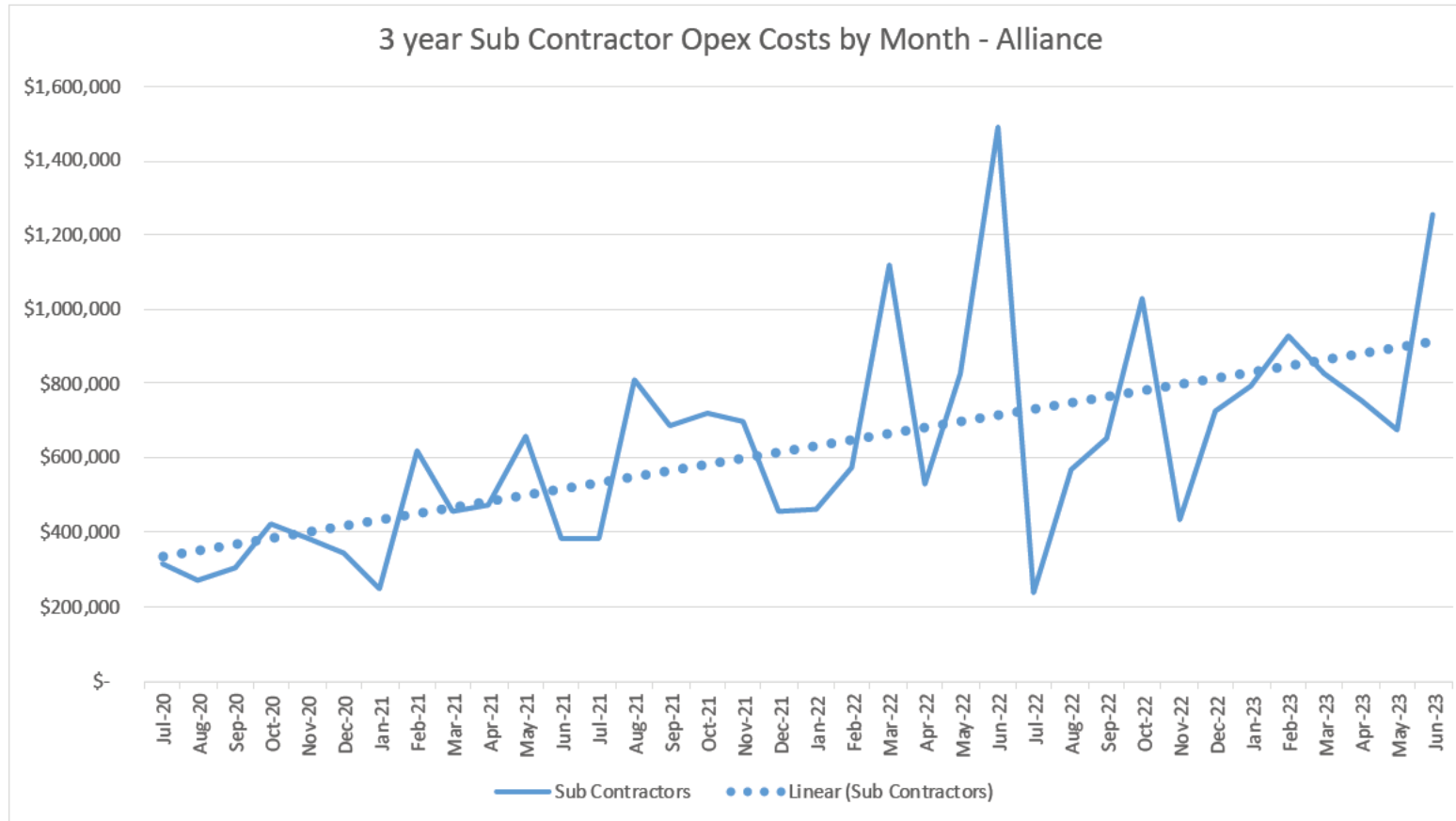
It wasn't apparent what the underlying cause is for the fluctuation in the management fee costs

- The first 12 months follows the usual pattern for Management Fee (fixed monthly amount) but has been steadily trending upwards with fluctuating monthly charges



Key Findings – Contract Cost

The increase in Subcontractor spend is attributed to an average increase of 29% in contractor rates and subcontractor engagement



Key Findings – Planning

For FY22/23, there didn't appear to be appropriate controls at the individual project level or the provision for unexpected CAPEX incidents

22/23 CAPITAL WORKS	Original Budget	Budgeted Spend	Total Actual Spend	Difference Total Actual Spend vs Original Budget
Actual vs Budget Spend	\$64,952,172	\$61,993,212	\$72,165,263	(\$7,213,091)
	Budgeted Projects	Unbudgeted Projects	Total Projects	Cost of budgeted overspend
Number of Projects 22/23	87	71	158	
Number of Projects overbudget	34			
% of Projects Overbudget	39%			\$16,921,163
% of Unbudgeted Projects		45%		\$10,172,050
			Total unbudgeted Capex	\$27,093,213

- Note: 1. Source - FY21 – FY24 Council Capex Act-Bud Analysis WCC
 2. No allowance is made for carryover works and only the financial year figures have been used
 3. Further analysis is required with the CAPEX program area



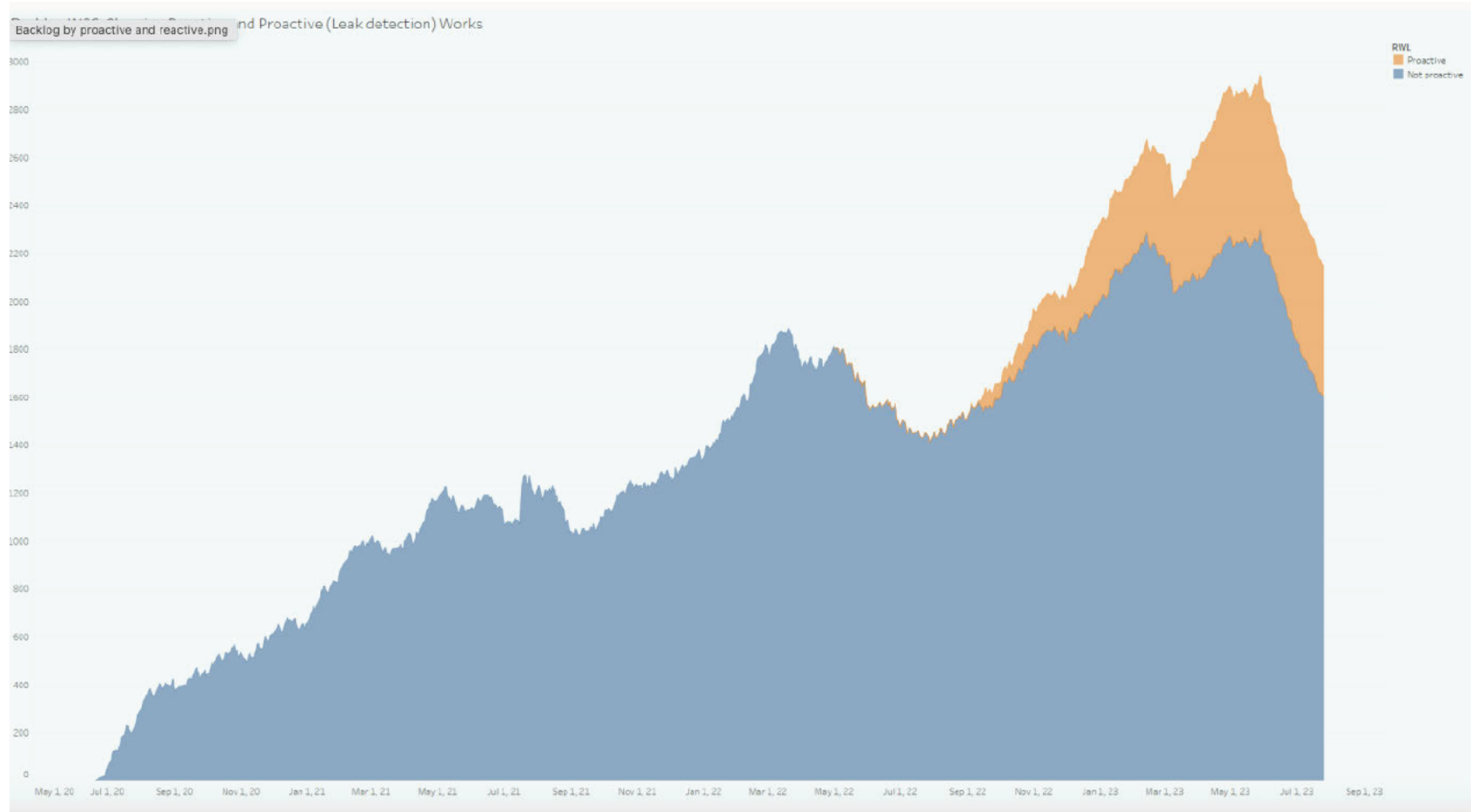
Key Findings – Contract Cost

There appears to be significant costs incurred for “unexpected events” that are completed as capital works but are unbudgeted

22/23 Actual Costs						
Group	Category	Opex	Total Opex	Minor Cap Works (unbudgeted)	Capex Program (budgeted)	Total
Alliance	Planned Maintenance	\$4,322,767	\$19,078,386	\$10,172,050		\$29,250,436
	Reactive Maintenance	\$14,755,618				
WWL	Monitoring & Investigations		\$4,442,166		\$61,993,212	\$89,601,391
	Operations		\$281,519			
	Treatment Plant		\$16,997,709			
	Management & Advisory Services		\$5,886,785			
TOTAL SPEND			\$46,686,565	\$10,172,050	\$61,993,212	\$118,851,827

Proactive Impact of monitoring and investigations

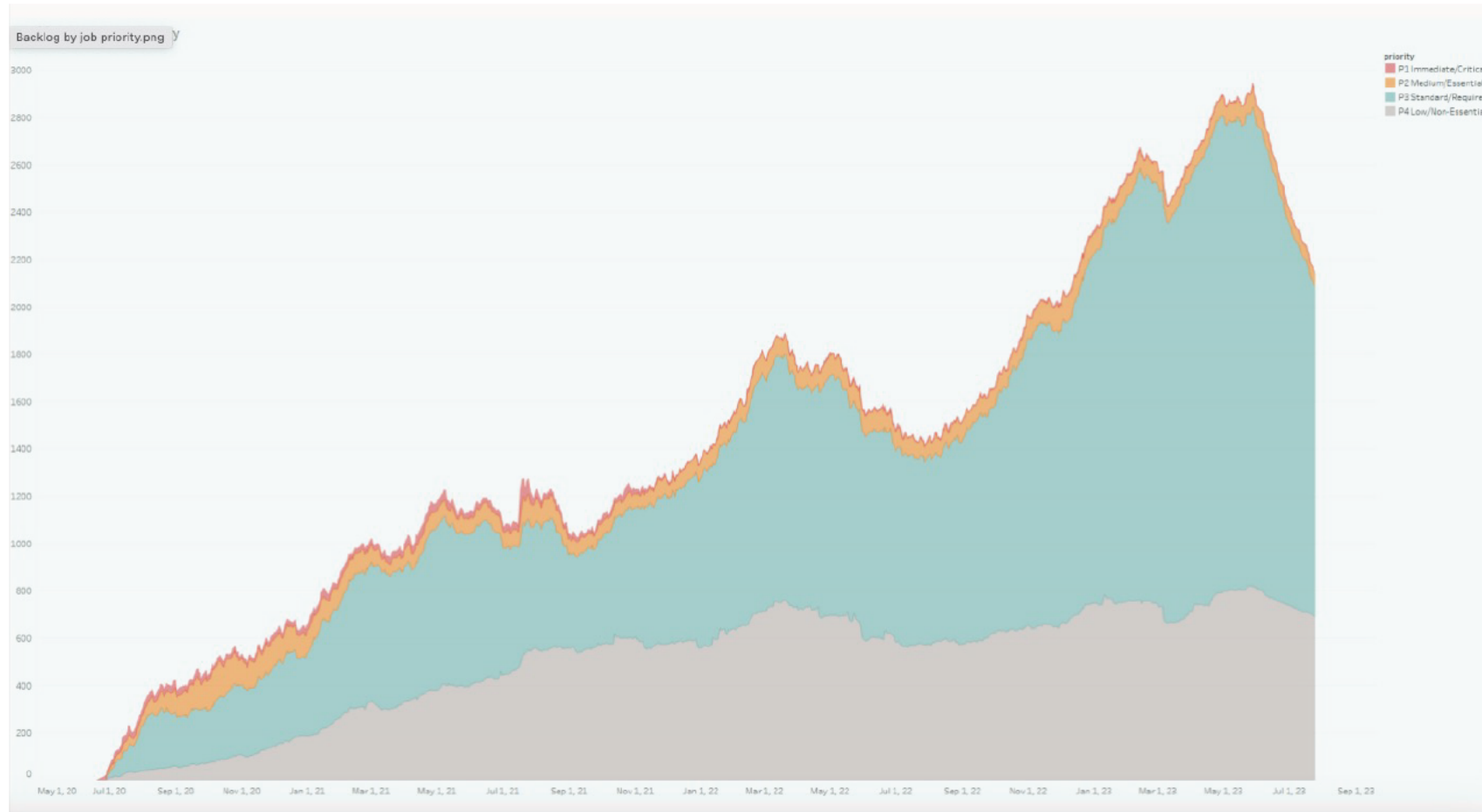
The graph below depicts the impact of the proactive program approach associated with the monitoring and investigations program



Source: WWL source Data

Overall Maintenance and Reactive Works Program

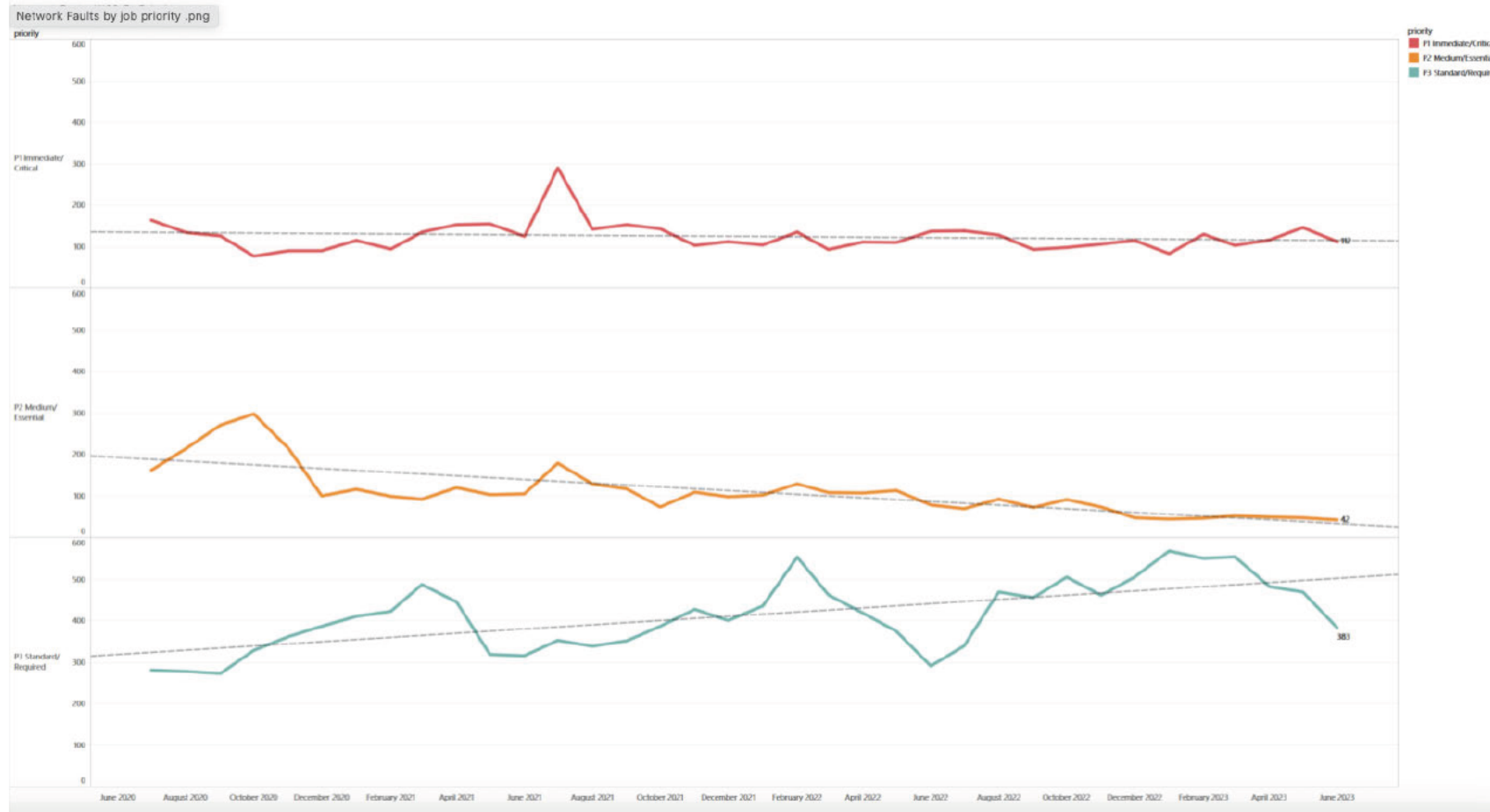
Priority 3 and 4's are the major contributor to the current program



Source: WWL Source Data

Priority Works Volume Trend

P1 have remained relatively stable over the past 3 years, while P3's have experienced an upward trend



**Wellington Water
Contract Review**

Other Reports/Reviews

Report Highlights

WATER

- There is a limited understanding of the condition of our three waters assets.
- Water loss is difficult to measure or understand without metering.
- Wellington City's three waters infrastructure is generally in a poor condition and a significant increase in investment is required to both operate the networks to the required standard and to improve the condition.

ASSET MANAGEMENT

- The understanding of the condition of critical assets is inadequate.
- The funding of current renewals and maintenance programs is inadequate.
- Renewals funding has rarely met depreciation which has often been reprioritised to other assets.
- Three waters financial and non-financial reporting is complicated and has not presented decision makers with an accurate picture of either the state of the network or the risks of funding decisions.

PERFORMANCE

- There is an abundance of performance measures that have little relevance to citizens or to WCC.
- There are limited consequences for failing to meet the performance standards.
- It is difficult to hold WCC and Wellington Water to account for the measures because of the split between asset ownership and service provision.

GOVERNANCE

- Governance of Wellington Water's performance cannot be separated from the performance of the network.
- The accountability split is unsustainable and the Taskforce's view is that asset ownership should be reviewed with a view to shifting assets into Wellington Water or a new entity as is anticipated by Central Government.

OVERALL

- The current approach to water will not meet future demand, aspirations or community expectations. The City and WCC have underinvested in the three waters infrastructure for many years. The very high water leakage rate and poor performance of the sewerage network are unacceptable, and will be expensive to fix.

Report Highlights

A review was commissioned by WWL for WICS to review:

- the cost effectiveness of Wellington Water's operating costs incurred on behalf of WCC. This is based on operating cost benchmarking models developed in Great Britain and applied in several jurisdictions.
- comparisons of Wellington Water's forecast for capital maintenance expenditure (maintenance and renewals) for WCC to that of companies in Great Britain.
- comparisons of Wellington Water's asset performance.
- comparisons of WCCs renewals expenditure and accounting and economic depreciation.

A snapshot of the findings are:

- Wellington Water is doing fairly well at managing the business on a tight budget in the short-term. BUT this is at the expense of increasing the risk of service failure and – ultimately – future costs as a consequence of having to undertake more reactive repair work when assets do fail.
- Consistent with the trend on reactive maintenance expenditure over the past four years, the number of asset failures suggests that there has been inadequate investment in asset knowledge and, ultimately, proactive maintenance.
- The actual level of renewals investment has consistently been significantly lower than the depreciation collected. The result is that the network is ageing and deteriorating, leading to increases in pipe breakages and increasing water loss and wastewater leakage.
- While there may be a temptation to reduce investment in improving knowledge on asset condition and performance to live within existing budgets in the short-term, such initiatives will inevitably increase system wide costs in future years due to increasing responsive maintenance costs.
- A longer term approach would involve investment in asset knowledge, reviewing and improving asset management planning processes and having more transparency around the governance of the investment plan.

Report Highlights

An internal review was conducted in the Customer Operations Group to identify current issues impacting on frontline service delivery. The highlighted areas of concern were: Need for greater consistency; Resourcing in Team Leader position; Improving customer expectations; Improvements in change and internal communication; Service Levels; Role clarity, process and trust; Ownership of systemic technology issues.

A snapshot of the findings are:

- A lack of capacity of the Customer Operations Group workforce to meet current demand/backlog.
- CARs and TMPs are being misused and impacts responsiveness.
- Customers tell us that we don't fix their jobs fast enough, communicate well and provide good quality work.
- There are areas of compliance that currently or could in the future result in risk for WWL.
- Variable data quality. Inaccurate or inadequate data collected impacts asset management.
- Duplicate jobs impact on delivery.
- Inconsistent categorisation of work (OPEX / CAPEX) impacts on internal budgets, WCC funding and financial compliance.
- We lack the ability to query costs and become more economically efficient.
- The handover of new assets can be problematic without adequate handover, resources and funding.
- Lack of strong integration between functional teams across the organisation is leading to poor handovers between teams and creating higher levels of operational risk.
- There is a lack of clarity regarding what the priorities are across the group which impacts on reactive and planned maintenance delivery.
- Teams require clearer guidance on roles and responsibilities.
- There are times when the technology impairs operations ability to conduct their work effectively.

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