Collaborative Contracting

Working Together for a better Southland

Joe Bourque July 2011
LVR Significance

• LVRs 88% of NZ’s roading network

• LVRs carry most of NZ exports

• Significant Commercial export receipts 10% from Southland’s LVR network

• To remain Globally competitive our LVR ‘Farm Gate to Port Strategy’ is needed
Alliance Intervention

SDC has largest LVR network in NZ:

- 5,000km roads and 1,000 bridges
- Services 28,440 ratepayers
- Serves 12 Community Boards & 16 CDA committees
- contributes ~ 10% Nation’s export receipts
- Prevailing land-use conversions for Dairy
‘Proactive’ Alliance Contracting

- Inflation destabilises flat-line budgets and fixed term ‘lump sum’ contracts
- Prolonged recession erodes future asset life
- Restoration of CHCH & demand for skilled workforce frustrates fixed budget constraint
- Upgrading aging network with aging population frustrates conventional contracting
- Network preservation and safety intervention are clearly at risk with flat-line funding
Despite economic constraint, Southland’s export activities growing and prospering requires flexible contract models.
Alliance Optimisation

SDC is here
One Financial Truth

• Exact financial costing and reporting critical for Alliance success – accountant embedded in business unit

• Alliance open book transparency provides means for operational consensus & achieving one financial truth
Lift the game

- Aligning and balancing CAPEX and OPEX teams resolved with Alliance contracting
- Everything and anything can be ‘value’ challenged by the Alliance team
- Shrinking funding envelope forces mutual constraint & alignment
Alliance Governance

Alliance Management Team
- AMT Council AE Lead
  - Council AE
  - Contractor Manager
- Operations, Administration, Consensus & Value Decisions

Council AE’s SLA
- Alliance Contract

Council Contract Owner
- Transport Manager

Council Services & Assets GM
- Corporate Council
  - GM
- Regional Mgr
- Chair Council Member
- Council Asset & Services GM
- Contractor Corporate
- Council Transport Mgr
- Contractor Regional Mgr

Alliance Leadership Team
- Alliance Board
- Leadership & Strategic Direction
“Through an innovative alliance culture deliver value to our customers, communities and stakeholders whilst maintaining and improving the total assets.”
The Alliance Culture

KRA ZONE

Community
Contractor
Council

New Alliance Culture

Value Based
Ownership
Outcomes

Community
Contractor
Council
Interventions Sought

Combined Network Ownership

Direct Risk & Cost Intervention

Greater Network Resilience

Commercial, Safety & Social Intervention

Consolidation of Resources

Community

Contractor

Council

KRA
Balancing Outcomes

Conventional
Fixed Contract

Alliance
Cost Plus

Insular
Confidential

Transparent
Open Book

Fixed Inflexible & Risk Transfer

Adaptable & Agile

Price Driven

Value Driven & Risk Cooperative

Value Optimisation

Consensus Engagement

Equal Funding
Single-most best thing

• Flexible Agility: Team flexibility to move investment from one activity to another, to meet ever changing need of network (impossible with fixed contracts)
Risk Mitigation

Manage risk v fixed transferred risk:

– pay up front for full risk mitigation $$$$$
– pay later for failure recovery $$$
– fixed contract, either way council pays $$
– Alliance actively manages risk $$
– Alliance actively manages shared risk $
Determining Value

4 Year Alliance Progression

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
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<tbody>
<tr>
<td>2005-2006</td>
<td>$0.00</td>
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<tr>
<td>2006-2007</td>
<td>$500,000.00</td>
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<td>2007-2008</td>
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<td>2008-2009</td>
<td>$1,500,000.00</td>
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<tr>
<td>2009-2010</td>
<td>$2,000,000.00</td>
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<tr>
<td>2010-2011</td>
<td>$2,500,000.00</td>
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Alliance Contract

Standard Fixed Term, Unit Rate or Lump Sum Contract

Trend
## Alliance KRAs

### Foveaux Contract Key Result Areas

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<thead>
<tr>
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<tbody>
<tr>
<td></td>
<td>KRA Weighting</td>
<td>Annual Target (BAU)</td>
<td>Measured Score</td>
<td>Weighted Score</td>
<td>Measured Score</td>
<td>Weighted Score</td>
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<tr>
<td>Unsealed Road Maintenance</td>
<td>30%</td>
<td>80%</td>
<td>74%</td>
<td>22%</td>
<td>85%</td>
<td>25%</td>
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<tr>
<td>Sealed Road Maintenance</td>
<td>25%</td>
<td>80%</td>
<td>91%</td>
<td>23%</td>
<td>95%</td>
<td>24%</td>
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<tr>
<td>Township Maintenance</td>
<td>10%</td>
<td>80%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
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<tr>
<td>Network Condition (Drainage)</td>
<td>20%</td>
<td>80%</td>
<td>76%</td>
<td>15%</td>
<td>99%</td>
<td>20%</td>
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<tr>
<td>Road Safety</td>
<td>5%</td>
<td>80%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
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<tr>
<td>Environment and Sustainability</td>
<td>5%</td>
<td>80%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
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<tr>
<td>Network Availability</td>
<td>0%</td>
<td>80%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
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<tr>
<td>Alliance Team Mgmt &amp; Direct Costs</td>
<td>5%</td>
<td>80%</td>
<td>0%</td>
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<tr>
<td>Stewart Island</td>
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<td>Non-Scheduled Works</td>
<td>80%</td>
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<tr>
<td><strong>Total</strong></td>
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<td></td>
<td>80%</td>
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Reduced LOS: 40%
Poor Performance: 60%
BAU: 80%
Stretch Target: 100%
Break Through: 120%
Summary

Alliance Attributes:

- Outcome managed v income preservation
- Flexible & Agile v locked in & fixed term
- Transparency & Open Book v Info Silos & No Trust
- Managing Risk Shared v Managing Risk Transferred
- Adaptive Ownership v Change Adversity
- Leadership & Innovative v No Alignment & Nil Ownership
Data & KRA Appendices
KRA Unsealed Investment

Unsealed Pavement Key Result Area - Inputs

- RFS No/Year
- Unsealed $/km
- Grading $/Unit
- Metalling $/Unit

Foveaux Alliance Contract

Cost ($/km)


Productivity ($/Unit)
KRA Unsealed Outcomes

Unsealed Pavement Key Result Area - Outcomes

- Roughness KPI
- Productivity Index

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Performance (%)
- 120%
- 115%
- 110%
- 105%
- 100%
- 95%
- 90%
- 85%
- 80%

KRA Sealed Outcomes

Sealed Pavement Key Result Area - Outcomes

- Red: RCAMES KPI
- Green: Stabilising Index
- Purple: Cyclic Index

Performance (%)

Year:
- 2006-2007
- 2007-2008
- 2008-2009
- 2009-2010
- 2010-2011
- 2011-2012

Foveaux Alliance Contract
KRA Drainage Outcomes

Drainage Key Result Area - Outcomes

Performance (%)

- 110%
- 105%
- 100%
- 95%
- 90%
- 85%
- 80%

Years:
- 2006-2007
- 2007-2008
- 2008-2009
- 2009-2010
- 2010-2011
- 2011-2012

RCAMES KPI

Foveaux Alliance Contract