About Metrowater

- Metrowater owns and manages the water and wastewater networks for Auckland City
- Population 420,000
- Customers served 165,000
- Approx \( \frac{1}{3} \) of the population of the region
- Approx \( \frac{1}{2} \) of the water supplied in the region
Proposed New Regional Boundary

Population: Approximately 1.2 million
No Bull Story
Only Alliance

Only through Alliance “Trust me”
Contracting Strategies

Why look at various contracting strategies
○ To ensure value for money
○ Better management of internal and external resources

Why some choose not to look at various contracting strategies
○ Risk adverse
○ Continue with what has been done in the past
You are required to construct a desalination plant which includes a 2km pipe from the sea. The pipe goes through the CBD and areas of unstable land. The budget for this project is $2 billion.
Where Did We Come From?
2004 Halcrow review

- Inefficient procurement processes – Many small projects
- Poor management/allocation of risk
- Better ways of project and programme delivery
Our Vision:
“We are passionate about delivering quality water services and value to our customers, and we aspire to be the role model for other water companies”

Role Model in:
- how we deal with our customers
- the quality of service
- More for less “value for money”
- how we manage our people
- how we procure and deliver services
Understand your Business Strategy

We will know we have reached our vision if we achieve the following strategic goals:

1. **To be trusted by our customers**
2. To be known by our stakeholders as the utility which achieves more and better outcomes for the most efficient investment
   “More for less”
3. **To be known as a Company which delivers on its promises**
4. To be known by our employees as a Company which values their development and rewards performance
5. To be known as a Company which values the health and safety of its people, the public and the environment
To achieve our goals we need to behave in line with our values:

- **Growth**: Improve talent gap in procurement and project management – **Value for company**
- **Leadership**: These values should be evident in how we work with our partners/contractors
- **Respect**: Need to be a better client – including reducing contractors’ unnecessary costs – **Value for contractor**
- **Can do/ Will do**: Get on with it and make things happen – **Value for customer**
Business Strategy - Key areas of focus required:

- Service, not just asset management
- Optimising our Capital Investment Programme
- Manage risk as Capex grows
- Optimising leakage and wastewater pollution
When selecting the procurement approach (Contracting Strategy) consider the wider capital investment programme, not separate projects in isolation. Consider a portfolio approach to manage your investment programme.
Procurement in line with business strategy

Strategic Alignment
- Vision
- Goals (more for less)
- Values

Value Management
- Optimised Decision Making More for Less
- Bundling of projects
- Term Contracts

Procurement Approach
- Rationalise suppliers
- Partnering
- Traditional
- Alliance

Delivery
- Construction Methodology
- Review Design
- Coordinate works
- Customer Service
- Innovation

Focus enough attention on getting alignment right, understanding where value comes from and selecting the procurement approach.

“We May Pay More” to get added value

Investigate  Design  Tender  Build
Where Are We Today?

- Six consultants
- Five contractors
- Bundle projects into programmes of works
- Take a portfolio approach to risk
- Implemented alternative contracting strategies
Types Of Contracts

- Build Own Operate
- Build Own Operate Transfer
- Alliancing
- Partnering
- Design and Construct
- Construction Management
- Traditional Lump Sum Contracts
More aligned to our values
Less transactional cost for both parties
Certainty of work – better value
Approach selected for major capital works

• Sewer separation for wastewater overflow reduction:
  – Traditionally many small projects ($1m to 5m)
  – Bundled into two $50m projects
  – One started in 2007 through alliance method

• Water main and wastewater renewals
  – $30m of work over 3 years (too small for alliance)
  – Separated in 2 roughly equal parts
  – Managed through a performance incentivised / risk sharing method.
Contracting Strategies

- Traditional
- Partnering
- Alliance
Traditional

- Well defined scope, low risk
- Limited ability for innovation
- Risk adverse clients
- Clients wanting to retain control
Partnering (NEC)

- Risk share
- Promote innovation

“A process where parties work towards mutually acceptable outcomes through”
Partnering (Cont…)

- Term renewals for:
  - Watermain renewals
  - Wastewater renewals
Alliance

Traditional
“Trust is Good, Control is better”

Alliance
“Control is Good, Trust is better”
Different From Traditional Contracting

- One team philosophy
- Transparency, early involvement of a contractor

Promotes Innovation

- Through KPI's

Delivers Value

- Exceeding performance targets
<table>
<thead>
<tr>
<th>Why Alliance?</th>
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<tbody>
<tr>
<td>- Value for money both tangible &amp; non-tangible</td>
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<td>- Ability to accelerate rate of investment</td>
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<td>- Desire to become a better client</td>
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<td>- The need to grow internal capability</td>
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<td>- Major environmental improvement (reduce wastewater overflows)</td>
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<td>- Manage works in a densely-populated area near Eden Park</td>
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<td>- Looming Rugby World Cup</td>
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<td>- Need for improved customer perception</td>
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Clear Harbour Alliance
Construction and environment challenges
Clear Harbour Alliance – Value to date

- Progressing well compared to programme
- TOC 10% below original budget
- Subcontract and some materials cost 10% below TOC
- Improved customer service through integrated customer database
- Satisfied customers, numerous compliments received
- Limited customer and traffic inconveniences in high density commercial and strategic transport corridor leading to Auckland CBD
- Complaints received but satisfactory resolution through dedicated customer teams in Alliance with support from Metrowater
"We knocked the bastard off."
Two elements to value for money

1. Tangible
2. In tangible

1. **Tangible** – easy e.g. competitive tender, independent estimate etc.

2. **In tangible** – Hard e.g. Customer Service, reliability of service, improvements to the environment etc.
Demonstrating Value for Money

Value for Money = Functional Performance

Whole Life Cost

Functional Performance = Tangible Benefits of Outputs + In-tangible Benefits of Outputs + Achievement of Desired Outcomes

Resources Consumed

Whole Life Costs
Alliance – Pain/Gain drive value

Traditional – Client pays all – either through variations or risk transfer
Non competitive alliance

1. Monte carlo analysis on estimate
2. Independent estimate
3. Establishment audit
4. Commercial alignment - $3m less
5. Mid audit for compliance
6. Competitive tenders for sub contract works and materials

Competitive alliance - drives innovation and many go some way to satisfying the Client on the VFM debate. However !!
### How do you score relative to “Value”

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Traditional</th>
<th>Alliance</th>
<th>Design &amp; Build</th>
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<tbody>
<tr>
<td>1 Ability to promote innovation</td>
<td>1</td>
<td>3</td>
<td>3</td>
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<tr>
<td>2 Cost certainty</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>3 Delivery ahead of programme</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>4 Community Engagement and Management</td>
<td>1</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>5 Build in-house knowledge and skills</td>
<td>1</td>
<td>3</td>
<td>2</td>
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**Likert Scale:** 1 = Sometimes, 2 = Most of the time, 3 = All the time

- Trade-off: criteria vs. cost of establishing alliance
- All things being equal other methods may deliver same outcomes
- Criteria 5 could tip balance if building in house knowledge is important to Client
Conclusion

- Long term relationships with a contract strategy that drives the right behaviours
- Provide excellence to our customers through
  - Service – right investment and the right time
  - Safety - No harm
  - Quality – Do it once, do it right
- Contract Strategy that promotes innovation
- Contract Strategy that promotes best solution
- Value what Value is to demonstrate “Value for money”
Conclusion

- Not always easy to value “value”
- Only the client will know whether they got value for money
- Metrowater is learning about better risk allocation and management
  - Portfolio approach
  - Risk allocation
- Balance between empowering the alliance and client responsibility
- Demonstrating competitiveness – not an issue
- Cost and time taken to select partners – resource & cost intensive to the industry