

23 October 2024

Commercial-in-Confidence

██████████  
 Wellington Water Ltd  
 By email

Dear ██████████

**Review of Three Panels Delivery Costs and Valuation Unit Rates - Proposal**

Thank you for the opportunity to provide further support to Wellington Water (WWL). This proposal in response to our discussion on 18 October 2024 supersedes our proposal to you dated 10 October 2024 and sets out our understanding of the scope of services required, along with our suggested approach, team, programme and commercials.

**1.0 Scope of services**

**1.1 Panel Costs Review**

To review cost information associated with the current collaborative panel contracts and provide objective comparative commentary considering:

Panel	Considerations
<b>Alliance</b> Operations and maintenance (O&M) contract (“Alliance”) with Fulton Hogan	<ul style="list-style-type: none"> <li>• Historical levels of O&amp;M spend</li> <li>• O&amp;M spend levels within the water sector and with other similar organisations/networks</li> <li>• Rates used for labour, plant and materials</li> <li>• Derived rates for major activity types (such as cost per water supply network unplanned repair)</li> </ul>
<b>Contractor</b> Capital works construction panel	<ul style="list-style-type: none"> <li>• Rates used for labour, plant and materials</li> <li>• Derived unit rates where possible for significant activity types (such as cost per metre of pipe construction for varying diameter ranges)</li> <li>• Historical trends for unit rates</li> </ul>
<b>Consultants</b> Professional services panel	<ul style="list-style-type: none"> <li>• Hourly charge (labour) rates</li> <li>• Derived rates for construction activity types (such as design fees as a percentage of capital cost)</li> <li>• Historical trends for these derived rates</li> </ul>

The following is excluded from our scope of services:

- WWL internal costs associated with the Alliance and panel contracts
- Commentary on whether the current arrangements represent value for money.

**1.2 Valuation Unit Rates review**

In addition, we will undertake a review of unit rates used within the latest valuations for Hutt City and Upper Hutt City Councils. This will extend the scope of the analysis undertaken within the Contractor Panel cost review work.

**2.0 Potential conflict of interest**

We recognise that our review of the professional services panel cost information may be seen as a future conflict of interest should we wish to bid for any future panel opportunities with Wellington Water.

Where a potential, perceived, or actual conflict is identified, we work with our clients to agree a conflict-of-interest plan that sets out the measures AECOM will put in place to mitigate the conflict. These measures can include:

- Nominating an individual to manage the implementation of the conflict-of-interest plan.
- Creating an internal 'Ethical Wall' whereby project files are restricted to project team personnel only; there is no crossover of personnel between conflicting projects (including administrative staff) and information is not shared or discussed between the project teams
- Making sure the relevant personnel are aware of and agree to comply with the conflict-of-interest plan.
- Requiring personnel to report any actual or suspected breaches of the conflict-of-interest plan.

We propose to develop a tailored conflict-of-interest plan for WWL approval before receiving commercially sensitive information relevant to the professional services panel so that our eligibility for future panel inclusion is not compromised.

### 3.0 Inputs

Information to be provided by WWL includes:

- Financial records or statements for 3 years:
  - O&M - e.g. full financial year Alliance claims and/or itemised end-of-year statements. (Examples of monthly claims have already provided)
  - Capital works – final contractor claims and/or itemised end-of-project statements on a project-by-project basis in a form to enable costs to be apportioned to specific assets (e.g. installation of a pipeline with a specified length, location and diameter)
  - Professional services – final consultant invoices and/or itemised end-of-project statements on a project-by-project basis in a form to enable costs to be apportioned to activity types (e.g. investigation, design, construction monitoring)
- Number of network failures attended, sourced from your Asset Management Information System (AMIS)
- Supplementary information as requested, e.g:
  - Contractor and consultant roles and seniority to align with our labour rates review
  - Activity and/or project information such as council identifier, location (e.g. CBD) and project complexity (e.g. low, moderate and high)
  - Latest valuation reports including table of unit rates, and, if available, spreadsheet calculations showing unit rate derivation

### 4.0 Suggested approach

We propose the following approach:

#### 4.1 Project mobilisation

Following acceptance of this proposal we will establish our project folders and project management requirements in accordance with our Quality System. We will hold a 1-hour Project Kick-off meeting with Wellington Water to confirm project objectives and key success factors, scope and approach, programme, deliverables and key points of contact.

#### 4.2 Information desk-top review and analysis

We will request and review information as noted in 3.0 – Inputs, along with supplementary information we have and/or can source separately including that reported by local authority organisations in Water New Zealand's National Performance Review benchmarking programme, Taumata Arowai's water services insights and performance data, Office of the Auditor General's report into investment and performance, and, if necessary, financial data from Annual Reports. We will also refer to our valuation

and construction unit rate library. Following the desk-top review we may contact you should we need any further information or clarification.

We note that care should be taken in interpretation of the outputs. From experience we expect that correlations will not necessarily be clear and will require some smoothing. For this reason, outlier trends will be of more importance than fine variations in the comparisons.

## **O&M Alliance**

We will commence analysis, including comparative analysis or benchmarking, as well as a wider market review to<sup>1</sup>:

- Understand, segment and trend historical and current O&M expenditure within the Wellington metros and separately for South Wairarapa District Council if the data allows this. This reflects the different operating environments and the likelihood that costs will be different in the two areas. Should our analysis show little difference, we will note this and combine the outcomes for ease of presentation
- Compare this level of expenditure over time and against other similar organisations in New Zealand. We would do this with reference to the information provided by WWL, as well as NPR, Annual Report and AM plan data and would report this for each water service and/or across all three water services in terms of:
  - O&M expenditure per km of pipe and/or per connection/serviced property
  - Unplanned network maintenance cost per km of pipe and/or per connection/serviced property (our preliminary review of information provided indicates this is by far the highest cost item)
  - Unplanned network maintenance cost per number of network failures (average cost of repair)
- If possible, we will also look to isolate and quantify reactive rework and its associated cost and present this in a useful manner, although we may not be able to benchmark this against other organisations.
- Compare rates used for labour, plant and materials against typical rates within the water, civil and vertical sectors
- We would also analyse and compare other factors which may influence costs and/or provide context including:
  - Number network failures / km pipe
  - Number network failures / connection
  - Leakage rate (for water supply only)

## **Capital Works Construction Panel**

We will segment and analyse the capital project information to derive average unit rates for common activities such as pipe construction; unit rates will be calculated by pipe diameter and indexed to the current date. Although we will examine the data available across other activity types, there may not be sufficient data to have confidence in analysis outputs for them. Similarly, it may be possible to introduce factors such as CBD location, or construction complexity, although experience shows that the time required to undertake the analysis increases significantly with the introduction of each factor, and we have not allowed for this in our proposal.

These derived unit rates will be compared to those used within the latest valuations. If there is good correlation, we may then be able to use the valuation rates to extrapolate across to other activity types, and to use valuation unit rates as a comparator between councils, and over time with reference to our valuation library.

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<sup>1</sup> These examples apply to water supply. Although similar, metrics for wastewater and stormwater within NPR data vary slightly and a wider range may be required to support or identify the most appropriate "repair" measure (e.g. dry weather overflows, complaints, flooding incidents)

We will also compare rates used for labour, plant and materials against typical rates within the water, civil and vertical sectors.

### Professional Services Panel

We will segment and analyse the professional services information associated with capital projects to derive indicative envelopes of fees as a percentage of capital cost. These will include high level overall aggregated fees per capital cost, as well as envelopes at a finer level of granularity for common activities such as pipe construction. Although we will examine the data available across other activity types, there may not be sufficient data to have confidence in analysis outputs for them. If possible, we will factor in type and complexity of project, although there may not be sufficient data for this to provide any meaningful results.

We will also compare charge (labour) rates used against typical rates within the water, civil and vertical sectors.

### Valuation Unit Rates

We will extend the derived unit rate analysis undertaken in the review of the Capital Works Construction Panel to a broader range of asset classes. Although we will focus the analysis on rates used within the valuations for Hutt City and Upper Hutt City, our work may also bring in similar data review and assessment for some of the other shareholder councils. We will assess these rates against our valuation rates library, particularly rates derived and used for similar councils, and with QS-generated bottom-up rates for selected asset classes.

## 4.3 Reporting

We will meet with you on a fortnightly basis to discuss both progress, as well as our interim findings and suggested analysis refinements and/or simplifications to reflect the reality of the data available.

We will document the work undertaken and our findings in a draft report with separate sections for each of the three panels assessed. This will be provided to you for review and comment, and followed up with a discussion session with you to ensure that the report meets your requirements.

Feedback as agreed will be incorporated and a final draft prepared for discussion prior to completion as final.

## 5.0 Deliverables

- First draft report – tabulated findings, supported by graphs where relevant, and bullet-point observations
- Final draft report, building on the outputs listed in the bullet above
- Final report

## 6.0 Team members

Our team members are:

Core Team Member	Comment
7(2)(a)	

Core Team	Comment
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7(2)(a)



In addition to the core team, 7(2)(a) will be the Lead Verifier for this project to ensure our services are aligned with this proposal and all quality processes have been undertaken satisfactorily. Both 7(2)(a) are well known to Wellington Water, although we are happy to provide summary CVs for all team members should you require this.

## 7.0 Programme

We note WWL's request to deliver draft outputs within a month. We have managed to redistribute some of our team's existing commitments and will strive to meet this programme although this will be challenging. We believe a more realistic delivery date for the first draft report would be 6 December 2024, assuming a commencement date of 25 October, and ask that you consider the following proposed programme:

- First draft report - 6 December 2024
- Final draft report – 16 December 2024
- Final report – 20 December 2024

## 8.0 Fees and Commercial Conditions

Our Terms and Conditions for this work are the standard ACENZ/Engineering NZ Short Form Agreement for Consultant Engagement (February 2019) with any variations listed under the heading "Variations to the Short Form Model Conditions of Engagement" that appears on the cover page. In this attached agreement we have set out our understanding of the services you require and our fees

for these services. Please note that the fees and expenses shown are exclusive of GST. We would contact you during the work should additional work (and therefore additional expenditure) be required.

We propose a lump sum commission of 7(2)(b) (excluding GST), as detailed in the table below.

Table 1 Fee Estimate

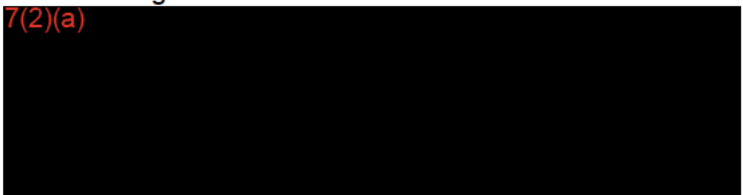
Role	Key Resource	Classification	Rate	Hours	Fee (excl GST)
Lead Reviewer/Author	7(2)(a)	Technical Director	7(2)(b)(ii)	7(2)(b)(ii)	7(2)(b)(ii)
Market and Rates Analysis		Technical Director			
Derived Rate Analysis:					
NPR Analysis		Senior Consultant			
Capex Unit Rates		Senior Consultant			
Professional Services		Senior Consultant			
Valuation Unit Rate Analysis		Senior Consultant			
		Technical Director			
Analysis Review		Associate Director			
Verification		Technical Director			
Project Management					
<b>TOTAL</b>					

**9.0 Closing**

Thank you for this opportunity to help Wellington Water. Please do not hesitate to contact me should you wish to discuss this proposal in any way.

Kind regards

7(2)(a)



Technical Director, Strategic Asset Management

@aecom.com

Mobile: 7(2)(a)

end: Short Form Agreement - Blank

## SHORT FORM AGREEMENT FOR CONSULTANT ENGAGEMENT

**Between:** Wellington Water Ltd

(CLIENT)

**and:** AECOM New Zealand Ltd

(CONSULTANT)

Collectively referred to herein as the "Parties" and individually as a "Party"

**Project:**

Review of Three Panels Delivery Costs and Valuation Unit Rates

**Location:**

Wellington

**Scope & Nature of the Services:**

Refer attached letter dated 23 October 2024. Review cost information associated with the three current collaborative panel contracts and review of latest valuation unit rates for Hutt City and Upper Hutt City and provide objective comparative commentary

**Programme for the Services:**

Refer attached letter. Draft report - 6 December 2024, Final Draft Report 13 December 2024, Final Report 20 December 2024

**Fees & Timing of Payments:**

Refer attached letter. Lump sum fee of 7(2)(b) (excluding GST).

*All fees and expenses are exclusive of GST, which the Client will be responsible for paying upon production by the Consultant of a valid GST invoice.*

**Information or Services to be Provided by the Client:**

Refer attached letter. Financial records, AMIS records of failures, personnel roles, project details and valuation reports and calculations

The Client engages the Consultant to provide the Services described above and the Consultant agrees to perform the Services for the remuneration provided above. Both Parties agree to be bound by the provision of the Short Form Model Conditions of Engagement (overleaf), including clauses 2, 11, and 12 and any variations noted below. Once signed, this agreement, together with the conditions overleaf and any attachments, will replace all or any oral agreement previously reached between the Parties.

**Variations to the Short Form Model Conditions of Engagement (Overleaf):**

**Client Authorised Signatory (ies):**

[Redacted Signature]

**Print Name:** [Redacted] Director Regulatory Services

**Date:** [Redacted] 23 October 2024

**Consultants Authorised Signatory (ies):**

7(2)(a) [Redacted Signature]

**Print Name:** 7(2)(a), Technical Director

**Date:** 23-Oct-24

**SHORT FORM MODEL CONDITIONS OF ENGAGEMENT**

1. The Consultant shall perform the Services as described in the attached documents.
2. The Client and the Consultant agree that where all or any of, the Services are acquired for the purposes of a business the provisions of the Consumer Guarantees Act 1993 are excluded in relation to those Services. However, nothing in this Agreement shall restrict, negate, modify or limit any of the Client's rights under the Consumer Guarantees Act 1993 where the Services acquired are of a kind ordinarily acquired for personal, domestic or household use or consumption and the Client is not acquiring the Services for the purpose of a business.
3. In providing the Services, the Consultant must use the degree of skill, care and diligence reasonably expected of a professional consultant providing services similar to the Services.
4. The Client shall provide to the Consultant, free of cost, as soon as practicable following any request for information, all information in the Client's power to obtain which may relate to the Services. The Consultant shall not, without the Client's prior consent, use information provided by the Client for purposes unrelated to the Services. In providing the information to the Consultant, the Client shall ensure compliance with the Copyright Act 1994 and shall identify any proprietary rights that any other person may have in any information provided.
5. As soon as either Party becomes aware of anything that will materially affect the scope or timing of the Services, the Party must notify the other Party in writing and where the Consultant considers a direction from the Client or any other circumstance is a variation the Consultant shall notify the Client accordingly.
6. The Client may order variations to the Services in writing or may request the Consultant to submit proposals for variations to the Services.
7. The Client shall pay the Consultant for the Services the fees and expenses at the times and in the manner set out in the attached documents. Where this Agreement has been entered by an agent (or a person purporting to act as agent) on behalf of the Client, the agent and Client shall be jointly and severally liable for payment of all fees and expenses due to the Consultant under this Agreement.
8. All amounts payable by the Client shall be due on the 20th of the month following the month of issue of each GST Invoice or at such other timing as stated elsewhere in this Agreement. If the Client fails to make the payment that is due and payable and that default continues for 14 days, the Consultant may provide written notice to the Client specifying the default and requiring payment within 7 days from the date of the notice. Unless payment has been made by the Client in full, the Consultant may suspend performance of the Services any time after expiration of the notice period. The Consultant must promptly lift the suspension after the Client has made the payment. Regardless of whether or not the Consultant suspends the performance of the Services in accordance with this clause, the Consultant may charge interest on overdue amounts from the date payment falls due to the date of payment at the rate of the Consultant's overdraft rate plus 2% and in addition the costs of any actions taken by the Consultant to recover the debt.
9. Where the nature of the Services is such that it is covered by the Construction Contracts Act 2002 (CCA) and the Consultant has issued a payment claim in accordance with the CCA, the provisions of the CCA shall apply. In all other cases, if the Client, acting reasonably, disputes an invoice, or part of an invoice, the Client must promptly give the reasons for withholding the disputed amount and pay any undisputed amount in accordance with clause 8.
10. Where Services are carried out on a time charge basis, the Consultant may purchase such incidental goods and/or Services as are reasonably required for the Consultant to perform the Services. The cost of obtaining such incidental goods and/or Services shall be payable by the Client. The Consultant shall maintain records which clearly identify time and expenses incurred.
11. Where the Consultant breaches this Agreement, the Consultant is liable to the Client for reasonably foreseeable claims, damages, liabilities), losses or expenses caused directly by the breach. The Consultant shall not be liable to the Client under this Agreement for the Client's indirect, consequential or special loss, or loss of profit, however arising, whether under contract, in tort or otherwise.
12. The maximum aggregate amount payable, whether in contract, tort or otherwise, in relation to claims, damages, liabilities, losses or expenses, shall be five times the fee (exclusive of GST and disbursements) with a minimum of \$100,000 and a maximum limit of \$NZ500,000.
13. Without limiting any defences a Party may have under the Limitation Act 2010, neither Party shall be considered liable for any loss or damage resulting from any occurrence unless a claim is formally made on a Party within 6 years from completion of the Services.
14. The Consultant shall take out and maintain for the duration of the Services a policy of Professional Indemnity insurance for the amount of liability under clause 12. The Consultant undertakes to use all reasonable endeavours to maintain a similar policy of insurance for six years after the completion of the Services.
15. If either Party is found liable to the other (whether in contract, tort or otherwise), and the claiming Party and/or a Third Party has contributed to the loss or damage, the liable Party shall only be liable to the proportional extent of its own contribution.
16. Intellectual property prepared or created by the Consultant in carrying out the Services, and provided to the Client as a deliverable, ("New Intellectual Property") shall be jointly owned by the Client and the Consultant. The Client and Consultant hereby grant to the other an unrestricted royalty-free license in perpetuity to copy or use New Intellectual Property. The Clients' rights in relation to this New Intellectual Property are conditional upon the Client having paid all amounts due and owing to the Consultant in accordance with clauses 7 and 8. Intellectual property owned by a Party prior to the commencement of this Agreement (Pre-existing Intellectual Property) and intellectual property created by a Party independently of this Agreement remains the property of that Party. The Consultant accepts no liability for the use of New Intellectual Property or Pre-existing Intellectual Property other than to the extent reasonably required for the intended purposes.
17. The Consultant has not and will not assume any duty imposed on the Client pursuant to the Health and Safety at Work Act 2015 ("the Act") in connection with the Agreement.
18. The Client may suspend all or part of the Services by notice to the Consultant who shall immediately make arrangements to stop the Services and minimise further expenditure. The Client and the Consultant may (in the event the other Party is in material default that has not been remedied within 14 days of receiving the other Party's notice of breach) either suspend or terminate the Agreement by notice to the other Party. If the suspension has not been lifted after 2 months the Consultant has the right to terminate the Agreement and claim reasonable costs as a result of the suspension. Suspension or termination shall not prejudice or affect the accrued rights or claims and liabilities of the Parties.
19. The Parties shall attempt in good faith to settle any dispute by mediation.
20. This Agreement is governed by the New Zealand law, the New Zealand courts have jurisdiction in respect of this Agreement, and all amounts are payable in New Zealand dollars.