WATER RESOURCES ZERO-BASED REVIEW AND ADMINISTRATION'S RESPONSE

External Consultant's Recommendations

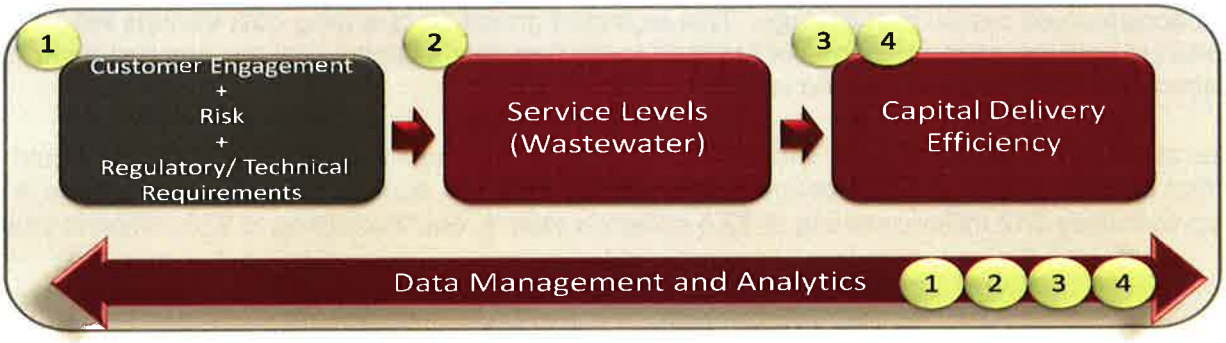
SWI, an external consultant with expertise in water utilities services, was retained to conduct the in-depth review. The recommendations are divided into four key sections outlined:

1. *Customer Engagement Strategy (Section 5 – p.13):* Recommends an approach for Water Resources to increase capacity to make more informed choices on future investment which are linked to customer priorities, expectations and perception of value.

2. *Wastewater Level of Service (Section 6 – p.21):* Recommends the creation of a clear baseline and assessment of the current levels of service offered by the Water Utility and an evaluation of what service level options are appropriate considering customer expectations, varying best practices for service costs and service quality factors for public utilities.

3. *[Capital] Investment Portfolio Management (Section 7 – p.32):* Recommends the application of different best management practices in planning, managing and monitoring the identification and project management of capital projects with specific focus on cost, time and outcomes.

4. *Capital Delivery Model (Section 8 – p.45)*: Recommends ways to improve the value for money received for their capital investments and increase The City's capacity to address its capital investment requirements over the long term, by applying improved processes and different capital delivery models for capital procurement and delivery. The recommendations in this section will increase value for money and improve the effectiveness and efficiency of the management of the supply chain for all Water Resources capital projects.



Indicates which set of SWI recommendations address the opportunities identified for improvement

Recommendations on the *Customer Engagement Strategy* and *Levels of Service Framework* highlight the importance of understanding customer expectations and their willingness to pay for different levels of service as a precursor to determining which levels of service to provide and then which capital infrastructure to build. Normally, ZBR reports do not end in a

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recommendation to do more work before service improvements and/or cost savings can be identified; an expectation of the ZBR program is that it will identify specific, tangible improvements, such as the recommendations in Section 7 and 8 noted below. However, in this instance the time required to determine levels of service based on customers' priorities extends beyond the timeframe of the ZBR. Additional data collection and measurement are required to develop service baselines and service-level options, with costs attached, to then be followed by customer engagement to match service levels to customer priorities.

The result will be a thorough, fact-driven and customer centric approach to setting levels of service – initially for wastewater, and subsequently to the other water utility lines of service (water and drainage). Because of the public impact of this work, and the long-term implications of these capital investments, it is important to take the time needed to get this right. For that reason, these recommendations provide a method to establish levels of service, which can be applied to Wastewater services over the next 12 months. The result will be a report to Council (via UCS) in the fall of 2017, which identifies options for future service levels and requests a Council decision.

The recommendations in section 7 and 8 propose a number of ways to improve the efficiency and effectiveness of Water Resources operations as it relates to its capital program, *([Capital] Investment Portfolio Management* and *Capital Delivery Models*). These recommendations are the source of the estimated annual savings of $17.0 to $20.5 million.

Capital cost savings will affect the operating budget by reducing the amount of debt servicing (principle and interest) costs. The operating cost savings realized in the first year will continue into future years, for the term of the debt (typically 25 years). In the second year, additional operating cost savings will be realized as a result of additional capital cost savings in year two. Operating cost savings will therefore continue to increase for a number of years, as a result of the accumulated capital cost savings. This expected growth in operating cost savings will continue until the point when the debt related to the first year's capital cost savings has been retired, at which point it is likely to level off.

The chart on the following page shows how $20 million in annual capital cost reductions would affect operating costs. Over a period of 8 years, the ***average*** annual operating cost savings is approximately $12 million, starting at $2.5 million in year 1, and increasing to $20 million in year 8.