

Submission to

Wellington Water Shaping Our Future

26 July 2016

SUBMITTED BY

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INTRODUCTION

This submission is provided by Civil Contractors New Zealand in response to Wellington Waters 'Shaping Our Future' consultations and workshops of 13th and 14th of July.

ABOUT THE SUBMITTER

Civil Contractors New Zealand Inc is the national industry body representing Civil and General Contractors who carry out the country's civil infrastructure construction and maintenance work. We estimate that the civil construction sector carries out more than \$12 billion of work annually and employs in excess of 60,000 workers.

Our Members undertake a wide spectrum of work including construction, operation and maintenance of;

Transport networks	including roading, bridges, tunnels, railways, airports and ports
Water infrastructure	including water storage and water reticulation, irrigation, drainage, waste and storm water services
Communications Networks	including underground and above ground networks
Disaster relief and protection	Flood and coastal protection and emergency response
Energy Infrastructure	including both generation and distribution;
Commercial and Residential Building	including site access, site works, foundations, car parks and installation of services;
Agriculture and Forestry work	including dairy conversions, tracks, drainage, effluent ponds, feed pads, building site preparation and forestry tracks and skid sites
Ground Stabilisation	including slips, subsidence and rock falls
Parks and sports fields	Construction and maintenance including vegetation control

Civil Contractors New Zealand was originally formed in 1944 as the NZ Contractors Federation and following the merger of New Zealand Contractors' Federation and Roothing New Zealand in 2014 became Civil Contractors New Zealand.

Our primary roles are

1. Industry advocacy and representation
2. Supporting industry development, professionalism and safety
3. Providing information and advice

Civil Contractors New Zealand aims to:

- Create a safe, viable, and progressive sector meeting the needs of all its participants.
- Contribute to ensuring a healthy civil construction sector where skilled and qualified clients, consultants, and contractors produce outcomes that deliver value for money for all participants.
- It is the result of investment in people, forward planning, fair and consistent procurement strategies, competition in the supply chain, and growth opportunities for those willing and able to take up the challenge.

Overview

'Shaping the future' consultations and workshops have looked at six key questions which is summarised in (Appendix A) along with comments from Civil Contractors of those themes that are of significant interest to us.

We will not address each of those themes and suggestions from the workshop but we will expand upon those that we believe are key to delivering 'A Safe Project', 'Value for Money', 'Quality', 'Best for Business', 'Best for Customers' and 'Best for the Region'.

In addition while not recorded in the key themes we acknowledge that Wellington Water are concerned that industry does not have the Capability and Capacity to deliver the proposed volume of work that will be increasing in value from \$50 million annually to in excess of \$70 million in the next few years.

The following are recommendations provided by Civil Contractors New Zealand following consultation with those members that currently provide physical work inputs to Wellington Water.

Consultation

Civil Contractors New Zealand would welcome the opportunity to speak to this submission.

Detailed suggestions

The following are key themes that we believe need to be addressed by Wellington Water and provides the Civil Contractors New Zealand Members' view on working with Wellington Water.

The underlying theme however is that the way Wellington Water does business should ensure, 'A Safe Project', 'Value for Money', 'Quality', 'Best for Business', 'Best for Customers' and 'Best for the Region'.

Insource - Outsource

Wellington Water must continue to insource the following activities:

- Policy development and implementation
- Determine strategies – implement and monitor them
- Develop programmes to deliver value for money in work that maximises the effectiveness of the assets
- Asset management
- Procurement activities
- Contract management
- Data management but subject to data being collected by others
- Provide governance and leadership particularly in the areas of standardisation of specifications, health & safety and environmental compliance.

Wellington Water is a management company

Private suppliers whether professional services or physical works have over the years built up considerable capability in providing services that support Wellington Water's activities and requirements – these include:

- Professional consulting services
- Network construction, operation and maintenance
- Investigation work
- Complex design and special projects
- Data collection by contractors and specialist data companies.

These activities must be continued to be outsourced because:

- Suppliers have the capability and capacity to provide the services
- Suppliers are able to manage the risks thereby reducing the risk profile of Wellington Water.
- Suppliers can gain competitive process for materials and manage the risks associated with material supply.
- Provides competitive tension at the tender box to deliver value for money, ensure quality outcomes and encourages innovation.

Asset ownership

Civil Contractors New Zealand suggest that the current and future assets of the five contributing Councils can be better managed by their ownership being vested in Wellington Water. By doing so Wellington Water will be better able to prioritise, plan and programme works taking a holistic approach that deliver best for networks outcomes.

As we work nationally we are able to see those structures that work well when managing water assets and can provide examples that could support a request for transfer of assets to Wellington Water.

Contractors

Contractors currently working for Wellington Water are committed to the water industry and over the years have invested significantly in plant resources, technical skills and capability. These Contractors have built their businesses over generations and are reliant in large part on the work offered by Wellington Water.

Those Contractors that currently work for Wellington Water are in the main small or medium sized and as a result have:

- Low overhead structures
- Develop innovative solutions
- Are agile enough to invest and grow as the market and forward work programme is published and developed. i.e. these contractors are prepared to grow their businesses to meet a proven demand by their clients.
- Are well known to Wellington Water for their resources, track record, knowledge, technical skills, innovation, capability and capacity.

The following is a breakdown of how the contracting industry is made up

The significant point to look at when comparing specialist Contractors with Sub Contractors is that the specialist Contractors have skills that provide added value, potential for innovation, high levels of investment in resources and training – and many other factors that ensure quality, value for money outcomes.

The difference between large Contracting Companies and the Specialist Contractors relate in the main to reduced overheads for the Specialist Contractor and the potential to develop and apply innovative solutions.

Large contractors	Specialist Contractors	Sub-Contractors	Cowboys
Professional	Professional	Professional	non professional
Add value	Add value	Provide a good price	Cheap
Have technical Skills	Have Technical Skills	Provide men and machines	Poor quality
Have Management Skills	Have Management Skills	Directed by head contractor	Contracts based on a handshake and count your fingers.
Invest in specialist plant	Invest in specialist plant	Invest in resources with some training investment	
Invest in training	Invest in training	Require management of compliance requirements	No compliance or management systems
Heavily invest in management systems for Quality, Environment, H&S and Training	Heavily invest in management systems for Quality, Environment, H&S and Training	Often working toward management systems to meet compliance requirements.	
Have considerable skin in the game	Have considerable skin in the game	Contract frequently based on a handshake and the relationship they have with the head contractor	
Hungry – want to maintain their position in the market	Hungry – want to develop skills and expertise – they want to grow!	Want to grow BUT Require supervision and management	
Rely on the quality of their last job to get the next	Rely on the quality of their last job to get the next	Rely on the quality of their last job to get the next	Hope there will be another client to work for

Programme

The programme of intended works does not need to be 100% accurate as Industry acknowledges that circumstances change and so construction times do have some float. The important thing about forward work programmes is that there is a genuine attempt to indicate the work that does need to be done and to have indicative time frames. Industry – Contractors - will gear up if they know there is a fair chance of winning some of the work.

To move from \$50 million annually to \$70 million or more, Contractors want to know over what period of time that increase will occur and will resource up both in terms of equipment and skills to meet that demand.

With a reliable programme industry can ensure resources are available or readily available, can form alliances or joint venture with other Contractors for those special projects.

BASED ON A RELIABLE PROGRAMME CONTRACTORS WILL DEVELOP / GROW / CONSOLIDATE THEIR BUSINESSES, TRAIN EMPLOYEES AND THEREBY IMPROVE THEIR PRODUCTIVITY AND CAPACITY.

In addition to forward programmes it is noted that in some sectors of the Industry large volumes of work are put out to the market at the end of the financial year. Some Contractors for example note that June is the largest billing month of the year. By effectively using the forward works programme and allowing Contractors to manage the delivery time frames the work load can be more evenly spread through the year. By taking this approach Wellington Water will gain savings, increase value for money, increase capacity of the Industry allowing greater productivity. The most important aspect of achieving the programmed spend is to have work tendered and awarded at the beginning of the financial year.

Contract size

There is a great deal written and implied about large contracts being more efficient or deliver better outcomes. In large part these are perceptions that are not reliably corroborated by evidence. There is also evidence that small contracts can result in better outcomes in terms of price, quality, innovation, timeliness and value for money.

Civil Contractor New Zealand members suggest that there is some middle ground to be explored here where contracts could be bundled based on similar types of work, or geographical area to a value of between \$1 million and \$2 million.

This approach would allow Contractors to programme their work at greater efficiencies over potentially extended construction durations. In addition many of the small contracts (\$250,000) could be incorporated to make up the suggested contract value reducing both tender and contract award and administration costs.

If larger contracts were used then inefficiencies may occur immediately as only large Companies would be able to bid for the work, the large Companies would employ Wellington Water's current Contractors who would be relegated to Subcontractor status. As Subcontractors, innovation would be lost, costs would increase due to the large Companies applying a margin making them in effect a management company in addition to Wellington Water being the asset's management company. There is also a significant and real risk that current Companies would not work for the large Companies, preferring to 'close up shop' resulting in a loss of both capacity and capability. There are examples of this consequence within New Zealand and from other jurisdictions.

Tendering process

Wellington Water have the privilege of a large number of small and medium sized Contractors that regularly perform the work to very high standards and at competitive prices. As a result Wellington Water is very aware of each Contractor's capability and capacity to undertake any contract that may be put to the market.

In addition Wellington Water developed a comprehensive prequalification system that we have long supported from its inception to the present day.

We encourage Wellington Water to revitalise prequalification in order to reduce both tendering and evaluation costs. Use prequalification, methodology and price to award contracts.

Contractor Capability

Over the last five years, training providers (Training Aspirations), have seen an ever increasing investment and participation in training of Wellington Water and Civil Contractors NZ members employees. Wellington Water gives high importance to industry training as do Civil Contractors NZ members who continuously invest in training their staff to ensure they have the skills to be effective, efficient, compliant and qualified.

Suppliers have the capability and capacity to provide the services required by Wellington Water. These are achieved through the supplier's investment in human resources:

- They attract and retain people with the right skills and relevant experience
- They ensure their people are trained and qualified for their jobs
- As employers they give high priority to meeting and maintaining health and safety requirements
- They invest in machinery and materials

CCNZ's members adopting these practices, they assist Wellington Water to deliver on its business objectives. They are equipped with the capability and capacity to meet increased demands. Further, training providers are available to cater to current and future training needs.

IS WELLINGTON WATER SET UP IN THE BEST POSSIBLE WAY TO DELIVER VALUE? WHATS BEST FOR THE BUSINESS, CUSTOMERS AND THE REGION?

Value for Money

Retain the status quo of packaging up work that allows current Contractors to win work on their own account resulting in competitive tension at the tender box, innovative solutions, low contractor overheads, reduced tendering costs by Wellington Water by using prequalification to determine award of contracts.

Large contracts may result in added (hidden) margins on subcontractor's loss of efficiencies due to duplication of management activities.

Best for Business

Currently those Contractors working for Wellington Water are in the main family owned and operated with many being second generation businesses. Each of those businesses support many local families.

Current Contractors have and continue to demonstrate their commitment to the Industry and recognise that as Wellington Water has grown they are now (for some) almost exclusively reliant on Wellington Water as their only client where as previously they worked for the five different Councils. As a result Wellington Water have a social responsibility to their current Suppliers while those Suppliers deliver quality outcomes.

If work were bundled to the extent that only large Companies could bid for the work the local content and the support of local families could be lost. Some would argue that the large Companies would pick up many of the local workers - that is not proven - elsewhere in New Zealand it has been shown to be the reverse as workers decide to leave the Industry totally.

Best for Customers

The status quo currently offers, Value for Money to the five Councils and their Rate Payers by offering Innovative Solutions delivered by Local Businesses.

Best for the Region

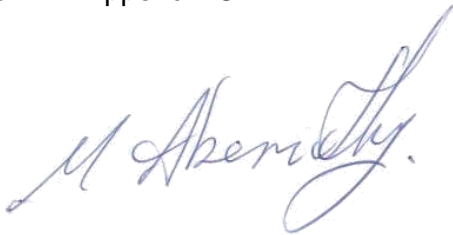
Wellington Water's current SME Suppliers don't want to work as Subcontractors as unfortunately many subcontract agreement terms are unfavourable to the Subcontractor.

Improving reliability of the forward works programme will encourage the current Suppliers to gear up to meet the demand but the programme needs to be realistic!

Many large Contractors operating nationally have national supply agreements for basic supplies of materials, fuels and the like, meaning that large portions of payments will go outside the Region.

Local Contractors currently working for Wellington Water employ and purchase their supplies locally therefore supporting Local and Region economic development.

In addition to the above submission we refer you to our Healthy Industry Statement as shown in Appendix C.



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Appendix A

Shaping Our Future - Supplier Meeting key themes 13/14 July 2016

<p>What should WW keep?</p> <ul style="list-style-type: none"> • Regional approach • Engaging with suppliers/contractors • Its focus on vision and values • Long term planning –avoid knee-jerk reactions • Focus on health & safety • Collaborative approach • Continue to look internationally to see what is happening in the industry 	<p>What does WW need to change?</p> <ul style="list-style-type: none"> • Explore asset ownership • Streamline decision making • Raise industry profile • Control growth, don't get too big • Get closer to the customer • Continuity of work for suppliers – better planning • Advocate for asset ownership
<p>What are WW's strengths?</p> <ul style="list-style-type: none"> • Regional approach – rationalisation, standardisation, economies of scale • Clear direction – working towards the greater good • Collaborative approach • Engagement with suppliers • Focus on strategic issues • Internal knowledge • Willingness to change • Provide a range of contracts (size and type) • H&S 	<p>What are WW's weaknesses?</p> <ul style="list-style-type: none"> • 5 bosses, different budgets/reporting/priorities • Complex internal systems • Turnover of staff • Inconsistent interface with customers • No contractor involvement during design process • Branding – raise WW profile • Losing focus on day to day • Delay in letting tenders • Better programming, more planned approach • Different procurement models
<p>What should WW insource?</p> <ul style="list-style-type: none"> • Planning, policy, strategy, governance – set standards and policy • Water and wastewater – critical public asset • Asset management • Information/data management • Specialist equipment • Maintain core technical capability – “smart buyers of services” • Management of the customer interface 	<p>What should WW outsource?</p> <ul style="list-style-type: none"> • technical consulting • network construction • network maintenance • investigation work • design specialised/complex projects • data collection, including CCTV <p>Why?</p> <ul style="list-style-type: none"> • Allows resource balancing, don't have to hold the skills/knowledge in-house • Reduces the risk profile of WW

	<ul style="list-style-type: none"> • Reduces the number of different activities to manage • Provides competitive tension, cost effective, encourages innovation • Suppliers can get better prices on materials
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The following are some of the key themes that are of significant interest to Civil Contractors New Zealand.

What should Wellington water keep?

We agree with the key themes identified (Appendix A) but suggest that while looking internationally and indeed nationally for what is happening when managing water assets we suggest that before any initiatives adopted from other jurisdictions or entities are tempered by considering the outcomes of a detailed business case analysis.

We suggest that long term planning is a significant issue and we encourage Wellington Water to continue to develop the forward work programmes.

The forward work programme does not need to be 100% accurate and Industry acknowledges that programmes change for a variety of reasons but the important thing is that the jobs are coming up and the projects will happen.

Civil Contractors New Zealand members are encouraged by the collaborative approach being taken by Wellington Water.

What does Wellington Water need to change?

The key we believe to success for Wellington Water is to have Asset ownership transferred from the owner councils to Wellington Water.

And as above Wellington Water need to develop and communicate comprehensive programmes of work to provide certainty around forward work programmes.

What are Wellington Water's strengths?

Wellington Water is a management company providing asset management for the five owner Councils and they do this role very well.

What are Wellington Water's weaknesses?

Five Councils that have different budgets, reporting and priorities which in some respects manifests itself in that asset ownership remains with those Councils.

There appear to be complex internal processes and systems resulting in difficulty in meeting programmes, and delays in awarding contracts.

What should Wellington Water insource?

Wellington Water is good at the operation and management of the network(s) and carry out those very important management roles required for the assets.

That is Wellington Water must continue to insource the following activities:

- Policy development and implementation
- Determine strategies – implement and monitor them
- Develop programmes to deliver value for money in work that maximises the effectiveness of the assets
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What should Wellington Water outsource?

Private suppliers whether professional services or physical works have over the years built up considerable capability in providing services that support Wellington Water's activities and requirements – these include:

- Professional consulting services
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- Investigation work
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Why should these activities be outsourced?

- Suppliers have the capability and capacity to provide the services
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- Suppliers can gain competitive process for materials and manage the risks associated with material supply.
- Provides competitive tension at the tender box to deliver value for money, ensure quality outcomes and encourages innovation.

All of the above is covered in the key themes provided by Wellington Water and the results of the consultation.

Appendix B


Civil Contractors New Zealand members that have contributed to this submission

The following is a list of Civil Contractors New Zealand, Wellington Members who are listed as providing drainage and utility services:

Action Civil Ltd
Advanced Siteworks Ltd
Aidan Kelly Contracting Ltd
Bryce O'Sullivan Contracting Ltd
Construction Contracts Ltd
D A McNeil Ltd
Daniel Renshaw Drainage Contractor Ltd
Darlington Drilling & Piling Ltd
Dews Construction Ltd
E Carson & Sons Ltd
Goodman Contractors Limited
G P Friel Ltd
Juno Civil Limited
Mills Albert Ltd
Morepork Trenching Ltd
Multi Civil Contractors Ltd
Murray Weston Ltd
Paraparaumu Engineering Ltd
P & N Siteworks Ltd
Rapid Earthworks Ltd
Tony Oliver Earthworks Ltd
Training Aspirations

Appendix C

Healthy Industry Statement



CIVIL CONTRACTORS
NEW ZEALAND


A Healthy Civil Construction Sector

Vision

A safe, viable and progressive sector meeting the needs of all its participants

A healthy civil construction sector is one where skilled and qualified clients, consultants and contractors produce outcomes that deliver value for money for all participants.

It is the result of investment in people, forward planning, fair and consistent procurement strategies, competition in the supply chain and growth opportunities for those willing and able to take up the challenge.



Principal Business Partner

Elements

A healthy civil construction sector environment is one where:

- safety is a priority for everyone
- there is competition for all types and sizes of projects based on value for money
- there are growth opportunities for all business types and sizes
- there is a degree of certainty of forward work that allows investment in personnel and resources
- collaboration produces innovative solutions
- there are transparent procurement strategies
- procurement and delivery processes promote a sustainable industry environment
- industry participants take responsibility for environmental and other community and social impacts
- there is recognition that investing in improved skills and training will improve quality and productivity
- industry participants are aligned to client needs and adapt to changing political or economic conditions

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