

GETTING BEST VALUE FOR MONEY FOR SMALL TO MEDIUM SIZED COUNCILS – NEC3 AND RELATIONSHIP MANAGEMENT IN OPERATIONS AND MAINTENANCE

Erin Ganley – Horowhenua District Council, Warner Cowin – Downer New Zealand

ABSTRACT

Attracting competent contractors to manage term maintenance contracts who provide competitive prices and add value is always a major challenge for small to medium size rural based council. The expiry of Maintenance Contracts is always a daunting time for any Local Authority. Build into that contracts that had not been let for 10 years since divestment, using NEC3 as the contract and getting ‘the best bang for buck’ ,and you have some daunting challenges.

Horowhenua District Council went to the market with an innovative contracting format using request for proposal and NEC3 as the form of contract. Just to make matters more of a challenge HDC added into the mix partnering, relationship management, ‘One delivery Team’ concept, capital incentives linked to performance in key result areas and contracting innovation.

With one year of the new contract with HDC and Downer under our belts we are now able to look back on how we got there and what we have achieved during this time and frame the path for the next four years.

This paper gives the HDC perspective on why we put the challenges in our path and how we overcame them. The Downer perspective of being engaged through the process and the HDC/Downer perspective of what the first year has brought, ups and downs, and what we expect the next four years to look like.

KEYWORDS

Collaboration, NEC, Strategic, Maintenance Contracts, Key Performance Indicators, Framework Contracts

1 INTRODUCTION

In the last two years Horowhenua District Council has seen a significant shift in the delivery of maintenance services. The shift began with the development of a procurement strategy and procurement plan. These documents identified the NEC3 style of document for the maintenance of Horowhenua District Council assets.

With the use of NEC and the collaborative framework, that this form of contract entails, Council faced challenges in writing new contracts to replace the existing outdated NZS3910 styled contracts. Implementation of these contracts, establishment of the collaborative framework and delivery of the strategic objectives required a change in mindset and commitment from both Council and supplier.

The first year of the contracts has passed and review and reflection can be carried out on how well they have established and met strategic objectives. Goals can now be set to improve contact performance and develop the collaborative relationship.

2 PROCUREMENT

2.1 THE STRATEGY

Any successful procurement process can be linked to a well developed strategy. In 2009 Horowhenua District Council (HDC), with support from procurement specialists, developed a procurement strategy to determine how to best package and tender works to obtain value for money.

Key objectives were set for the procurement strategy;

- Strong alignment to Horowhenua District Council Long Term Council Community Plan 2009-19 community outcomes
- Compliance with external funding agency policy and procedures
- Alignment across activities to enable potential consolidation
- Development and maintenance of a robust and competitive supply market.
- Ability to manage changing priorities
- Supplier participation in environmental outcomes
- Improve understanding of how best to support smaller contractors in the District.

In developing the strategy Council and procurement specialists carried out discrete analysis that culminated in the strategy. This analysis consisted of a review to determine objectives and aspirations of Council, staff and suppliers and profiling the Council operational and capital spend.

Interviews with staff, suppliers and councillors were carried out in conjunction with a staff workshop.

Council staff identified key objectives for supplier relationships. The key objectives can be summarised into four common themes. Table 1 below provides the specific key objectives identified by staff.

1. Consistency of supplier management across council i.e. contract documentation, contract management, risk and reward management
2. Collaborative working models to increase transparency of cost of service, increase performance predictability and the flexibility to manage changes in the contract scope over time.
3. Clarification of roles and responsibility within the activity management.
4. Alignment of contract activity with levels of service and asset management.

Table 1 Horowhenua District Council Staff Objectives for Supplier Relationships

People	Process	Systems	Customer and network	Working together
Develop knowledge management – increased context for effective network and customer management	Consistent processes across services – the “HDC way”	One organisation - one version of integrated systems	Demonstrable value for money - common measures across council	Contractors and council working collaboratively

People	Process	Systems	Customer and network	Working together
Develop relationship management – managing strategic, tactical and operational issues – focussing on the important issues	Leveraging one organisation opportunities - agility and flexibility across the networks and portfolios	Increased visibility of work in progress	Strategic network and asset portfolio management – good decisions best for network, best for customer	Common forms of contract supporting flexible scope management and service delivery
Clear accountability and ownership of activities and outcomes across the network and the relationships	Align network maintenance performance to AM and LTCCP – LOS aligned to outcomes	Robust quality assurance – focus on exceptions	Customer experience consistent and predictable	Council and contractor relationships recognised as best in class.
Develop role based competency – HDC and supplier staff developing skills together	Leverage technology – near real time data for assets and work in progress	Consistent and timely data capture	Information supporting value based decision making	

Key to understanding procurement is to engage with the market that will be delivering the services. Some may call this early contractor engagement it also is market research and risk management. Councils' procurement specialists conducted a number of interviews with suppliers being local suppliers and national players.

Valuable feedback from suppliers was twofold, providing valuable insight into how they felt HDC could achieve value for money and realisation for HDC as to how little the local suppliers actually understood Councils' roles and responsibilities. Key points made were;

- Tenure is a significant incentive
- More work – being work that can be delivered within broader timeframes that allows the supplier to smooth demand, i.e. better value for Council to use existing resource to manage more work
- Bundling activities to provide price value, reduce contract overhead and provide a single point of contact
- Value gained from larger firms national capability
- Performance management needs to be robust, predictable and aligned to HDC community outcomes.
- Smaller contractors not understanding why master contractors charge overheads
- Smaller contractors unaware of Council's other requirements such as programming, asset data collection and management, customer service request management
- Smaller contractors noted that some aspects of maintenance could be let separately on a geographic basis.

Council spend predicted in the LTCCP, both operational and capital, was assessed and provided valuable information as to the complexity of the expenditure programme. This provided some very logical demarcations, maintenance, minor capital and major capital.

These demarcations then followed through into options as to how Council could deliver on the expenditure programme. Staff were given several options in each of the categories with each assessed against strategy and staff objectives. Table 2 below provides detail on the chosen options and the comments provided relating to the selection. The link between the strategy and staff objectives is strong in the selection of how to actually deliver the expenditure programme.

Table 2 Chosen program delivery options and comment

Activity	Options	Comments
Major capital works (over \$100,000)	Programme level bundling of like projects or geographic "corridor" projects into single procurement packages.	Value may be secured through increased bundling or performance based sequencing of work to reduce contract overheads and management costs. Risk of re-prioritisation and delays which impact supplier cost and price models.
Minor capital works (less than \$100,000)	1) Programme bundling of like projects or geographic "corridor" projects into single procurement packages 2) Award a percentage of programme of minor upgrades or renewal works to high performing maintenance contractors	Using minor capital works as a reward for high performance in maintenance will add value provided the contractor has scheduling flexibility to use existing resources. Delivery costs should reduce provided no additional overhead requirement ie: marginal costing. A portion of the programme should continue to be delivered through a competitive process to give confidence that maintenance contract rate schedules are realistic and to give local suppliers additional opportunities.
Maintenance contracts (1)	Managing or prescribing local content in larger network contracts to preserve the benefits of focussed accountability for network performance and create opportunities for local suppliers	To a large degree this would formalise current practice Local contractors are not averse to being a sub contractor but would like more security of tenure – although practice over the last decade suggests this is not an issue. Mandating local content in large contracts needs to be carefully managed so that the larger contractor's accountability for network performance is not compromised.
Maintenance contracts (2)	Area or service based bundling eg: spraying, mowing cemeteries and litter	Staff have identified these services where there may be more logic in taking an area or service based approach. The spraying and line marking contracts are currently delivered this way. For mowing consideration will need to be given to the investment in capital plant eg: awarding Shannon and Foxton based area contracts may not create the scale required for the investment in high reach or gang mowers. Cemeteries may be sufficiently distinctive to support a dedicated contract provided HDC are comfortable that the required customer service levels can be sustained. Litter is another in-sourcing option but runs the risk of having more than one operator in the same place at the same time.

In understanding the capital and operational spend and having clear program delivery Council was able to further break down the operational and capital spend profile. In looking at the varying complexities of maintenance versus minor capital versus major capital Council was able to bundle the maintenance spend with the minor capital spend in terms of 'work packages'.

To truly deliver on any program you need to understand what you are delivering and how you are delivering it. Some key aspects as Council saw them were;

- Maintenance and minor capital works are generally of a routine nature and better suited to being managed under a common contract management regime focussing on efficient and effective delivery.
- Asset management and network operations activities require investment in systems and processes by suppliers that are not required for major capital projects.
- Including minor capital renewals and upgrades as incentive works for high performing contracts provides benefit in terms of; leveraging contractor’s working knowledge, utilising plant and resource that may otherwise be idle and reduced overhead cost due to contractor already being managed through the maintenance work.

Combining strategic objectives, Staff objectives, supplier feedback, operation and capital spend profiles and the program delivery methods the procurement planning process determined that the strategy could be delivered through offering to the market a mix of major network contracts and minor services contracts.

2.2 THE PLAN

Coming out of the strategy Council had determined that the best delivery of the strategy was to offer to the market a mix of major network and minor service contracts. This gave Council staff guidance on how to procure to meet objectives.

Now came the hard part, how to implement the strategy, so what did we do, like any good project we developed a plan and hence was born the Procurement Plan for Maintenance Contracts.

The procurement plan developed on the four key objectives identified by staff and incorporating the feedback from suppliers being; consistency, collaboration, clarification of roles and responsibility and alignment of contract activity.

Keeping the objectives in mind and the work done in the strategy it was decided that a request for proposal (RFP) process where each portion could be delivered under a separate contract, bundled with others to form a contract or where separate, contracts could be delivered under a partnering agreement or by a third party contract manager who may also hold a larger network contract. This allows suppliers the opportunity to demonstrate value in different methodologies and the opportunity to mix and match to suit capability.

The RFP process would allow Council to test the supplier market to; understand relative values of using large suppliers or small niche suppliers, understand value of bundling vs unbundling, implement contracts with common relationship and performance management frameworks, recalibrate and align costs to budgets and understand cost of levels of service.

The Plan also identified that the form of contract would be NEC3 – New Engineering Contract. This is discussed further in section 2.4.

The contract management structure provided in the plan underpins the key principles to which the contracts are to be managed and develops on the objects outlined in the strategy. The principles to which the contract management structure has been established are provided in Table 3.

Table 3 Contract Management Structure Principles

Relationship description	Network contracts managed on a performance basis. Contractors contribute operations and tactical levels	at Service contracts performance managed to specifications at an operations level.
--------------------------	--	---

Relationship charter	Option for NEC X12 (Partnering) to be implemented. Contractors and HDC agree overriding charter that identifies key result areas and the relationship behaviours and culture to deliver.
Contract and relationship management structure	Developed on final mix of contracts. Meeting agenda and frameworks that address both operational and tactical issues in timely and productive manner. In NEC this includes how to manage risk register, early warning systems and compensation events.
Pricing and cost management	Contract negotiation phase to align price submissions to budget and agree cost fluctuations.
Performance management and quality assurance	The KRA / KPI framework will detail accountability (including where accountability is shared eg: if the specified mix of inputs is not delivering service levels). It will also describe pass, fail and high performance criteria where: Fail – invokes terms of option x17 – low service damages Pass – which earns any renewal rights High performance – stretch targets which when achieved will mean allocation of more work to the supplier – predominantly routine capital renewals and upgrade work.
Risk, opportunity and value management	Management of issues and opportunities including processes for continuous improvement, collaborative problem solving and innovation.
Reporting and information management	No duplication or waste and “one version of the truth”

2.3 IMPLEMENTATION

The strategy and plan had given us the how and what, now staff had to put it all into words and yes we were dealing with a new beast by the name of NEC3.

So how do you unbundle four network contracts which had not been tendered for 10 yrs in some cases, create a new contract that had always been carried out with internal staff and keep everyone happy. The answer is with great difficulty and the realisation that with NEC3 you don't need to get it perfect as the contract must evolve.

We could no longer use the sentence “The Contractor shall” and use lump sums where we were not sure exactly what was required i.e. building in the risk and placing it on the contractor. A key point in writing the new contracts for Council staff was “If we couldn't scope it how did we expect the contractors to price it?”

In order to ensure that we captured items of risk in the contract we utilised Provisional Sums. This enabled items to be identified in Price Lists (Schedules) with values against them and the understanding that these items would be further defined once the contract was let. The advantage being that contractors were not tempted to price risk into the contract and the incumbents did not have a significant advantage to knowing the existing risk profile.

The Procurement Plan had identified NEC3 and an RFP process the exact make up of the contract documentation remained to be developed. The final construction of the Contract Documentation was:

- Request for Proposal
- Conditions of Contract – including NEC3 Z clauses
- NEC3 – Term Service Contract June 2005
- NEC3 – Term Service Contract June 2005 – Flow Charts
- NEC3 – Term Service Contract June 2005 – Guidance notes
- Service information – Part A – General to all contracts
- Service information – Part B – Water and Wastewater
- Price List – Water and Wastewater

Council water and wastewater services were delivered under separate contracts by one Contractor, Downer, and were written in 2000 with the general flavour of a NZS3910 contract. There had been no evolution of the contracts over the 10 year lifetime with a re-negotiation during that time not substantively changing the contract documentation.

The challenge was how to put together a document that represented the actual operation and maintenance required with up to date asset information. The answer was to work with the incumbent contractor to develop operation and maintenance manuals and up to date lists of what is actually performed on a routine basis. The benefits of this are that all tenders have relevant information to level the playing field as much as possible.

In the case where development of specifications for individual items on the Price List was determined to be a large volume of work a Provisional Sum was used as a place holder until such a time as the new contractor and Council could determine the scope of work. The advantage to this was that risk was written out of the contract to a large extent.

2.4 NEC3 – NEW ENGINEERING CONTRACTS 3

Council through the Procurement Strategy and the Plan had identified that key objectives coming out of the contracts would be collaborative working models, flexibility to manage changes in the contract scope over time and clarification of roles and responsibility.

NEC3 was chosen as the form of contract to enable the key objectives to be achieved.

The key principles of NEC3 can be found within the NEC3 documents themselves. The Term Service Contract – Guidance notes provide the following, “The NEC was drafted with three main objectives, flexibility, clarity and stimulus to good management.”

The Guidance notes elaborate on the fact that NEC was designed for the appropriate allocation of risk, ability to adapt the document to particular circumstances, with a user-friendly and clear contract document and providing stimulus to good management.

Stimulus to good management is identified in the Guidance notes as one of the most important characteristics of the NEC contracts. Thus the NEC contracts provide specific obligations that each party to the contract must perform but also the contractual framework and obligations when various situations arise. The obligations provide incentive to contribute collaboratively to the contract relationship.

The Guidance notes provide “that there are two principles on which the NEC contracts are based and which impact upon the objective of stimulating good management, foresight applied collaboratively mitigates problems and shrinks risk and clear division of function and responsibility helps accountability and motivates people to play their part.”

In the application of NEC contracts to the Horowhenua District Council maintenance contracts the key principles of NEC align with the strategic objectives of Council. Flexibility provides Council with the ability to allocate the risk where it best sits and to change the contract scope over time, clarity provides a clear contract

document to avoid disputes and the stimulus to good management enables, encourages and enforces the collaborative working relationship.

At core levels in terms of writing the contracts the NEC form of contract has different terminology compared to the traditional NZS 3910. Engineer to the Contract becomes Service Manager, Variations become Compensation Events, Specifications become Service Information and Schedules become Price Lists. Not to mention the new contract processes such as Low Service Damages and the Risk Register.

One key point when using NEC3 is no matter what form of contract you choose some things always remain the same. What you want the contractors to do and what do they have to deliver and how you capture the cost.

3 CONTRACTOR ENGAGEMENT

3.1 ESTABLISHING CLEAR EXPECTATIONS AND DEVELOPING A PARTNERING RELATIONSHIP

With Downers selected as the preferred water contractor post the RFP process an independently facilitated partnering workshop was arranged to reaffirm the principals of the NEC collaborative delivery model, critically review elements of the contractors bid, develop / reaffirm the risk, opportunity and the early warning register.

This involved a joint open and honest critical assessment of predominantly the work scope and the associated tags, clarifications and pricing build-ups to assess and agree what the delivery outcomes should be in the final scope of works. This was essentially a two way open book approach to assess rates and determine resource allowances for works packages to see where elements fell short or long of the perceived scope.

Running in parallel was the joint development of the risk/opportunity schedule which identified all areas of risk, opportunities, early warning mechanisms and ownership of the risk and opportunity.

This initial process was empowering for both HDC and Downers as it essentially laid all the cards on the tables and formed the basis of a jointly agreed contract scope designed for no surprises, with an agreed risk/opportunity management process and an acceptable fees structure.

3.2 JOINT DEVELOPMENT OF THE CONTRACT KPI's/360 DEGREE FEEDBACK

As the incumbent contractor Downers were also in a good position to assess practical levels of network performance for the contract KPIs. As part of the NEC 3 development process the KPIs were jointly reviewed and assessed to ensure that they aligned with the strategic vision of HDC while still maintaining a best for network approach and value for the ratepayer.

HDC has also heavily incentivised Downers to perform on the core maintenance contract through the allocation of additional capital work packages appropriately weighted to the KPIs. The resulting provision of a planned programme of additional works has also allowed Downers to resource accordingly across both the maintenance and capital works teams. This has seen cost savings to HDC in terms of reducing procurement costs and through improved levels of staff utilisation, where by Downers can effectively shift resource back to the maintenance contract when there are delays.

A unique aspect to the contract KPIs is that Downers is able to subjectively assess the performance of HDC as a client, and its performance of the contract from a fiscal, operational and behavioural point of view. From a Downer perspective this has helped maintain a formal level of equity in the relationship and has seen a shift away from the master servant relationship that is inherent in some traditional contract forms.

3.3 MAKING IN NEC WORK IN PRACTISE

The use of NEC 3 as a contract framework has been a very empowering process for the Downer Horowhenua water team, for the first time in 20 years in some cases staff genuinely feel part of the strategic decision making process. They are able and encouraged to make and suggest innovations that get implemented and make a positive change for the network.

The contract monthly and quarterly reviews are frank and honest, and emphasises the importance of the studious management of the risk and opportunity schedule in relation to the objective management of the contract KRAs/KPIs. They also provide building blocks and an objective measure to trend and improve levels of performance.

As all HDC asset areas (Water, Roothing, Facilities, Parks and Solid Waste) have common core sets of KRAs/KPIs it has been interesting to see the cross pollination of ideas and innovations. For example areas such as water in job and asset management, is seeing these ideas used across other asset areas as a result of the joint assessment of performance.

One of the interesting challenges for Downer management has been getting the operational staff to document success stories and innovations. There is often a tendency and culture within these staff to not self promote and to consider innovation as business as usual.

An important final note from a contractor perspective is that NEC3 is not a soft option, if you do not perform on core maintenance delivery then the contract has teeth and you will be penalised for poor performance through damages and no allocation of additional works.

4 YEAR ONE

4.1 IMPLEMENTATION

The Procurement Plan had identified the contract management structure, being a description of the relationship, relationship charter, contract and relationship management structure, pricing and cost management, performance management and quality assurance, risk opportunity and value management and reporting and information management.

During the establishment of the contract it was perceived that the transition from old forms of contract to the new NEC3 form of contract was likely to be the most problematic. Mitigation in the form of Council initiated relationship development workshops were implemented, with Council and contractor staff from the supervisor level to senior contractor management in attendance. This set the groundwork for the implementation of the contract management structure and allowed Council to introduce the Horowhenua District Council Maintenance contracts collaborative working practices relationship management manual (The Manual).

The Manual is the go-to document for the management of the contract relationships and covers, collaboration, critical success factors, framework for the HDC contracts, contract charter, key result areas, performance management, quality assurance, low service damages, relationship management, early warning, efficiency gains, issues escalation and resolution, stakeholder management and communications, reporting and information management, price and cost management, objectives from strategy, RFP objectives, community outcomes and supplier objectives.

With the use of collaborative workshops Council was able to introduce The Manual and help Contractors understand the journey that Council had been on. Information gained in the workshop helped understand the risks to the contract, opportunities that exist, any obstacles that may exist and the enablers for effective contracts. Once these were understood the logical next step was taken to identify what problems could be solved, define what success would look like, define how we will know success and identify actions to achieve success.

The collaborative framework for the HDC maintenance contracts could then be defined. This was broken down into three core management frameworks, strategic, tactical and operational with the outcomes and drivers

defined under each framework. These form the framework for which contract management and the collaborative relationship can be measured which enables the ‘One delivery team’ approach to the contract.

Table 4 Collaborative framework for Horowhenua District Council maintenance contracts

	Strategic	Tactical	Operational
Outcomes	One team working together to manage the HDC infrastructure network to meet community and customer needs		
Drivers	Leadership	Effectiveness	Efficiency
Focus	<ul style="list-style-type: none"> • Charter • Behaviours and values • Clarity of responsibilities • Capability and capacity • Sustainability 	<ul style="list-style-type: none"> • Stakeholder management and communications • Predictable outcomes • Network optimisation 	<ul style="list-style-type: none"> • Predictable service delivery • Lowest delivery cost
Accountability	<ul style="list-style-type: none"> • Maintaining capability and capacity • Programme budgets • Programme prioritisation 	<ul style="list-style-type: none"> • Delivering the programme • Network LOS • Asset condition • Budgets 	<ul style="list-style-type: none"> • Deliver tasks and services to time, budget and quality (IFOTIS)
Horizon	<ul style="list-style-type: none"> • 3 year rolling programme 	<ul style="list-style-type: none"> • Annual plan 	<ul style="list-style-type: none"> • Planned work schedules and response work
Financial	<ul style="list-style-type: none"> • Programme budget envelope – CAPEX and OPEX • Re-prioritising budget 	<ul style="list-style-type: none"> • Service budgets and claims (NZTA) • Activity budget phasing – prioritising PS items 	<ul style="list-style-type: none"> • Cost of services (Labour, plant, materials)
Key inputs	<ul style="list-style-type: none"> • Asset management plans • Strategic plans • Long Term Community Consultation Plan • Group business plans 	<ul style="list-style-type: none"> • Programme • AMP / Activity Plans • Emergency response plans 	<ul style="list-style-type: none"> • Specifications • Customer requests • Response needs
Performance	<ul style="list-style-type: none"> • Relationships • Cost effective service delivery • Sustainability 	<ul style="list-style-type: none"> • Customer feedback • AMP LOS/condition data • Delivering to budget • Lifecycle cost • “Dig once” – cross service collaboration • Benchmarking (industry best practice) 	<ul style="list-style-type: none"> • Activity and service KPIs (including activity audit / QA) • Cost of service – actual against budget and trends
People	<ul style="list-style-type: none"> • Developing leaders • Recognition 	<ul style="list-style-type: none"> • Developing customer focus • Sense of achievement 	<ul style="list-style-type: none"> • Technical development • Valuing contributions
Culture and behaviours	<ul style="list-style-type: none"> • Leadership – best for network, best for community • Innovation 	<ul style="list-style-type: none"> • One team • Solution focus • Innovation 	<ul style="list-style-type: none"> • Reliability – do what we say we’ll do • Innovation
Risk and opportunities	<ul style="list-style-type: none"> • Prioritising - strategic • Resourcing risk mitigation and business improvement initiatives 	<ul style="list-style-type: none"> • Prioritising – tactical (asset and community) • Resource bid for improvement projects 	<ul style="list-style-type: none"> • Early warning • Prioritising – operational improvement initiatives
Compliance	‘Principal’	‘Monitor’	‘Best practice’

(including health, safety and the environment - HS&E)			
--	--	--	--

The Manual defines the performance management framework for which the Contractor and Council performance is measured.

Key result areas form the foundation for both the charter and the performance management framework to help ensure the delivery across all the contracts and networks is aligned to a common purpose. The key result areas are defined as follows:

Customer Service - community needs change over time and are often not aligned to physical asset condition. All contract stakeholders should create and maintain a common view of community demands as managed through LTCCP, Asset Management Plans and annual planning processes at one level and simple day to day interaction (such as sports clubs and service requests) at another level.

Operations – fundamental to successful network management are routine operations activities being delivered to agreed time, cost and quality – the specifications. In addition this is an area where productivity and efficiency gains can be made – good ideas to do things smarter.

Value for money – value for money is managed at a number of levels and against a range of criteria. These include:

- Actual costs vs budget
- Cost mitigation strategies and initiatives
- Levels of service relative to cost (economic, environmental and social costs)
- Environmental and social impacts
- Funding and affordability (including optimising 3rd party funding)
- Asset lifecycle cost

Network optimisation – managing activity by corridor or “place” will create opportunities where collaboration across the services will deliver benefits. Similarly there is an ongoing challenge to do more with less and therefore seek ways where network management budgets can be best utilised to manage real need rather than simply AMP driven timetables. This includes inputs into capital work’s programming and prioritising and management of other stakeholders such as electricity and telecoms providers.

Contractor outcomes – a successful collaborative relationship for contractors relies on recognition that they are seeking to achieve a number of goals that include profitability, security of tenure, reputation, being an employer of choice (which includes predictability and stability for staff) and opportunities to innovate and contribute to clients outcomes and levels of service.

Working together – there is little doubt that collaborative working will yield benefits for all stakeholders. How successful we are at working together across a number of levels (strategic, tactical, operations) is critical and is an area where we accept shared leadership and accountability for creating positive behaviours and culture.

Performance of the contracts is scored throughout the year with incentives of capital work given to the contractors for high performance. The high performance work follows through from the Procurement Strategy.

In addition to the collaborative framework is the vast collection of tools that the NEC contract introduces. It allows the user to customize the contract to whatever level is appropriate i.e. using one or two tools or extensive in-depth contracts where they chose to implement the contract in its entirety. Council chose to implement the risk register, early warning, low services damages, task orders and compensation events.

4.2 GETTING THE HEADS UP – NEXT YEAR VS NEXT MINUTE

4.2.1 WHERE WE HAVE COME FROM

In the initial stages of the first year it was perceived that NEC3 would be the biggest challenge for the implementation of the contracts. As the contracts have unfolded the biggest challenges have been the change in philosophy contract management and the implementation of a collaborative framework.

Collaborative contracts are more than just talking and enjoying coffee. Like any relationship they require commitment and dedication to achieving objectives.

In the beginning Council and contractors developed and implemented the Horowhenua District Council Maintenance contracts collaborative working practices relationship management manual, we were all excited to be working together and contributing to the future of the Horowhenua. Then we proceeded to focus on the day to day management of the contract (heads down) and lost the big picture (heads up).

During the first year Council and Downers collaborated on various water and wastewater capital works projects. This has enabled the use of contactors to optimise renewals, develop asset condition information and high risk renewals projects with complex influencing factors carried out by those that know the asset best. This provided benefit to Council with the job completed in time and under budget.

Upon reflection of the first year the water and wastewater contract has delivered well on the core contract requirements (day to day), however Council and Contractors both lost sight of the strategic objectives that were developed at the beginning of the process. The focus became about what was written in the contract and what had been done previously. Conversations became about the day to day delivery of the contract. This in some way can be attributed to the resourcing on both sides and the understanding of the intentions of the contract.

When reviewing the position that HDC was in prior to the development of the new contracts we now have up to date contracts, not 10 years old, that are some way to reflecting the costs of service with all parties understanding what needs to be done where.

4.2.2 WHERE WE WANT TO GO

Going forward Council and Downers will cement the delivery on the core contract and start looking to the future. Recent review of contract performance has identified the following goals for the next four years:

- Use the NEC and Horowhenua District Council Maintenance contracts collaborative working practices relationship management manual effectively
- Continue to develop and work on the relationship
- Further define risk and understand what this costs
- Understand the water and wastewater delivery business better – from Council and contracting perspective
- Continuous improvement of service delivery – efficiency and optimisation. “Right activity at the right time for a reasonable cost”
- Continuous development of the key performance indicators as the business and levels of service change. Making these relevant and measureable and understanding the cost of meeting the levels of service.
- Clear and accurate contract documentation that reflects service delivery.
- Engagement of the contractors in the decision making process to ensure collaboration and ownership
- Continue to develop the incentives to perform and optimise the minor capital works spend by using the maintenance contracts.

5 CONCLUSIONS

Collaborative relationship management combined with NEC as the form of contract enabled Horowhenua District Council to implement the Council's procurement strategy. The objectives of the strategy included, alignment across activities to enable potential consolidation, management of changing priorities and value for money.

Council has entered into two collaborative NEC contracts one of which is with Downer. The contracts in the first year of operation have provided opportunities for Council and Downer to develop the understanding of the assets and complete complex capital renewal works. Initial set up of the contract was undertaken in a collaborative matter however those within the contract lost sight of the strategic objectives.

In order to bring the focus back to achieve the strategic objective Council and Downer have developed goals that the contract needs to achieve in the next year and implement for the remainder of the contract.

ACKNOWLEDGEMENTS

I wish to acknowledge the Horowhenua District Council Community Assets Team for joining me on the NEC journey.

REFERENCES

- Horowhenua District Council (2010) 'Operations and Maintenance Contract Volume 01, Request for Proposal', Horowhenua District Council, Levin.
- Horowhenua District Council (2010) 'Operations and Maintenance Contract Volume 2.1, Network Conditions of Contract, Horowhenua District Council, Levin.
- Horowhenua District Council (2009) 'Procurement plan for maintenance contracts', Horowhenua District Council, Levin.
- Horowhenua District Council (2009) 'Procurement Strategy', Horowhenua District Council, Levin.
- Infracore Ltd (2010) 'Horowhenua District Council Maintenance contracts collaborative working practices relationship management manual'.
- Standards New Zealand (2003) '*NZS 3910:2003 Conditions of contract for building and civil engineering construction*', Standards New Zealand.
- Thomas Telford Ltd (2005) '*NEC3 Term Service Contract*', Bell & Bain Ltd, Glasgow, United Kingdom.
- Thomas Telford Ltd (2005) '*NEC3 Term Service Contract Flow Charts*', Bell & Bain Ltd, Glasgow, United Kingdom.
- Thomas Telford Ltd (2005) '*NEC3 Term Service Contract Guidance notes*', Bell & Bain Ltd, Glasgow, United Kingdom.