CONTRACT OPTIMISATION – OPPORTUNITY REPORT

The following executive summary contains the following sections:

- The objective of the review
- The approach taken
- Key findings
- Recommendations
- Next Steps

The Objective of the Review

Wellington City Council (WCC) engaged Fieldforce4 (FF4) to conduct a collaborative contract review alongside Wellington Water (WWL). The review's primary focus was to assess existing agreement, maintenance services and associated costs, including an evaluation of the Alliance Contract between WWL and Fulton Hogan (FH). The objective being to improve efficiency, identifying potential cost savings, and improving transparency/reporting

The contract review for WCC and WWL encompassed both commercial and operational aspects of their contractual relationship. The goal was to ensure that the contract aligned with WCC's corporate objectives and delivered value for money. The engagement of FF4 allowed for an independent assessment to identify improvements, both in contractual and operational aspects, strengthening the relationship and optimizing service delivery and cost-effectiveness.

The Approach

The review encompassed a series of activities to perform a high-level assessment of key contractual and operational themes impacting the current relationship and service delivery. These activities included:

- Approximately 21 interviews with staff from WCC, WWL, and FH, including senior and middle management levels. Notably, front-line staff interviews were excluded, as per initial mobilization instructions.
- Additional follow-up meetings to discuss and confirm issues and potential improvement opportunities.
- Analysis of over 90 documents provided by WCC, WWL, and FH, which included performance reports and costings.

It's important to clarify that this review should not be considered a forensic accounting audit of contract costs or operations but rather an opportunity to identify key improvement themes requiring further investigation to bridge the gap between current operations and proposed recommendations. While the primary focus was on maintenance services delivery, some areas technically outside the scope were examined briefly due to their potential impact on the contract and service delivery.

Key Findings

The following key finding were identified:

Contract Management Framework

Both the Management Service Agreement (MSA) and the Alliance Agreement did not adequately support WCC's overall objectives due to the lack of clearly defined reporting requirements and performance measures. The "Trusted Advisor Delivery Model" seemed to have replaced a commercially sound delivery contract/agreement with explicit obligations by both parties. This issue extended to the Alliance Contract between WWL and FH, undermining cost control and performance improvement efforts.

In addition, the Alliance Contract has also adopted the same approach.

Recognising the WWL and FH have fundamentally different business objectives (irrespective of the Alliance agreement), the current 'pass through' (costs) approach does not adequately support the appropriate behaviours to support ongoing improvements in day-to-day operations irrespective of how motivated staff are.

This issue is supported by the proposed 71% increase in planned and reactive costs between the FY2020/21 actual and the recommended FY2023/24, while delivery throughput over the previous years has remained relatively the same. It is recognised that subcontractor costs have increased (by 28%) due the revised rates; and the additional numbers to offset the lack of internal resources (WWL and FH), it doesn't totally account for the overall increase. This is systemic of a pass-through approach being used rather than explicit performance measures and cost targets being applied etc

It should also be noted that the current MSA does contain a provision for Performance Measures which were to be implemented within the 18 months of the contract initiation.

Staff Contract Management Capability

Effective contract management was hampered by the absence of specific requirements and a focus on operational issues. WCC and WWL possessed the technical capability but struggled due to a lack of clear reporting, performance measures, and transparency regarding network risks and performance.

The main issue being the lack of clearly defined and agreed reporting and performance measures, WCC appear to focus at an operational level instead of a contract management level. This is largely due to the lack of transparency of a consolidated AWP program view, the underlying network risks and actual performance achieved combined with the ongoing requests for additional funding without having either the opportunity or visibility of the broader picture.

Contract Specifications

The MSA lacked specific performance measures and cost allocation structures, placing the majority of the delivery risk on WCC due to the "cost pass-through" approach.

A similar theme to the first two findings (1 and 2) is the absence of specific performance measures and clearly defined cost allocation structures within the MSA and Alliance contract. This deficiency significantly contributes to the current state of the relationship between WCC and WLL, ultimately affecting the overall contract performance. Consequently, it appears that, aside from reputational risk, WCC bears the majority of the delivery risk due to the adopted 'cost pass-through' approach.

Alliance Contract Costs

A lack of a consolidated cost view hindered accurate assessment of funding requirements and network risks. WWL and the Alliance provided comprehensive cost information, but it was challenging to determine cost performance in a consolidated manner.

The information gathered on the OPEX program showed the following:

- An increase of 71% in Planned and Reactive works costs between FY20/21 and the recommended FY 23/24. The increase relates to approx. 91% and 64% for planned work and reactive works respectively between the FY 20/21 and the recommended FY23/24 budget
- The WWL Alliance Management Fee has increased by [redacted] equating to [redacted] between the FY 20/21 and FY2022/23 actuals
- Monitoring and Investigations has incurred the highest % increase of approx. 181% equating to $2.8M. This was the result of a structured program
- WWL have recommended an increase of $2.12M representing a 43% increase for WWL Management and Advisory Services fee between FY2020/21 and the recommended 23/24 budget

Note: While it is recognised that there have been increases in actual costs (mainly sub-contractor rates), it wasn't fully understood the rationale for the overall cost increase when considering the delivery of Urgent Works have remained relatively stable. While Non-urgent works backlog has been steadily increasing.

While it was recognised that the CAPEX function was out of scope of the review, an assessment of the FY22/23 project financials at the summary leve identified the following:

- The total spend for FY22/23 equated to $72.1M
- Original Budget vs Total Actual Spend equated to an approx. overspend of $7.2M
- Total Unbudgeted CAPEX spend equated to approx. $27.0M of which $10.1M was due to unbudgeted projects completed by the Alliance which impacted on the ability to complete Opex work

Again, as recognised, the assessment was conducted at a summary level with no interviews taking place at the functional department level. The focus was to understand the level of variation, the stability of the CAPEX program and the development of the program in relation to reactive works

Contractor Performance

The delivery alliance showed potential for improvements in efficiency, cost management, and performance reporting. However, an Alliance KRA Framework is underutilized, impacting scheduled work utilization and productivity monitoring, measurement and management.

- It was apparent that there is a real desire to continually deliver a cost-effective service within the Alliance Contract, however the current performance measurement do not reflect or provide the transparency of the real performance of the field crews
- The management of the sub-contractors is quite strong with the establishment of scheduled labour and activity/task rates.
- However, as shown by the Response & Resolution times, provided by WWL, there has been a marked degradation of performance over a 3 year period between FY20/21 and FY2022/23 within Water Supply. While Wastewater (over the same period), have shown an improvement, key performance targets are not being met.
- For the same period, the Alliance cost has experienced a [redacted] increase, with a recommended increase of 62% for the FY 2023/24 budget over the FY2020/21

Way of Working

Opportunities exist to align key business processes with the operational requirements

- The current interface/narrative between WCC and WWL is focused from a financial perspective rather than a network risk and asset performance basis. The current approach does not allow WCC the opportunity to make an informed decision from an overall network risk perspective in determining additional funding requests and variations
- While it is recognised that the Asset Management function was out of scope, anecdotally, it appeared further improvements can be made in developing the technical asset management capability within WWL. Further analysis is required to establish how effective the co-ordinated development of the CAPEX program is when considering the reactive work impacts
- The current customer request process is convoluted and results in request duplications and repeated triage and prioritisation effort which impacts on effective service delivery (right job, right crew, right time)
- It appeared that the Alliance team leaders are responsible for job prioritisation, planning and scheduling. This may not necessarily align to the optimum works delivery approach.

Technology

Data utilisation for contract/business performance was limited due to multiple systems. Opportunities potentially exist to further consolidate reporting requirements through the centralised data warehouse and Tableau server.

- Although multiple systems are used to support the delivery of services against the MSA and the Alliance Contract. It appears that WWL have a well-structured and executed data and system architecture operating within the current restraints
- Included within the system architecture is a centralised data warehouse supported by a Tableau server that provides access to operational data, supported by an extensive reporting/dashboard capability
- As a result, there may be further opportunities to consolidate the management and operating reporting requirements through the effective use of the data warehouse and reporting capability of tableau
- Anecdotally, there appears to be a significant amount of manual effort required to produce reports and key asset information to support asset management and delivery.
- The current field mobility solution limits the ability to collect key asset data in the field
- A scheduling tool is not currently being used, even though the functionality may exist within the current suite of applications
- The FreshService Application used by WCC to record customer requests is not a formal CRM application, while the customer experience is managed across multiple systems requiring duplicated data entry
- It is recognised that WWL have been continually developing /improving system capability e.g the asset register

Data

Although a significant amount of data is collected, a missed opportunity was identified to gather accurate and timely frontline asset data, especially for reactive works.

- The lack of defined reporting and performance measures is also contributing to the difficulty in defining the data requirements
- WWL do have an excellent analytical capability to produce detailed dash boards and management reporting, however, it didn't appear that the current outcomes are fully aligned to identify service delivery issues and improvements initiatives

Planning

Asset Management and the Annual Works Program development appeared fragmented focusing on the funding rather than Service delivery and network risk management.

- Anecdotally, it appears that the Asset Management function and the development of the Annual Works Program is fragmented. A further review is required as to the actual effectiveness of this function, as it wasn't within the scope of the review
- The current narrative between WCC and WWL is focused on funding rather than the assessment of the network risk. This doesn't allow WCC to make an informed decision based on the requirements from an overall investment and risk perspective
- It wasn't apparent whether the current clauses within the MSA covering the development and presentation of the 3-year AWP and annual review/approval is being followed
- An opportunity exists to revise the process and timeline for the annual review/approval of the AWP to support the frontline delivery of the physical program of work

Customer Experience

Current customer support systems and processes are deemed ineffective, relying on multiple systems with limited functionality. This led to duplicated effort and poor customer experiences.

- Currently, multiple systems are used in the management of the customer service requests
- The current systems do not provide the appropriate level of functionality as expected with typical CRM systems used in this space e.g. call grouping, duplicate jobs etc
- As a result, the customer service processes are convoluted that require duplicate effort in triaging and prioritisation of the service calls
    - WCC have implemented an IVR system of call forwarding, however, WWL are not permitted to log jobs and therefore the customer is required to contact the WCC again
    - As a component of the triage process, WWL are required to call the customer for Urgent Works to either confirm or reassess the priority
    - Duplicate jobs from WCC represent ~40% of the total number of jobs logged and require substantial effort to review before issuing to the field
- The current process results in significant time elapsed before the job is allocated to crews. This has a direct impact on the ability of the crews to respond to the DIA response time and contributing to a poor customer experience

Improvement Opportunities

As a result of the contract review, several recommendations have been proposed to address operational issues and enhance overall service delivery. These recommendations include:

Revise Contract Documents:

Reframe the MSA contract to include specific details such as reporting requirements, key performance measures, AWP delivery/risk, and budgets.

a. Key Performance Indicators – Develop a suite of KPI's for both the MSA and the Alliance
b. Performance Incentive – Performance incentive mechanism. To be agreed between parties to reward attainment of the agree KRA's and KPI's.

Improve Contract Management Capability and Processes

Clarify roles, responsibilities, and reporting requirements to enhance service delivery, commercial outcomes, contract performance, and issue resolution.

a. Re-establish the contract relationship through the development of a contract charter
b. Revise/re-establish the monthly contract management performance meetings to include the appropriate operational representatives as required
c. Revise/develop and agreed the contract reporting requirements
d. Redefine roles and responsibilities of key functional support functions

Conduct a review of the effectiveness of the Asset Management function and further develop the technical capability as required

Ensure all inputs, including augmentation, customer-initiated, and reactive works, are considered for the AWP and stabilize the physical delivery program.

a. Review the current processes, cost justifications and timing required to support the development of the AWP
b. Consider the development of internal resources re reliability centered maintenance analysis techniques etc

Note: It is recognised that a significant amount of effort and progress has been made since the inception of the MSA. What was not evident, was how effective the technical capability or how the principles of an effective asset management approach were actually being applied.

Redefine AWP processes

Develop an unrestricted CAPEX and OPEX program, revise approval timelines, and consider standard task estimates for measuring work crew utilisation and productivity. Proposed actions to support the recommendation include:

a. The development of the unrestrained CAPEX and OPEX program. The aim is to shift the narrative and focus from a financial perspective to a network risk assessment and delivery focus
b. Revise the current approval timeline to ensure the operational areas have adequate time to plan and resource the agree AWP
c. Revise the monthly AWP review process to include the appropriate technical personnel to present the program status and forecast cost to completion estimates etc
d. Consider the use of Standard Task Estimates (as currently in use with the sub-contractors). The purpose is to establish a performance base line on which to measure work crew scheduled utilisation and productivity

Review End to End Works Delivery

Explore options for relocating the first point of contact, consolidate planning/scheduling and dispatch functions, and identify process gaps for potential delivery improvements. Proposed actions to support the recommendation include:

a. Consider the relocation of the first point of contact (call centre function) from WCC to WWL including the Call Centre setup and supporting processes – this will eliminate double handling, reduce cost and support the field operations to meet key required performance targets
b. Consolidate the planning/scheduling and dispatch functions – To assist in the allocation, management and monitoring of the works preparation and delivery functions
c. Review the current works delivery processes to identify potential gaps within the existing business processes and further identify delivery improvements that may exist

Review existing systems, applications and data architecture

The objective being to continue developing asset data capture procedures, investigate system suitability for job planning and scheduling, and consider implementing a suitable CRM system. Proposed actions to support the recommendation include:

a. Continue to develop the Asset Data capture procedures and supporting applications (Asset Management, field mobility), recognising there has been a significant focus in the area
b. Investigate the suitability of the existing systems to support job planning, scheduling and dispatch functional requirements
c. Investigate and implement a suitable CRM system. This action will be dependent on the Reform decision

Implement improvements with the Alliance

Develop Standard Task Estimates, revise Alliance KPIs, and review planning and scheduling processes. Proposed actions to support the recommendation include:

a. The development of Standard Task Estimates – The purpose being to develop the base line for the ongoing measurement and monitoring of the Alliance contract. This initiative focusses specifically on scheduled utilisation and productivity, not only job numbers as a key performance measure
b. Revise the Alliance KPI's and align with the MSA where applicable
c. Conduct a detailed planning and scheduling process review with the potential to implement a centralised Planning/Scheduling and Dispatch functions

Next Steps

Improvements Implementation

There are several considerations to be taken into account when considering the actual implementation of the proposed recommendations. These being:

1) The Reform decision
2) The finalisation of the improvement initiative scope and implementation timeline
3) The available funding to support the improvement initiatives

Irrespective of the Reform decision, it is recommended the WWL closely consider what recommendation(s) best positions the business in order to meet the future requirements.

Irrespective of the Reform decision there are a number of improvement opportunities for immediate consisderation

a) 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

b) 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.

c) Revise the Annual Works Program (OPEX and CAPEX) and shift the narrative from a financial justification to a network risk and exposure perspective

d) Develop and implement standard task unit of rates for all reactive and planned works

e) 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

The Implementation Roadmap

An implementation roadmap consisting of four phases was presented at the August 31st workshop:

1. **Foundation Review** - High-level independent review of the current contract to identify potential improvement opportunities/issues. **Completed**

2. **Solution Development** – Clarify and validate the specific issues to be addressed and identify the actual gaps between the status and the desired future state.

3. **Program Development** –Develop the scope of the improvement opportunity, including the implementation timeline between the relevant parties

4. I**mplementation** –Rollout of the improvement initiates within the agreed scope and timeline

Appendix A

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

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.