

SUMMARY OF MEASUREMENT PHASE OUTPUT

The following summary report identifies the key issues arising from the measurement phase of the state highways M&O review. These issues have been identified through work in the following areas:

- Learning from Others
- People and Capability
- Asset management
- Procurement
- M&O Practices

Issues and opportunities have been categorised under the following headings:

- Asset Management
- Procurement
- People, Capability and Culture

Asset Management

- Consider a 'Centre of Excellence' for asset management to drive consistent best practice across the M&O business;
- Better asset management is key to improving M&O performance;
- There is a need to develop consistent practices across the whole sector;
- There is evidence of 'churn' and too much process which does not add value within the supply chain. There is a need to re-engineer process as part of the implementation;
- Increase focus on whole of life cost;
- Need a comprehensive review of service levels and standards;
- Better performance management is needed to drive the right outcomes;
- A greater focus on outcomes is required as opposed to outputs;
- Asset ownership by NZTA is key to supply chain success;
- A whole of supply chain view needs to be taken for review – who does what?;
- There is an opportunity to improve the Agency's long, medium and short term programming;
- The Agency can improve its treatment selection and timing;
- There is an opportunity to improve programming to increase supply chain certainty;
- There is an opportunity to relax maintenance standards on lower volume SH's;

- There may be risks associated with over-centralisation;
- Outcomes should match the aspirations of the road users (subject to financial constraints);
- A lack of clarity across the client and delivery roles will negatively impact the desired value for money outcome;
- There is a tendency to over specify and apply unnecessary standards (UK Infrastructure Report). This could be relevant to NZ;
- Having a sound understanding of unit cost is key to driving cost out of the business. Also, comparing unit cost across similar networks/road controlling authorities will increase depth of understanding and could potentially lead to innovation;
- Cost reduction should be 'business as usual' with clear organisational accountability for its delivery;
- Too many treatments fail earlier than expected;
- Poor justification for works in some areas, including lack of records;
- Significant variation in treatment length lifespan between networks;
- Limited reporting on the **effectiveness** of treatments;
- Evidence of sub-optimal treatment selection, intervention criteria, material quality, construction quality, or various combinations of all these factors;
- There are significant differences between expenditure on similar SH networks;
- High expenditure in June suggesting sub-optimal programming and/or spending to budget;
- There is an ongoing increase in asset complexity and scope which will increase funding requirements in the future;
- There is a trend towards Agency's having a greater level of involvement in network asset management decisions;
- Improved benchmarking and governance of suppliers is critical to future success;
- There is an opportunity to adjust relatively minor levels of service to generate cost savings across the network. However, these should be agreed nationally and implemented consistently;
- There is an opportunity to reduce the extent of rework and early asset failures, by changing the Agency's procurement approach and driving improved accountability through the supply chain;
- There are opportunities to reduce temporary traffic management costs across the network. A VfM review could be initiated to deliver savings within 12 months;

Procurement

- There is a need for 'best for network' and relationship based contracts;
- Flexibility across all aspects of the business is critical, particularly procurement, although need to ensure that the desire for consistency does not drive costs up in the medium to long term;
- Contract boundaries should be reviewed to optimise network efficiency irrespective of current network boundaries;
- Better contract incentives and penalties should be used consistently across all activities;
- Longer term and larger performance based contracts may provide better outcomes for NZTA;
- Short term contracts limit the opportunities for parties to develop long term collaborative relationships;
- Defect liability periods may be too short;
- Role of the consultants questioned – should they be advisors?
- Procurement practices are inhibiting innovation;
- Poor risk identification and management reduce value for money realisation;
- There is a global trend towards collaborative outcome, performance based contracts;
- Versions of NZ's Hybrid model are being adopted by the World Bank and in India;
- Suppliers could be incentivised by rewarding innovation and efficiency/effectiveness gains;
- Need to improve planning and programming of M&O works;
- Better value for money could be achieved by reviewing size, scope and number of network contracts and optimising;
- Don't rely on procurement process alone to drive performance – effective contract management and governance is a critical success factor;
- Evidence suggests that the NZTA traditional form of contract is not delivering optimum value for money outcomes;
- Hybrid contracts appear to score best in cost area analysis and be more successful than both traditional and PSMC;
- Contracts could be let on a 'fence to fence' basis (whole of corridor) to increase network accountability and best for customer approach;
- NZTA should develop collaborative relationships with key suppliers;
- Future contracts should include a suite of pain/gain incentives to drive better supply chain performance (on **all** activities);

- Future delivery models should rationalise unnecessary duplication of tasks and roles;
- Collaboration with other RCA's could also deliver more efficiencies and better value for money;
- There are opportunities to reduce professional services works in areas and increase in other areas to deliver better value for the Agency;
- Some components of professional services could be delivered in-house by the Agency to increase the level of NZTA ownership;

People and Capability

- There is a skill and capability concern across the sector, which could ultimately have a major impact on the Agency's ability to deliver VfM outcomes;
- All proposals arising from the M&O review should be tested against 'people and capability' criteria to ensure long term robustness of the implementation plan;
- The Agency should take a leading role in driving better capability across the sector, starting with its own asset management resource;
- Being a skilled and experienced client is key to achieving value for money outcomes. There should be a targeted approach to lifting skill and capability across the sector;
- The common success factor is having the right people and behaviours