



# KOMITI NGĀ WAI HANGARUA EXTRAORDINARY WELLINGTON WATER COMMITTEE

7 March 2025

Pursuant to a requisition dated 4 March 2025 by Deputy Chair Cr Connelly,  
an extraordinary meeting is to be held in the  
**Council Chambers, 2nd Floor, 30 Laings Road, Lower Hutt,**  
on:

**Monday 10 March 2025 commencing at 3:00 pm**

The meeting will be livestreamed on the Hutt City Council YouTube page.

## Membership

Mayor A Baker	Porirua City Council
Mayor C Barry (Chair)	Hutt City Council
Deputy Mayor M Sadler-Futter	South Wairarapa District Council
Cr R Connelly (Deputy Chair)	Greater Wellington Regional Council
Mayor W Guppy	Upper Hutt City Council
H Modlik	Te Rūnanga O Toa Rangatira
K Puketapu-Dentice	Taranaki Whānui ki Te Upoko o Te Ika
A Rutene	Ngāti Kahungunu ki Wairarapa Tamaki Nui a Rua Treaty Settlement Trust
Mayor T Whanau	Wellington City Council
Cr T Brown	Wellington City Council (Alternate)
R Faulkner	Te Rūnanga O Toa Rangatira (Alternate)
Cr C Kirk-Burnnand	Greater Wellington Regional Council (Alternate)
Cr R Leggett	Porirua City Council (Alternate)
Cr A Ellims	South Wairarapa District Council (Alternate)
Deputy Mayor H Swales	Upper Hutt City Council (Alternate)
K Tamanui	Taranaki Whānui ki Te Upoko o Te Ika (Alternate)
Cr G Tupou	Hutt City Council (Alternate)

For the dates and times of Hutt City Council meetings please visit  
[www.huttcity.govt.nz](http://www.huttcity.govt.nz)

# Wellington Water Committee

## Terms of Reference

### Purpose

The Wellington Water Committee ("the Committee") is established to:

- Provide governance and leadership across issues which are related to the planning, delivery and management of water services to communities serviced by Wellington Water Limited;
- Provide governance oversight of Wellington Water Limited, including by exhibiting good governance practice;
- Provide a forum for the representatives of Wellington Water Limited's shareholders and mana whenua to meet, discuss and co-ordinate on relevant issues and, through their representatives, to exercise their powers; and
- Strive for consistency across all client councils so all customers receive a similar level of service.

### Status

The Committee is, for the purposes of the Local Government Act 2002, a joint committee of the Lower Hutt City Council, Porirua City Council, Upper Hutt City Council, Wellington City Council, South Wairarapa District Council and the Wellington Regional Council.

### Specific responsibilities

The Committee's responsibilities are:

Governance oversight responsibilities

Shareholder and mana whenua governance oversight of Wellington Water Limited and of the network infrastructure for the delivery of bulk water, water reticulation, wastewater and stormwater services in the geographical areas of Wellington Water Limited's operations, including by:

- Receiving and considering the half-yearly and annual reports of Wellington Water Limited;
- Receiving and considering such other information from Wellington Water Limited as the Committee may request on behalf of the parties to the Shareholders and Partnership Agreement and/or receive from time to time;
- Undertaking performance and other monitoring of Wellington Water Limited;
- Considering and providing recommendations to the parties to the Shareholders and Partnership Agreement on proposals from Wellington Water Limited;
- Providing co-ordinated feedback, and recommendations as needed, on any matters requested by Wellington Water Limited or any of the parties to the Shareholders and Partnership Agreement;
- Providing recommendations to the parties to the Shareholders and Partnership Agreement regarding regional studies which the Shareholders need to be cognisant of;
- Providing recommendations to the parties to the Shareholders and Partnership Agreement regarding water conservation;
- Agreeing the annual Letter of Expectation to Wellington Water Limited;
- Receiving, considering and providing agreed feedback and recommendations to Wellington Water Limited on its draft statement of intent;

- Receiving, considering and providing recommendations to the parties to the Shareholders and Partnership Agreement regarding Wellington Water Limited's final statement of intent.
- Agreeing when Shareholder meetings, or resolutions in lieu of Shareholder meetings, are required, without prejudice to Shareholder and Board rights to call meetings under Wellington Water Limited's constitution and;
- Seeking and interviewing candidates for Wellington Water Limited's Board as needed and recommending to the holders of Class A Shares appointments and/or removals of directors of Wellington Water Limited;
- Recommending the remuneration of directors of Wellington Water Limited;
- Monitoring the performance of the Board of Wellington Water Limited; and
- Providing recommendations to the parties to the Shareholders and Partnership Agreement regarding changes to these terms of reference, the Shareholders and Partnership Agreement and the constitution of Wellington Water Limited.

### **Membership**

The membership of the Committee will be as specified in the Shareholders and Partnership Agreement. With the exception of the Committee Members nominated by the Mana Whenua Partners Entities, each appointee must be an elected member of the appointing Shareholder.

### **Chairperson**

The Chairperson and Deputy Chairperson will be elected by the Committee once all Committee members have been appointed.

### **Quorum**

Subject to the below for Committee meetings to appoint directors of Wellington Water Limited, for a meeting of the Committee to have a quorum, a majority of Committee Members, or their appointed Alternates, must be present, and the number making up the majority must include at least an equal number of Shareholder appointed Committee Members as MWPE nominated Committee Members.

Where the Committee is providing a forum for the Shareholders to meet and exercise their powers in relation to Wellington Water Limited, the requirements of Wellington Water Limited's constitution will prevail.

Clause 11.3 of the company's constitution provides that Directors shall be appointed and removed by the unanimous resolution of the Shareholders holding Class A Shares. For this matter the quorum for the Committee meeting is therefore attendance by all Committee Members (or their Alternates) for the holders of the Class A Shares.

### **Alternates**

Each Committee Member appointed to the Committee must have an Alternate.

### **Other Shareholder attendee**

Each Shareholder-appointed elected member Committee member will be entitled to invite an officer attendee to Committee meetings, provided however that the additional attendee will not have any voting rights on the Committee.

## **Decision-making**

The Committee will strive to make all decisions by consensus.

In the event that a consensus on a particular matter before the Committee is not able to be reached, each Committee Member has a deliberative vote. In the situation where there is an equality of votes cast on a matter, the Chairperson does not have a casting vote and therefore the matter subject to the vote is defeated and the status quo is preserved.

Other than for those matters for which the Committee has effective decision-making capacity through these Terms of Reference, each Shareholder retains its powers to make its own decisions on matters referred to it by the Committee and on matters specified in Part 1 of Schedule 2 to the Shareholders and Partnership Agreement (for clarity, this means that only Shareholders have voting rights in relation to the matters specified in Part 1 of Schedule 2).

## **Secretariat services**

Unless otherwise agreed from time to time by all of the elected member Committee Members, the Council for which the Chairperson is an elected member will provide secretariat services to the Committee. The Chairperson will be responsible for managing the agenda at Committee meetings.

## **Standing Orders**

The Standing Orders of the Council providing secretariat services to the Committee will apply to Committee meetings, subject to the provisions for meeting quorum and decision making as set out in these terms of reference taking precedence.

## **Remuneration**

Each Shareholder will be responsible for remunerating the elected member Committee Member appointed by it to the Committee, and their Alternate, for any costs associated with those persons' membership on the Committee.

The Shareholders will also be responsible for remunerating (in equal shares) the Committee Members nominated by Mana Whenua Partner Entities, and their Alternates, and appointed to the Committee by the Shareholders, for any costs associated with those persons' membership on the Committee.

## **Administration**

Reports to be considered by the Committee may be submitted by any of the Shareholders, any of the Mana Whenua Partner Entities, or Wellington Water Limited.

## **Duration of the Committee**

In accordance with clause 30(7) of Schedule 7 to the Local Government Act 2002, the Committee is not deemed to be discharged following each triennial election.

## **Appendix**

### **Common delegations by Shareholders**

#### Governance oversight responsibilities

- Each Shareholder will delegate to the Committee the responsibilities and powers necessary to participate in and carry out the Committee's governance oversight responsibilities.

#### Shareholders' responsibilities

- Each Shareholder will delegate to its appointed elected member Committee Member and, in accordance with these terms of reference, that person's Alternate, all responsibilities and powers in relation to the agreement of:
  - when Shareholder meetings, or resolutions in lieu of Shareholder meetings, are required (without prejudice to Shareholder and Board rights to call meetings under Wellington Water Limited's constitution); and
  - the appointment, removal and remuneration of Wellington Water Limited's directors.

## KOMITI NGĀ WAI HANGARUA | WELLINGTON WATER COMMITTEE

Extraordinary meeting to be held in the Council Chambers,  
2nd Floor, 30 Laings Road, Lower Hutt on  
Monday 10 March 2025 commencing at 3:00 pm.

### ORDER PAPER

#### PUBLIC BUSINESS

##### 1. OPENING FORMALITIES - KARAKIA TIMATANGA

Whakataka te hau ki te uru	<i>Cease the winds from the west</i>
Whakataka te hau ki te tonga	<i>Cease the winds from the south</i>
Kia mākinakina ki uta	<i>Let the breeze blow over the land</i>
Kia mātaratara ki tai	<i>Let the breeze blow over the ocean</i>
E hī ake ana te atakura	<i>Let the red-tipped dawn come with a</i>
He tio, he huka, he hau hū	<i>sharpened air.</i>
Tihei mauri ora.	<i>A touch of frost, a promise of a</i>
	<i>glorious day.</i>

##### 2. APOLOGIES

No apologies have been received.

##### 3. PUBLIC COMMENT

Generally, up to 30 minutes is set aside for public comment (three minutes per speaker on items appearing on the agenda). Speakers may be asked questions on the matters they raise.

##### 4. CONFLICT OF INTEREST DECLARATIONS

Members are reminded of the need to be vigilant to stand aside from decision-making when a conflict arises between their role as a member and any private or other external interest they might have.

##### 5. WELLINGTON WATER LIMITED - VALUE FOR MONEY

Report No. WWC2025/1/42 by Wellington Water Limited 8

##### 6. REPLACEMENT OF TARANAKI WHĀNUI KI TE UPOKO O TE IKA MANA WHENUA REPRESENTATIVE

Report No. WWC2025/1/40 by the Democracy Advisor, Hutt City Council 29

## 7. QUESTIONS

With reference to section 32 of Standing Orders, before putting a question, a member shall endeavour to obtain the information. Questions shall be concise and in writing and handed to the Chair prior to the commencement of the meeting.

## 8. CLOSING FORMALITIES - KARAKIA WHAKAMUTUNGA

Unuhia!	<i>Release us from the supreme sacredness of our tasks</i>
Unuhia!	<i>To be clear and free</i>
Unuhia i te uru-tapu-nui	<i>in heart, body and soul in our continuing journey</i>
Kia wātea, kia māmā	<i>Oh Rongo, raise these words up high</i>
Te ngākau, te tinana, te wairua i	<i>so that we be cleansed and be free,</i>
te ara takatū	<i>Yes indeed, we are free!</i>
Koia rā e Rongo whakairihia ake	<i>Good and peaceful</i>
ki runga	
Kia wātea, kia wātea!	
Ae rā, kua wātea!	
Hau, pai mārire.	

Jack Kilty  
 DEMOCRACY ADVISOR, HUTT CITY COUNCIL



# Komiti Ngā Wai Hanganua Extraordinary Wellington Water Meeting

07 March 2025

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Report no: WWC2025/1/42

## Wellington Water Limited - Value for Money

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### Purpose of Report

1. To provide assurance to the Committee that the changes already being implemented by Wellington Water Limited (Wellington Water) are supported by the outcomes of the value for money reports initiated by Wellington Water into financial systems and processes, panel costs and valuation unit rates.

### Recommendations

It is recommended that the Wellington Water Committee:

- (1) notes the actions that Wellington Water proactively implemented in advance of the reviews;
- (2) notes the release of the Deloitte's Report into concerns regarding Wellington Water's financial systems and processes and the Analysis of Panel Costs and Valuation Unit Rates; and
- (3) notes the high level of unplanned water supply maintenance required to maintain the network in comparison to other peer councils.

### Background

2. In mid- 2024, Wellington Water made a cost estimation error that highlighted several risks. The appointment of a new Chief Executive in September 2024 commenced a series of immediate changes to company structure, organisational culture and processes to lift capability and improve outcomes and value for money for councils.
3. As part of this suite of activity, two focused reports relating to the financial systems and processes and the panel costs and valuation unit rates were initiated to corroborate that the changes being made would address the risks and provide assurance to the Water Committee and Board. The summaries of these reports are appended to the report as Appendix 2 and 3, and the full list of implemented changes are appended as Appendix 1.



### Pre-emptive changes

4. The following summarises the changes made in advance of the reports and have been corroborated by their findings:
  - a. **Companywide**
    - i. Restructure of the organisation to an orthodox model to simplify decision making, transparency and accountability.
    - ii. Implementation of a comprehensive set of companywide delegations (the Board has signed the CE delegation).
    - iii. Changing the organisation's culture from one of 'learned helplessness' to one of listening and action. We are encouraging staff to speak up and raise risks early.
    - iv. Implementation of ongoing fraud and corruption training workshops.
  - b. **Consultant and Contractor Panels**
    - i. Reset the consultant and contractor panel arrangements to introduce demonstrable competitive tension within the panel and increase the level of open market tendering.
    - ii. Decision that capital programme client project managers are no longer to be from the consultant panel to ensure no perceived conflicts in protecting Wellington Water's interests (putting this into effect is still in progress).
    - iii. All invoices are to be approved by a Wellington Water staff member prior to payment.
    - iv. Controls in place to ensure only Wellington Water employees confirm and approve work orders for consultants and contractors.
  - c. **Wellington Water Operations and Maintenance Alliance**
    - i. Restructure the Wellington Water Operations and Maintenance Alliance, with the key change being moving the Performance, Operations Engineering, and Customer Experience teams back within Wellington Water (brings with it \$15-25M of CAPEX).
    - ii. Introduction of a full performance framework adjusted to include pain sharing.
  - d. **Finance**
    - i. Restructure the finance team.
    - ii. Improved financial controls, including but not limited to stopping the creation of annualised large value purchase orders, stopping automatic payments on invoices, amending delegations, and limiting financial approval functionality in the system.

e. **Assurance**

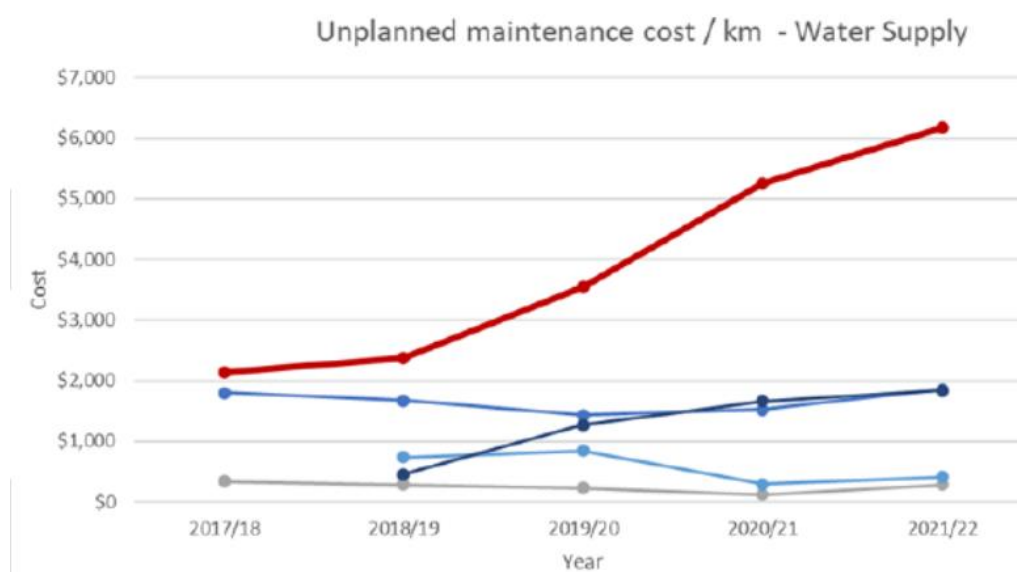
- i. Amendment of the Internal Audit Program to include:
  1. Finance process focussed internal audits.
  2. Continued targeted cost auditing.

**Review findings**

5. Wellington Water initiated a series of reviews as a continuation of the improvements identified in our Organisational Capability Plan; in addition, a number of protected disclosures were received by the company, and these were folded into the scope of the reviews. The protected disclosures are a positive sign of the changing culture in that the options available for staff are now being used, and these options are viewed as a safe way to raise concerns.
6. The reports contain commercially sensitive and legally privileged information. The Wellington Water Board has seen the full reports and approved the attached summaries with redacted versions of the full report and summaries made available online.
7. Our reports support the actions proactively implemented that had already commenced by Management, as they show that:
  - a. When benchmarked with costs from other councils across the country, costs that our contractors and suppliers are charging us are in most cases “consistently more expensive”, particularly for drinking water and wastewater assets.
  - b. A lack of oversight, assurance, and weak financial processes and controls around how we manage our consultant and contractor panels.

### Key clarifications/context

8. The AECOM Analysis of Panel Costs and Valuation Unit Rates rightly draws attention to the unplanned water supply maintenance expenditure/km. Since releasing the summary report some information from this has been taken out of context and there is a growing public perception that all of Wellington Water's costs are three times more than other councils. This is incorrect.
9. Wellington Water has confirmed with the authors of the report (AECOM) that it is **incorrect** to take from the below 'Unplanned Maintenance graph' that the cost of a Wellington Water maintenance job is three times more than other comparable councils.



10. The graph does not show the cost per job. It shows the total unplanned maintenance expenditure on water supply per km of network length. The age and poor condition of the region's network means that it requires a high number of reactive repairs (i.e. leak fixes) per kilometre, when compared to other councils. Therefore, the increase in spend shown on the graph reflects the increase of reactive repairs that Wellington Water has had to do to maintain an aging network.
11. Old infrastructure tends to break more frequently and is more expensive to fix. The cost of individual work is a factor in the overall figure, but it cannot be said it is the primary driver of the increasing unplanned maintenance cost. The review excluded the assessment of contractor efficiency, although the report notes Alliance labour and plant rates are fair and reasonable compared to the competitive industry charges and, if anything, appear to be somewhat low.

12. Regardless, the level of expenditure is concerning and again warns us of the risk of network runaway failure if this tempo of activity is not maintained. It is very likely that the data for the 23/24 and this financial year will show an even higher increase in reactive spend due to the increased investment from councils on getting the leaks backlog down to a sustainable level. The result is if you compare Wellington Water's expenditure with other councils that have lower levels of water loss and fewer leaks, then there will be an obvious difference, which cannot be attributed to the cost of work alone. A priority for the region should be to improve the condition of the network and seek to achieve an industry norm between unplanned and planned maintenance.
13. For the 2024/25-year, unplanned water supply maintenance for metropolitan councils (UHCC, WCC, PCC, HCC) is budgeted at \$29.8m with planned maintenance of just \$4.9m. The total three water operational network maintenance budget is \$68m<sup>1</sup> within a companywide OPEX budget of approximately \$160m. A key driver of the structural changes is this heavy emphasis on unplanned work in the network and the importance of this area showing increasing efficiencies and value for money.

### What next

14. The review findings have confirmed that the implemented changes outlined above were correct, and Wellington Water will continue the implementation to ensure we reduce costs and deliver value for money for our councils.
15. We have been transparent and accountable to councils around the findings from the reports and the actions being taken. This has involved briefing our staff, shareholders, key stakeholders and suppliers, releasing as much of what we can publicly and being clear on the actions we are taking to fix these issues.
16. While there are limitations on what can be achieved in the immediate term, the technology systems identified for investment by councils will ensure improvements continue to be made.
17. Wellington Water is consolidating the various recommendations on what else needs to be done, assessing these against deliverability and developing a plan for the implementation of key accepted actions.

### Appendices

No.	Title	Page
<a href="#">1</a>	Appendix 1: Actions proactively implemented	13
<a href="#">2</a>	Appendix 2: Summary of Deloitte Report into concerns regarding Wellington Water's financial systems and processes	18
<a href="#">3</a>	Appendix 3: Summary of Aecom Report - Analysis of Panel Costs and Valuation Unit Rates	23

**Author:** External Author (Wellington Water Ltd)

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<sup>1</sup> As at 31 Jan 2025

## Appendix 1: Actions proactively implemented

<b><i>Recommendations from Deloitte review of WWL financial systems and processes</i></b>	<b><i>WWL actions taken to date</i></b>
<b>a. Governance and oversight of panels.</b>	
<b>i. Assess the governance arrangements and revise where appropriate to reflect WWL and its current priorities. Including whether:</b>	
<ul style="list-style-type: none"> <li>• Roles and responsibilities of WWL governance, panel governance and leadership, and panel participants are appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>- Restructure of the organisation to an orthodox model to simplify decision making, transparency and accountability</li> <li>- Restructure of the Wellington Water Operations and Maintenance Alliance with the key change being moving the Performance, Operations Engineering, and Customer Experience teams back within Wellington Water</li> </ul>
<ul style="list-style-type: none"> <li>• The extent to which the design, terms, objectives, and priorities of the panels when they were established are still appropriate in today's environment.</li> </ul>	<ul style="list-style-type: none"> <li>- Reset of the consultant and contractor panel arrangements to introduce demonstrable competitive tension within the panel and increase the level of open market tendering.</li> </ul>
<ul style="list-style-type: none"> <li>• There is appropriate tension and focus on value built into the design, operation, and oversight of panels.</li> </ul>	<ul style="list-style-type: none"> <li>- Reset of the consultant and contractor panel arrangements (as above)</li> </ul>
<ul style="list-style-type: none"> <li>• Terms of references, agreements, and contracts appropriately reflect WWL's expectations.</li> </ul>	<ul style="list-style-type: none"> <li>- Introduction of a full performance framework to include pain sharing</li> <li>- Reset of the consultant and contractor panel arrangements (as above)</li> <li>- Changes to terms and conditions will be included as part of the next step of renewing agreements, and reviewing contract template <i>(NB this is work in progress rather than work complete)</i></li> </ul>
<ul style="list-style-type: none"> <li>• Monitoring, reporting, key performance indicators ('KPIs'), work allocation practices, incentives and disincentives are appropriate, understood, aligned to WWL needs, and activated when needed to promote value and quality.</li> </ul>	<ul style="list-style-type: none"> <li>- Introduction of a full performance framework to include pain sharing</li> <li>- Restructure of the Wellington Water Operations and Maintenance Alliance (as above)</li> </ul>

<b>Recommendations from Deloitte review of WWL financial systems and processes</b>	<b>WWL actions taken to date</b>
<ul style="list-style-type: none"> <li>• There is a formal and robust assurance framework, including both internal and external independent views, to provide confidence over financial processes, key controls, performance evaluation, and governance oversight.</li> </ul>	<ul style="list-style-type: none"> <li>- Amendment of the Internal Audit Programme to include:               <ol style="list-style-type: none"> <li>1. Finance process focussed internal audits,</li> <li>2. Continued targeted cost auditing.</li> </ol> </li> </ul>
<ul style="list-style-type: none"> <li>• WWL should identify all of the contractual updates required, and develop a plan (including the process and a realistic timeframe) to raise and agree appropriate contractual changes with the counterparties.</li> </ul>	<ul style="list-style-type: none"> <li>- Reset of the consultant and contractor panel arrangements (as above)</li> </ul>
<p><b>ii. Specific initiatives around promoting and increasing the understanding, awareness, and development of a healthy "Speak Up" culture, including:</b></p>	
<ul style="list-style-type: none"> <li>• Review, refresh and regular communication of WWL's 'Speak Up' Policy. Embracing and reinforcing (on a regular basis) a culture where speaking up when something 'doesn't feel quite right' should be communicated from the top down and will provide employees with a clear understanding of what behaviour is expected and tolerated, and that they work for an organisation where any issues and/or concerns can be raised in a safe way. The focus should be on promoting and embracing awareness, education, training, and guidance so staff know how to confidently identify and escalate concerns straight away.</li> </ul>	<ul style="list-style-type: none"> <li>- Changing the organisation's culture from one of 'learned helplessness' to one of listening and action. We are encouraging staff to speak up and raise risks early.</li> </ul>
<ul style="list-style-type: none"> <li>• Providing appropriate training and support around WWL's specific procurement practices and procedures and the importance of these.</li> </ul>	<ul style="list-style-type: none"> <li>- We are undergoing a reset of procurement processes. Once complete and new panel agreements are in place, training in new processes will be provided. <i>(NB this is work in progress rather than work complete)</i></li> </ul>

<b>Recommendations from Deloitte review of WWL financial systems and processes</b>	<b>WWL actions taken to date</b>
<ul style="list-style-type: none"> <li>• Providing employees with regular Fraud and Corruption training to educate employees on specific fraud and corruption risks as they relate to WWL, common red flags to look out for, factors that may allow fraud to occur and how employees can escalate and report any concerns.</li> </ul>	<ul style="list-style-type: none"> <li>- Implementation of ongoing fraud and corruption training workshops. <i>(NB this is work in progress rather than work complete)</i></li> </ul>
<b>b. Lack of clarity in roles and responsibilities, including inherent conflicts of interests relating to key roles.</b>	
i. Review the current model for contracting PMs through the consultant panel and consider whether the conflict is appropriately managed or if an alternative model is required to represent the interest of WWL (for example, hiring in house PMs or PMs being from a separate panel consultant to the consultant working on the project).	<ul style="list-style-type: none"> <li>- Decision that capital programme client project managers are no longer to be from the consultant panel to ensure no perceived conflicts in protecting Wellington Water's interests <i>(putting this into effect is still in progress)</i></li> <li>- Controls in place to ensure only Wellington Water employees confirm and approve work orders for consultants and contractors</li> <li>- Starting to transfer project management capacity back in-house (in progress)</li> </ul>
ii. Review and formalise the roles and responsibilities between PMs and internal WWL delivery roles to ensure clear delineation between the roles which is consistently understood and applied across all projects.	<ul style="list-style-type: none"> <li>- Client project managers to no longer be from the consultant panel (as above)</li> <li>- Wellington Water employees to confirm and approve work orders for consultants and contractors (as above)</li> <li>- Build in-house project management capacity (in progress) (as above)</li> </ul>
<b>c. Limitations and risks to the structure and design of agreements.</b>	
<ul style="list-style-type: none"> <li>• Review current processes, practices, and reporting to determine whether there is the required structure to maintain competitive tension as well as working relationships with panel participants. This includes considering whether:</li> </ul>	See below
i. financial information provided including the level of detail provided.	<ul style="list-style-type: none"> <li>- Improved financial controls, including but not limited to, stopping the creation of annualised large value purchase orders; stopping automatic payments on invoices; amending delegations; and limiting financial approval functionality in the system</li> <li>- Wellington Water will not be sharing project budgets during the project allocation.</li> </ul>

<b>Recommendations from Deloitte review of WWL financial systems and processes</b>	<b>WWL actions taken to date</b>
ii. there is appropriate baseline information such as agreed rates, cost benchmarking and market testing to gain confidence over the pricing being put forward.	<ul style="list-style-type: none"> <li>- Commissioned an Analysis of Panel Costs and Valuation Unit Rates by Aecom (finalised in February 2025)</li> <li>- Amendment of the Internal Audit Programme (as above)</li> <li>- Taking a range of projects out to open market competition</li> <li>- Engaging independent cost analysis support to validate pricing on a case by case basis.</li> </ul>
iii. contractual terms and conditions regarding professional indemnity, retentions, and defects periods are appropriate.	<ul style="list-style-type: none"> <li>- Reset of the consultant and contractor panel arrangements (as above)</li> <li>- Changes to terms and conditions will be included as part of the next step of renewing project agreements, and reviewing contract template <i>(NB this is work in progress rather than work complete)</i></li> </ul>
iv. value for money is clearly defined, understood, monitored, and scrutinised.	<ul style="list-style-type: none"> <li>- Reviewed procurement strategies to ensure better alignment to value for money</li> <li>- Restructure of the Wellington Water Operations and Maintenance Alliance (as above)</li> <li>- Reset of the consultant and contractor panel arrangements (as above)</li> <li>- Client project managers to no longer be from the consultant panel (as above)</li> <li>- Build in-house project management capacity (in progress) (as above)</li> <li>- Amendment of the Internal Audit Programme (as above)</li> </ul>
<ul style="list-style-type: none"> <li>• Review the work allocation process and consider updating to enable work to be allocated based on criteria including price, ability to deliver, approach, and past performance. This should include clear pathways for approval or not by WWL.</li> </ul>	<ul style="list-style-type: none"> <li>- Reset of the consultant and contractor panel arrangements (as above)</li> <li>- New allocation criteria and process developed and now in use. Formal process documentation is being finalised - this includes consideration of whether open tender is more likely to offer value for money.</li> </ul>
<ul style="list-style-type: none"> <li>• Review and formalise performance management procedures relating to panel participants, including escalation procedures, expected key controls, and contractual levers for managing WWL risk.</li> </ul>	<ul style="list-style-type: none"> <li>- Direct panel agreements are in place. Performance will be measured directly with each supplier and be part of allocation criteria</li> <li>- Restructure of the Wellington Water Operations and Maintenance Alliance (as above)</li> <li>- Client project managers to no longer be from the consultant panel (as above)</li> <li>- Wellington Water employees to confirm and approve work orders for consultants and contractors (as above)</li> <li>- Build in-house project management capacity (in progress) (as above)</li> </ul>
<b>d. Weak financial management processes and controls.</b>	



<b>Recommendations from Deloitte review of WWL financial systems and processes</b>	<b>WWL actions taken to date</b>
<b>i. Review and update key financial controls through the claims process to address weaknesses and risks in current practices. This includes relating to:</b>	
<ul style="list-style-type: none"> <li>• The use and monitoring of bulk POs for claims.</li> </ul>	<ul style="list-style-type: none"> <li>- Improved financial controls, including but not limited to, stopping the creation of annualised large value purchase orders; stopping automatic payments on invoices; amending delegations; and limiting financial approval functionality in the system</li> </ul>
<ul style="list-style-type: none"> <li>• Formalising and documenting procedures and reducing manual inputs and controls.</li> </ul>	<ul style="list-style-type: none"> <li>- Restructure of the finance team</li> <li>- Improved financial controls (as above)</li> </ul>
<ul style="list-style-type: none"> <li>• Confirming the key assurance activities being conducted on the claims to gain confidence in the accuracy of data provided.</li> </ul>	<ul style="list-style-type: none"> <li>- Restructure of the Wellington Water Operations and Maintenance Alliance (as above)</li> <li>- Amendment of the Internal Audit Programme (as above)</li> <li>- Client project managers to no longer be from the consultant panel (as above)</li> <li>- Build in-house project management capacity (in progress) (as above)</li> </ul>
<ul style="list-style-type: none"> <li>• Preventing payments being made without approval from the relevant WWL staff.</li> </ul>	<ul style="list-style-type: none"> <li>- All invoices are to be approved by a Wellington Water staff member prior to payment.</li> <li>- Improved financial controls (as above)</li> </ul>
<ul style="list-style-type: none"> <li>• Formalising and uplifting contract management practices and oversight.</li> </ul>	<ul style="list-style-type: none"> <li>- Restructure of the Wellington Water Operations and Maintenance Alliance (as above)</li> <li>- Client project managers to no longer be from the consultant panel (as above)</li> <li>- Build in-house project management capacity (in progress) (as above)</li> <li>- Restructure of the finance team (as above)</li> </ul>
<ul style="list-style-type: none"> <li>• Financial delegations and how they are administered within TechOne.</li> </ul>	<ul style="list-style-type: none"> <li>- Implementation of a comprehensive set of companywide delegations</li> <li>- Improved financial controls (as above)</li> </ul>
<ul style="list-style-type: none"> <li>• Setting expectations on application of overheads by subcontractors.</li> </ul>	<ul style="list-style-type: none"> <li>- Restructure of the Wellington Water Operations and Maintenance Alliance (as above)</li> <li>- Reset of the consultant and contractor panel arrangements (as above)</li> <li>- Client project managers to no longer be from the consultant panel (as above)</li> <li>- Build in-house project management capacity (in progress) (as above)</li> </ul>

# Summary of Deloitte's Report into concerns regarding Wellington Water's financial systems and processes

## Purpose

1. This paper sets out a summary of Deloitte's report in relation to concerns surrounding the use of Wellington Water's procurement processes and financial systems (the **Report**).

## SUMMARY OF DELOITTE'S REPORT

### Background

1. Wellington Water received a protected disclosure relating to WWL's procurement processes and financial system potentially providing opportunities for fraud to occur. It then received a further protected disclosure concerning potentially inappropriate procurement practices regarding a specific procurement decision within Wellington Water.
2. Wellington Water engaged Deloitte to investigate the matters raised in the protected disclosures. Deloitte prepared a report of their investigations (**Report**). This involved, among other things, considering the panel arrangements that Wellington Water has in place.
3. Set out below is a summary of Deloitte's findings and recommendations. We have also included at Appendix 1 to this paper Deloitte's description of the context within which Wellington Water operated.

### Findings

4. Deloitte noted that every employee interviewed confirmed that they had not seen evidence of fraud. Additionally, all interviewees confirmed that they had no concerns that fraud was occurring within Wellington Water. They did, however, express concerns that there may be opportunities for waste and/or abuse in Wellington Water's processes. A separate investigation has identified an isolated incident of fraud, and the person responsible no longer works for Wellington Water.
5. Deloitte noted that its key findings indicate systematic and widespread issues relating to the design, operation, control, and assurance, over processes that are fundamental to the operation of Wellington Water, and that this exposes Wellington Water to significant risk. The

absence of reliable controls significantly reduced the ability to detect and prevent fraud. Specific findings are summarised below.

6. **Management and oversight of panels without sufficient competitive tension** - Deloitte observed a lack of oversight and/or involvement by Wellington Water in the management of the panels to support and promote competitive tension, quality, and to ensure value for money is being delivered by panel members and the Alliance. In particular, there was insufficient oversight or independent assurance over the panel members performance and financial processes. Deloitte noted that management reporting is based on self-assessment by panel members.
7. Deloitte also observed a historical focus by Wellington Water on prioritising partnership, transparency, and delivery, over competitive tension and achieving value for money. Further, Deloitte noted that interviewees disclosed that the arrangements appeared to prioritise Wellington Water's consultants and contractors over ratepayers, which has contributed to a culture that may indicate that the use of panels was the only option for procurement of services, irrespective of cost, quality or timeliness.
8. Deloitte recommended the panel arrangements are regularly and independently monitored and assessed including that risk and assurance be undertaken on panel members' performance and financial processes to ensure they continue to meet the needs of the organisation in terms of value, quality, and service.
9. **Lack of clarity in roles and responsibilities, including inherent conflicts of interests relating to key roles** – Deloitte concluded that project managers for Wellington Water being contracted through the consultant panel creates an inherent conflict of interest in relation to issues such as performance and value for money where the project manager was required to hold their employer (the consultant) accountable to Wellington Water. Deloitte noted that interviewees indicated there was a lack of clarity between the role of outsourced project managers and internal Wellington Water delivery leads, such as programme directors. Deloitte noted their expectation that roles should be clearly defined, agreed, and embedded roles and responsibilities, including with appropriate mechanisms for holding consultants accountable for delivery, performance, reporting, and financial transparency.
10. **Limitations and risks with respect to the structure and design of the panel agreements** - Deloitte found that the panel and Alliance model has been designed to prioritise trust, partnership, and delivery, without appropriate controls to assess, on an ongoing basis, that the benefits of the panel are commensurate with the cost. As an example, the sharing of Councils'

budgets for projects with panel members to support transparency provides panel members with significant insight to funds available for work they are costing which increased the risk that Wellington Water would not be provided with the best price.

11. Deloitte found the allocation of work was done by panel members themselves, rather than by Wellington Water, and tended to be based primarily on equal distribution regardless of whether a particular contractor or consultant was the right fit for the job. While Wellington Water had a contractual right to make the ultimate allocation decision, as Deloitte understood, this right was not used in practice. Furthermore, as Wellington Water retained the risk, cost, and liability of work, panel members were not incentivised to deliver competitive responses or deliver to a consistently high quality, for example, self-allocating work by panel participants without adequate performance-based assessment by Wellington Water risked not achieving those outcomes.
12. Deloitte noted that it was suggested the maintenance of the relationship (and the benefits of security and certainty of supply during a period of increased critical capex investment) took precedence over enforcement of contractual obligations. Deloitte recognised that, at that time, there were limited market testing mechanisms available to validate whether costing was competitive. However, Deloitte noted that the use of the panel had created a closed loop of assumptions which were not regularly market tested, noting that panel costs had escalated significantly since establishment.
13. Deloitte also noted that it was difficult to quantify the legitimacy of cost increases given there were other external factors likely to be relevant, such as the increased cost of construction, materials, and a high inflationary environment.
14. ***Weak financial management processes and controls relating to panel and Alliance agreements*** - Deloitte found the supporting financial controls were insufficient, informal, and unreliable to provide confidence in the legitimacy and accuracy of claims and payments being made under broad annual purchase orders. Invoices were automatically paid prior to any approval or consideration by Wellington Water staff and there were occasions of invoices being rejected by approvers and still being paid by the accounts payable team. The manual processes further increased the risk of error and/or inaccuracy.
15. Deloitte observed that there was no contract management system to manage and/or oversee large projects and programmes, increasing the difficulty for Wellington Water to have oversight to consider the accuracy and reliability of claims. Separately, Deloitte noted interviewees expressed concerns that the appointment of sub-contractors by panel appointed

contractors was resulting in both sets of overhead costs being charged to Wellington Water, however, Deloitte did not review any evidence which substantiated these claims.

16. Regarding the protected disclosure in respect of the specific procurement decision, Deloitte did not identify any communication and/or documentation to support the concerns raised.

#### **Recommendations**

17. Deloitte recommended a number of actions are taken to improve Wellington Water's processes, including to:
- a) assess the management arrangements and revise them where appropriate to reflect Wellington Water and its current priorities;
  - b) implement initiative around promoting and increasing the understanding, awareness, and development of a healthy "speak up" culture;
  - c) review the current model for contracting of project managers through the consultant panel and consider whether conflicts can be appropriately managed or whether an alternative model is required;
  - d) review and formalise the roles and responsibilities between project managers and internal Wellington Water delivery roles;
  - e) review current processes, practices, and reporting to determine whether the required structure to maintain competitive tension exists;
  - f) review the performance management procedures and the work allocation processes of the contractor and consultant panels; and
  - g) review and update the key financial controls through the claims process to address weakness and risks in current practices.
18. Deloitte noted that the Report was prepared on a time bound basis and subsequently Deloitte's investigation focused on conducting interviews and understanding supporting evidence. Deloitte did not perform in-depth analysis, reconciliation, or assessment to quantify costs that may be indicative of waste. Deloitte did not engage with any third parties (e.g. members of either panel) during their work.

**APPENDIX 1 – Operational Context**

Summarised below is Deloitte's description of the context within which Wellington Water operated:

1. Following a sustained period where Wellington Water was underdelivering on its capital programme, several procurement decisions were made to supplement the company's capability and provide reliable access to qualified resources. This included the establishment of the Three Waters Network Operations and Maintenance Alliance Agreement (**Alliance**), and the contractor and consultant panels.
2. The consultant panel was established in 2016 to provide access to experienced, qualified, and reliable consultants to support the design and management of projects with providers who were pre-qualified.
3. The Alliance was established in 2018 to perform operations and maintenance of the network assets which Wellington Water is responsible for.
4. The capex contractor panel was established in 2019 to deliver a regional approach to the capex contractor market which had the capacity and capability to service Wellington Water's business-as-usual capex physical works programme.
5. To minimise disruption, with the expectation that a new entity would be established through water reform that would take over responsibility for water services, the terms of the panels were extended in July 2022 with an anticipated expiry of 30 June 2026.
6. The Report identified that the establishment of the panels and Alliance agreements reflected a point of time when Wellington Water's scale was not sufficient to meet the delivery needs of the network.



# Summary of Reports into Analysis of Panel Costs and Valuation Unit Rates

## Purpose

1. This paper sets out a summary of both the report issued by AECOM regarding the Analysis of Panel Costs and Valuation Unit Rates (**Report**), and the corresponding peer-review of that Report by Rider Levett Bucknall (**RLB**) (**Peer-Review**).

## SUMMARY OF REPORT

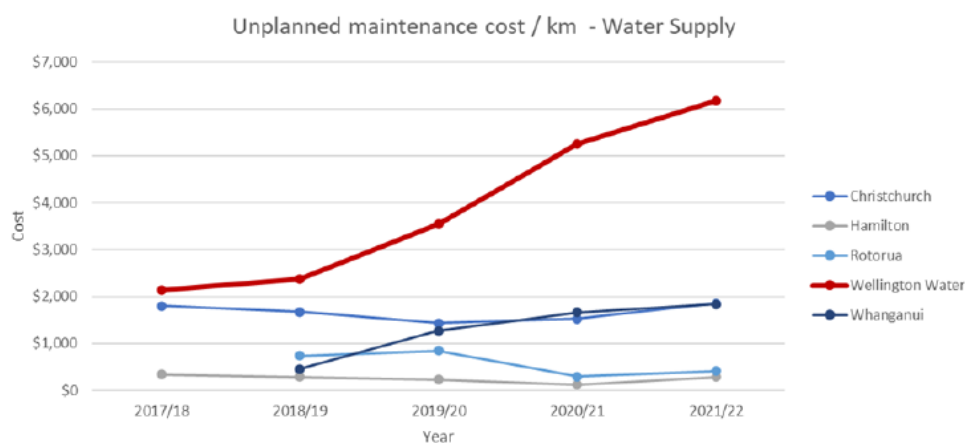
### Background

1. Wellington Water is in the process of reviewing the appropriateness and value for money provided by current delivery models.
2. The Report aimed to provide some indication of relative efficiencies within the current models by comparing costs of service provisions against a range of benchmarks for Wellington Water's collaborative operations and maintenance, capital works, and consultants panel contracts. Additionally, unit rates for replacement of pipes applied within valuations were reviewed and compared to a small selection of peer Councils.
3. AECOM noted that its analysis and confidence in its outputs were constrained due to limitations in data and timeframes.

### Key findings

4. In relation to operations and maintenance, AECOM found that:
5. **Operations and maintenance expenditure:** Expenditure is overwhelmingly focused on water supply, particularly unplanned maintenance. Comparative analysis was not possible at the "asset-type" level, therefore, the main focus of the review was on the unplanned water supply maintenance costs.
  - a) **Increase in maintenance costs:** Unplanned water supply maintenance expenditure per km of pipe increased threefold between 2017 and 2022. Inflationary pressures between 2019 and 2022 were expected to have contributed to a third of the increase.

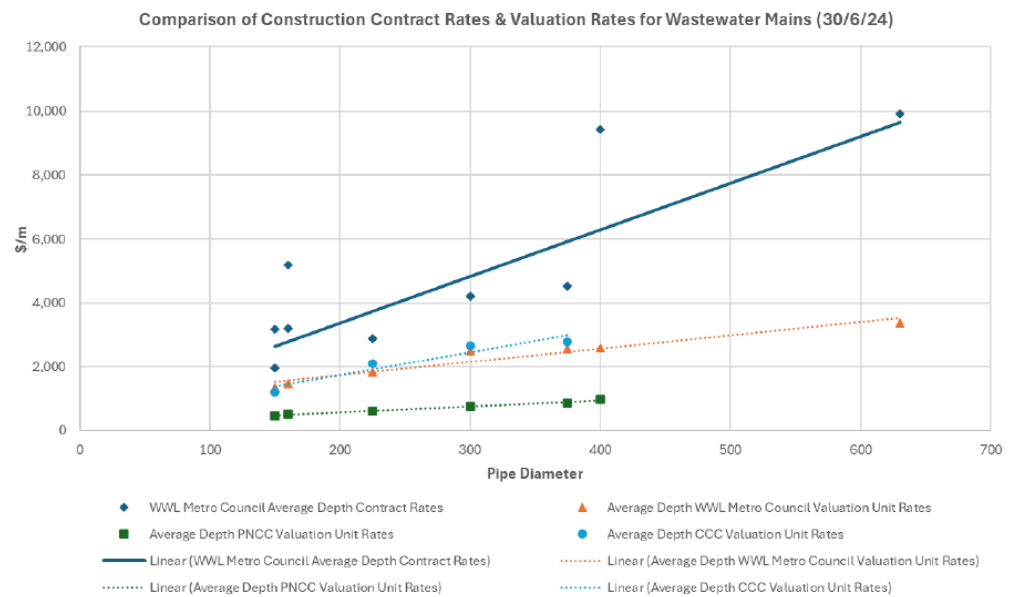
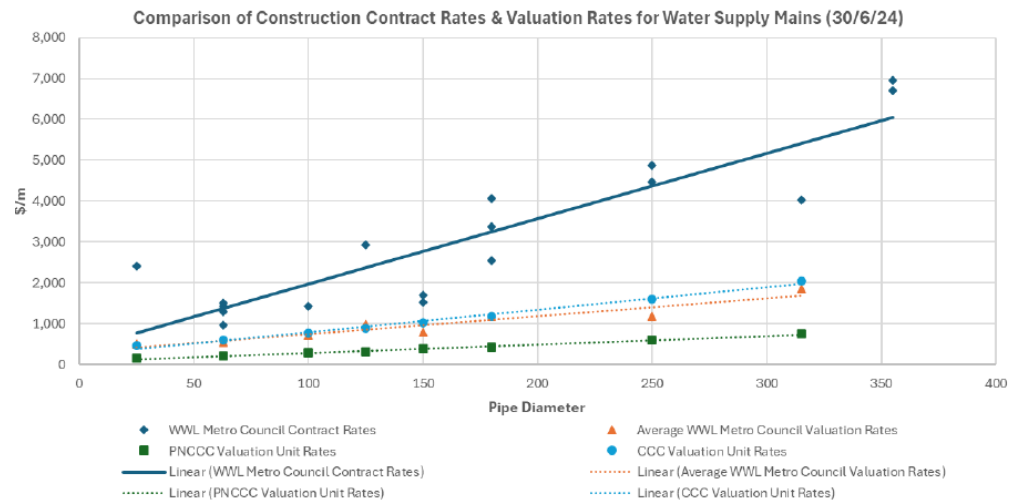
- b) **Comparative analysis:** The three-year average (2019-2022) expenditure on unplanned water supply maintenance expenditure per km of pipe was nearly three times higher than the peer council average. Higher maintenance expenditure might have reflected cost structures as well as network condition.
- c) **Labour and plant rates:** The operations and maintenance labour and plant rates were fair and reasonable compared to competitive industry charges, and AECOM noted that if anything, they appeared somewhat low.
- d) **Rework analysis:** A simplistic initial analysis of rework was undertaken, limited significantly by data adequacy. This indicated that water supply maintenance might have had the highest proportion of rework at around 10%, but further analysis would be required before this figure can be used.
- e) These findings are illustrated in the following chart collating the National Performance Review Data (Water New Zealand's national water sector benchmarking programme):

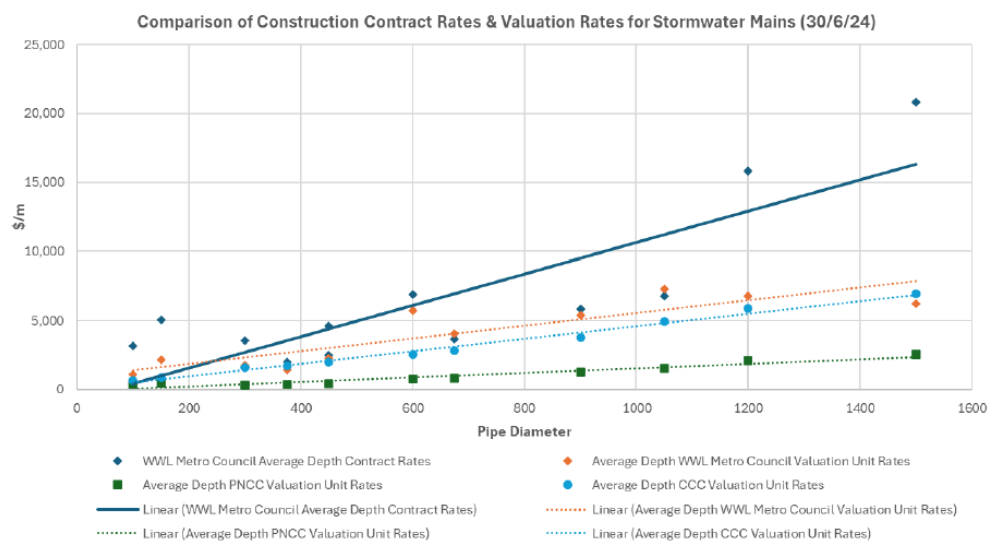


6. In relation to the capital works contractor panel, AECOM found:
- a) **Capital works contractor panel review** - The average contract rates for pipe installation, in general, well exceeded the average of the peer council valuation unit rates that were in use, particularly for water and wastewater, although AECOM noted the limited peer council dataset used. This inferred that cost of installation of pipes within the Wellington Water networks was significantly higher than in the comparator council areas. This might reflect cost structures as well as local site differences, and AECOM noted that a comparison against a larger dataset would be advisable.



- b) **P&G costs analysis** - Preliminary & general as a proportion of total contract value for Wellington Water was generally well above typical proportions within other linear infrastructure sectors. Of this, temporary traffic management and site establishment and disestablishment costs were significant.
- c) **Daywork and plant rates** - The daywork and plant rates were generally considered fair and reasonable when compared to average market prices, although this did not include an assessment of efficiency.
- d) These findings are illustrated in the following charts:





7. In relation to the consultants panel, AECOM found:
- a) Charge rates are broadly in line with the general infrastructure industry expectations. However, given the volume of work released through this mechanism, limited bid effort and reduced risks, AECOM had expected the rates to be towards the lower end of the range.
  - b) Overall proportions of fee to capital project cost were broadly in line with industry expectations assuming that construction monitoring and contract management tasks were included, although would be considered towards the upper end considering the routine nature of many of the projects. However, capital costs for routine pipe construction works appeared to be significantly higher than comparator councils as noted in the capital works contractor review.
8. In relation to the review of the valuation unit rates, AECOM found:
- a) The Wellington Water metro council valuation pipe unit rates were significantly higher than those used by other similar councils. However, from the analysis undertaken, these valuation pipe unit rates were, in general, significantly lower than the contract rates that have been extracted from the claims.
  - b) Overall, AECOM believed that the current valuation unit rates in use were a little low. While it would be normal practice to use current real rates for construction, it would not be unreasonable to moderate the rates if future changes are expected in delivery models which may impact these costs in the near-future.

**Peer-Review**

9. Wellington Water also commissioned the Peer-Review, which aimed to provide a comprehensive evaluation of AECOM's report on panel costs and valuation unit rates. In its critical assessment of the Report, RLB examined the methodologies employed, the reliability of data and the conclusions drawn by AECOM in the Report.
10. In summary, RLB made the following comments regarding the Report:
  - a) **Methodology and data assessment** - AECOM utilised various methodologies to assess the data received, ensuring that comparisons were made on a like-for-like basis. However, the report frequently comments on the limitations of the data provided. A thorough examination would determine whether these limitations impacted the trustworthiness of the Report findings.
  - b) **Comparative analysis** - The Report highlighted significant discrepancies in costs, particularly in water supply maintenance, where Wellington Water's costs are substantially higher than peer council averages.
  - c) **Contractual and valuation rates review** - AECOM's examination of operations and maintenance, capital works contractors, and valuation rates, raised important questions regarding access to contracts and agreements, and the application of agreed rates, prices, and percentages in claims.
11. In summary, after raising a series of questions with AECOM, RLB found that:
  - a) The process taken was a high level comparative analysis, using incomplete information.
12. The approach was proposed by AECOM, driven to a certain extent by the information that was available – i.e. it was not possible / too time consuming to split the cost allocations into job by job.
  - a) Macro level approach indicated that the Wellington Water programme was higher than other regions. There could be various reasons for this:
    - i. Differing design standards.
13. Differing methodology and management requirements – e.g. traffic management, HSE, waste management, working hours etc.
  - i. Differing contracts / pricing mechanisms.
  - ii. Differing client expectations – on call, accelerated delivery etc.

- iii. Geographical/Geological differences and challenges between locations.
14. AECOM noted that the base rates appeared reasonable, but there was a lack of clarity around how time was charged, the application of overheads, the composition of costs and overheads etc.
  15. RLB did not recommend further review based on the current data, which they noted appeared to be incomplete, unclear or difficult to track. Instead, RLB made the following recommendations for consideration:
    - a) Review of contract and commercial mechanisms – are these driving cost?
    - b) Review Wellington Water processes – are these driving cost: e.g. inefficiencies
    - c) Review of supplier overheads – how are these applied and if these are in line with the contract?
    - d) Discussion with suppliers as to what is driving cost.
  16. Can Wellington Water isolate job costs for QS to review? Particularly the capex which appeared high.



# Komiti Ngā Wai Hangarua | Extraordinary Wellington Water Meeting

06 March 2025

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Report no: WWC2025/1/40

## Replacement of Taranaki Whānui ki Te Upoko o Te Ika Mana Whenua Representative

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### Purpose of Report

1. To acknowledge the change in representation of Taranaki Whānui ki Te Upoko o Te Ika as Mana Whenua Partners on the Wellington Water Committee.

### Recommendations

That the Committee:

- (1) receives and notes the report;
- (2) notes that Kara Puketapu-Dentice is to replace Lee Rauhina-August as the Taranaki Whānui ki Te Upoko o Te Ika nominated representative from 5 March 2025; and
- (3) thanks Lee Rauhina-August for her valuable contributions to the work of the Committee.

### Background

2. The Wellington Water Limited Shareholders Agreement, paragraph 3.3 allows for the replacement of representatives from time to time with written notice to the Wellington Water Committee as follows:
  - a. Any Committee Member and/or Alternate may be replaced from time to time as follows:
    - (a) a Committee Member who is also an elected member of a Shareholder, by the relevant Shareholder; and
    - (b) a Committee Member who is not also an elected member of a Shareholder, by the relevant nominating MWPE,in each case, by the relevant party providing written notice to the Wellington Water Committee and the Shareholders.

3. Taranaki Whānui ki Te Upoko o Te Ika Tumu Whakarae Kara Puketapu-Dentice informed the Chair of the Wellington Water Committee on 5 March 2025 about the replacement of a representative.

**Next steps**

4. The Shareholders and Wellington Water Limited will be advised of the change in representation of Taranaki Whānui ki Te Upoko o Te Ika as Mana Whenua Partners on the Wellington Water Committee.

**Appendices**

There are no appendices for this report.

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