

Contract Optimisation review conducted by FieldForce4

Purpose

1. The purpose of this paper is to set out the concerns Wellington Water (WWL) has with the Contract Optimisation Review conducted by reviewer FieldForce4 at the request of Wellington City Council (WCC), and to provide WWL's response to the executive summary report ('the report') and the draft detailed report.
2. This document is intended to be read alongside the report to indicate WWL's position.
3. We would like to confirm our offer to come to speak to your council when the report is produced so that they can hear and understand our position.

WWL's Position

4. WWL does not accept the report, and is unable to approve it 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 Statement of Work 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. We now have the final Executive Summary of the FieldForce4 Contract Optimisation – Opportunity Report, provided on 19 December. 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.

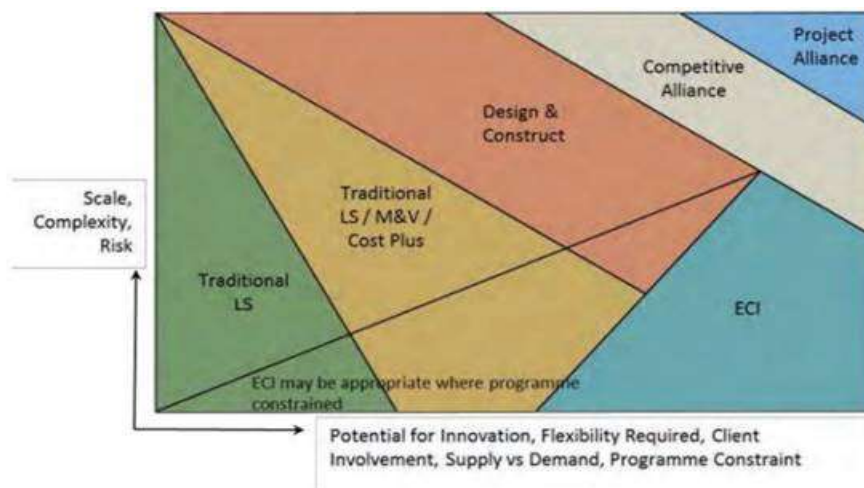
It is also required to meet 25 mandatory performance measures set by the Department of Internal Affairs, 5 additional LTP measures set by WCC, and must also comply with and report against 250 Drinking Water Quality Assurance Rules set by Taumata Arowai.

- 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 implementation is not currently funded by the shareholders.

Summary

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.