

27 March 2025

Ethan Manera

ethan.manera@nzme.co.nz

Dear Ethan

Request for Information – Local Government Official Information and Meetings Act (LGOIMA) 1987

We refer to your official information request dated 03 March 2025 which was part-transferred to us by Wellington Water Limited on 12 March 2025 for;

"...All correspondence between Nick Leggett and any of the region's mayors regarding the report (ref AECOM and Deloitte Reports)..."

Answer:

Please see attachment to the response.

You have the right to seek an investigation and review by the Ombudsman of this decision. Information about how to make a complaint is available at www.ombudsman.parliament.nz or freephone 0800 802 602.

Please note that this response to your information request may be published on Hutt City Council's website. Please refer to the following link:
www.huttcity.govt.nz/council/contactus/make-an-official-information-act-request/proactive-releases

Yours sincerely

Lakna Siriwardena

Legal Operations Advisor

From: Nick Leggett
To: Pat Dougherty; Wendy Walker; Jo Miller; "Wayne Guppy " <Wayne.Guppy@uhcc.govt.nz>; Geoff. Swainson <Geoff.Swainson@uhcc.govt.nz>; janice.smith@swdc.govt.nz; Andrea Reeves; Nigel Corry; Campbell Barry; Mayor - PCC <mayor@porirua.govt.nz>; mayor@wcc.govt.nz; Ros Connelly <Ros.Connelly@gw.govt.nz>; Councillor Melissa Sadler-Futter <melissa.sadlerfutter@swdc.govt.nz>; Helmut Modlik (Guest); Lee Rauhina-August <Ahumai1@outlook.com>; Andrea Rutene <rutene.floody@gmail.com>; Nick Leggett <Nick.Leggett@infrastructure.org.nz>; zzz Leanne Southey; zzz Bill Bayfield; zzz Mahina Puketapu
Cc: daran.ponter@gw.govt.nz; Mayor Tory Whanau; RES: Mayors Office; Mayoral Meetings; Simon Edwards; Euan Stitt; Charles Barker; Julie Knauf
Subject: [EXTERNAL] RE: Council briefing – value for money reports
Date: Monday, 3 March 2025 9:06:58 am
Attachments: image001.png
Summary of Deloitte Report into concerns that financial systems and process may provide opportunities for fraud.pdf
Summary of Report Analysis of Panel Costs and Valuation Unit Rates.pdf
Media release Embargoed until Mon 3 Mar 10am.pdf

Kia ora koutou

Thank you for taking the time to meet with Pat and I this morning.

Please see attached for the summary reports and the media release as discussed today.

Ngā mihi

Nick

Nick Leggett Board Chair



Private Bag 39804, Wellington Mail Centre 5045
Level 4, 25 Victoria Street, Petone, Lower Hutt

www.wellingtonwater.co.nz

-----Original Appointment-----

From: Pat Dougherty

Sent: Friday, 28 February 2025 2:53 pm

To: Pat Dougherty; Wendy Walker; Jo Miller; 'Wayne Guppy ' ; Geoff. Swainson ; janice.smith@swdc.govt.nz; Andrea Reeves; Nigel Corry ; 'Campbell Barry' ; Mayor - PCC ; mayor@wcc.govt.nz; Ros Connelly ; Councillor Melissa Sadler-Futter ; Helmut Modlik ; Lee Rauhina-August ; Andrea Rutene ; Nick Leggett ; zzz Leanne Southey; zzz Bill Bayfield; zzz Mahina Puketapu

Cc: Vanessa MacFarlane; daran.ponter@gw.govt.nz; Mayor Tory Whanau; RES: Mayors Office; Mayoral Meetings; Simon Edwards; Euan Stitt; Charles Barker; Julie Knauf

Subject: Council briefing – value for money reports

When: Monday, 3 March 2025 8:00 am-9:00 am (UTC+12:00) Auckland, Wellington.

Where: Microsoft Teams Meeting; Meeting Room – Seaview (40 Max)

Please attend a briefing by the Wellington Water Board Chair and the CE on some recent work and reports to achieve better value for money for councils.

This will be held on Teams.

Microsoft Teams [Need help?](#)

[Join the meeting now](#)

Meeting ID: 481 551 084 154

Passcode: oe2of23Y

Dial in by phone

[+64 4 886 4873..166490635#](#) New Zealand, Wellington

[Find a local number](#)

Phone conference ID: 166 490 635#

For organizers: [Meeting options](#) | [Reset dial-in PIN](#)

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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

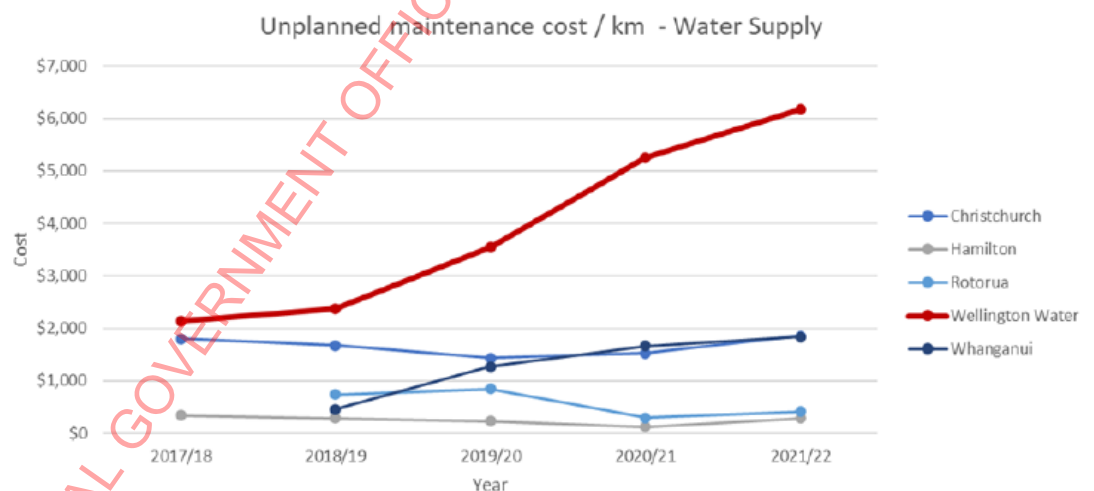
Background

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.

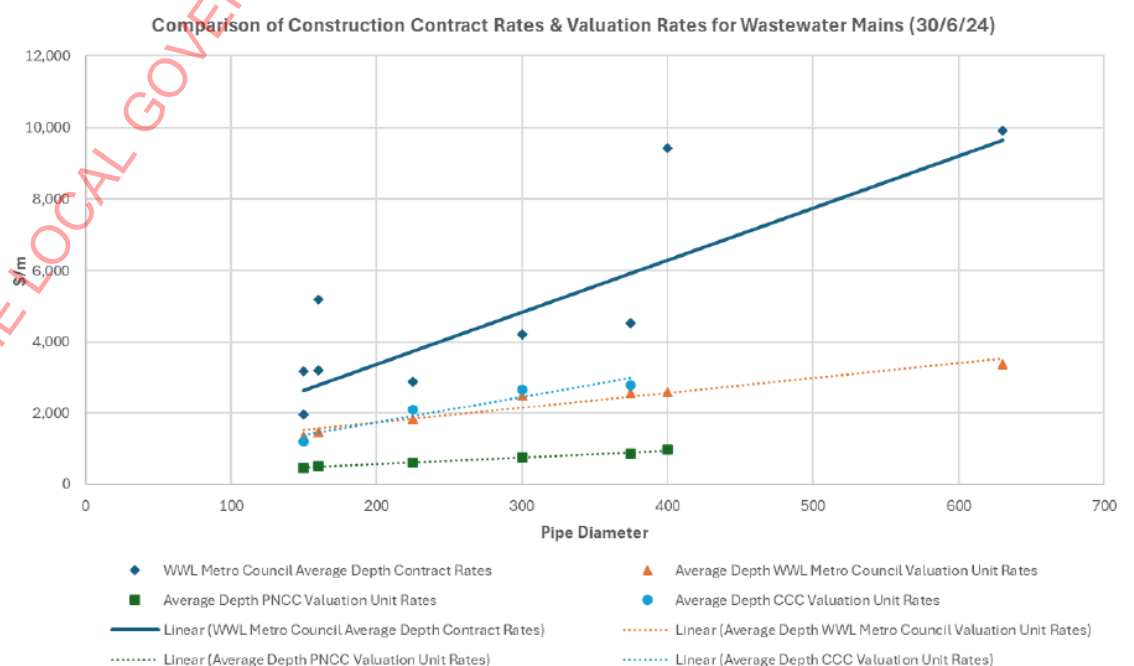
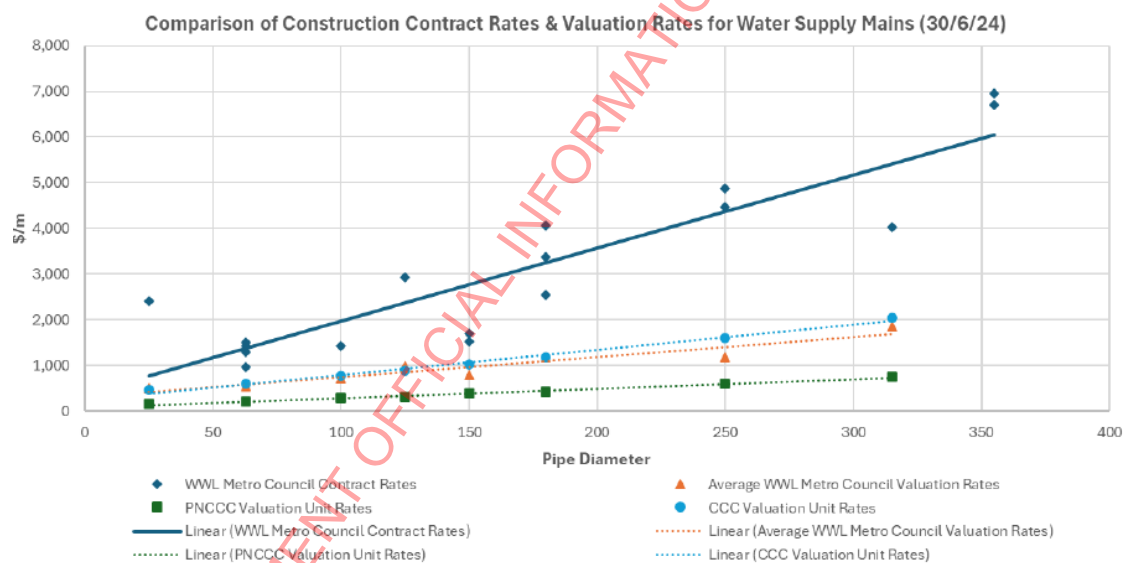
- b) **Comparative analysis:** The three-year average (2019-2022) expenditure on unplanned water supply maintenance expenditure per km of pipe was nearly three times higher than the peer council average. Higher maintenance expenditure might have reflected cost structures as well as network condition.
- 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):

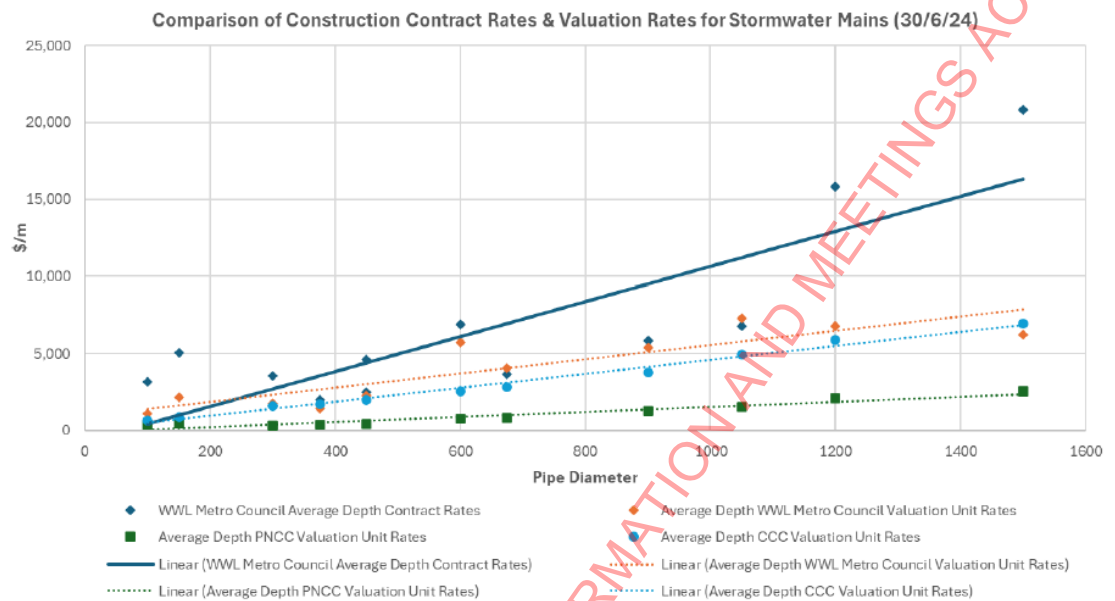


6. In relation to the capital works contractor panel, AECOM found:

- 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:

- 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.
- 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:

- 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.
- 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.

Media release

Embargoed until 10am, Monday 3 March 2025

Next stage in Wellington Water improvement plan confirms massive gaps in company, but better value for money for councils and ratepayers is on the way

Today, Wellington Water updated shareholding councils on work underway to make wide ranging improvements to achieve better value for money, and advised significant change is still needed.

This ongoing work addresses a requirement from councils for us to find better value for money as well as recommendations made in the independent review of an error in our budgeting advice for councils' 2024-34 Long Term Plans. The review found issues with organisational structure, systems and processes, lack of strong checks and balances, lack of strategic leadership and wider problems with organisational culture.

"When the review findings were released last year, the Board knew it had to look more deeply into the organisation. As a result, we quickly made significant improvements to strengthen the company's operations with the aim of providing better oversight and value for councils and their communities, says Wellington Water Board Chair Nick Leggett.

"Since appointing a new Chief Executive in October, we have been relentless in identifying areas of improvement and making fundamental changes to the way we work and operate. A key part of that has been changing the organisation's culture to one of listening and action – we have been encouraging people to speak up and raise risks early. Much of what we have acted on and improved has come directly from staff pointing us in the right direction.

"Through this change in culture and direction, we expected to find more areas where improvement was needed, and we haven't been proven wrong. Recently more information has surfaced around the costs we are being charged by our contractors and suppliers, as well as staff raising concerns on the way our consultants and contractors are being managed. It was clear that the level of controls was not in place to ensure proper oversight and prudent financial management.

"We took these concerns very seriously and investigated. Our investigations also confirmed a lack of oversight, assurance, and weak financial processes and controls around how the company manages its consultants and contractors, which opens us up to risks around fraud. This had to be changed immediately, and we have done so.

"One isolated incident of alleged theft was identified. The person responsible no longer works for us and the matter is now in the hands of the police."

Wellington Water also looked at the costs the organisation's frontline network maintenance and operational Alliance partner and consultants and contractors are charging and benchmarked this with costs from other councils across the country.

"Benchmarking found that in most cases we are "consistently more expensive" than other comparable councils, particularly for drinking water and wastewater assets. These higher costs are likely to be a symptom of our contractual set up with suppliers and our lack of oversight, assurance and financial controls and processes.

"It is now abundantly obvious that we have not been delivering value for money for our shareholding councils. This is as unacceptable to the Board, as it is to councils and ratepayers.

"It's important to note that these issues are the same ones that staff and some of our councils have been raising for a while now. We apologise for not listening previously. We are listening now and acting.

"We unreservedly apologise to our shareholding councils and the ratepayers of the Wellington region for these issues. Everyone expects and deserves better."

While these investigations were underway, Wellington Water has already implemented some improvements:

- **Reset our contractual set up with our project delivery (consultant and contractor) panels.** In our previous model, we funnelled all project work through select groups of suppliers who then allocated this to a group of sub-contractors to deliver certain aspects of the project. This lack of oversight resulted in doubling handling of work and additional contract management costs.

We've now moved to a model where we have a direct contract and relationship with all key sub-contractors. This will give us better oversight of the work, reduce doubling handling, allows us to get the right contractor for the work needed, and saves on contract management costs.
- **Reset the focus and scope of the Alliance** to run frontline network maintenance and operations. The reset involved implementing a new performance framework, making sure the teams are well placed to focus solely on operations and maintenance of the network, and increasing efficiencies. We have already seen improvements – our response times to jobs have been the lowest since the Alliance was established 5 years ago.
- **Increased commercial tension across our project delivery panels** by putting more work out to open tender for competitive bidding. This will ensure we can better sense check prices and quotes and understand if we are getting the best price for key projects.
- **Developed and implementing value-focussed KPIs** and regular reviews of performance against these KPIs for our consultants and contractors.

“We haven’t been sitting on our hands, but we know that there is much more work to do,” adds Nick. “The Board has accepted all recommendations from these investigations, and we have asked management to take some immediate actions to fix these issues.”

The following immediate actions are also underway:

- **Continue to drive positive culture change** where our people feel safe to raise risks early.
- Scheduled the first of many **fraud and corruption training** workshops for staff.
- **Increasing our financial oversight and approvals** of payments to our consultants and contractors and ensuring the right people at Wellington Water are reviewing and approving invoices before being paid.
- **Improving financial controls**, including stopping the creation of annualised large value purchase orders; stopping automatic payments, amending financial delegations and limiting who can approve invoices to be paid.
- **Introducing stronger day-to-day oversight of the work** of our contractors and suppliers to make sure we are putting the interests of Wellington Water and our councils first and getting the best outcomes and value for money – for example we are increasing our internal project management capacity to gain better detailed oversight of all projects instead of relying on our contractors and suppliers to fulfil these roles.

“With councils actively considering the future model for water services delivery for the region, it’s important that we work at pace to implement these changes to ensure that Wellington Water is not an impediment to the establishment of any new entity.”

Summaries of the findings from our investigations are available on [Wellington Water’s website](#).

ENDS

For media enquiries contact media@wellingtonwater.co.nz or 021 302 259

Editor notes

Attached to this media release is a schematic on the changes we are making to our consultancy panel.

About Wellington Water

Wellington Water is owned and fully funded by Wellington City Council, Hutt City Council, Porirua City Council, and Upper Hutt City Council, Greater Wellington Regional Council and South Wairarapa District Council. All six councils are equal shareholders.

Our councils own the water infrastructure in the region, and they task us to manage the infrastructure and deliver water services to our communities.

Wellington Water is governed by a Board of Directors. The Board and our organisation receive overall leadership and direction from the Wellington Water Committee, which are also responsible for appointing members to the Board.

The Wellington Water Committee is made up of representatives from our council owners and mana whenua.

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