

7 April 2022

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Office of the Auditor-General
Te Mana Arotake

Ref. NZT-7285

Tēnā koe Leanne

Thank you for your letter of 21 March 2022 regarding the performance audit of Waka Kotahi NZ Transport Agency, which focused on how we are maintaining state highways in New Zealand through Network Outcomes Contracts (NOCs). We appreciate the recommendations noted in your letter and are committed to ensuring the state highway network is safe, reliable and resilient.

As you have provided us with four formal recommendations, we will address each of your recommendations in turn.

1. Monitor and report on the outcomes and benefits achieved from the Network Outcomes Contracts (NOC) to help it ensure that the contracts are effectively and efficiently supporting the agency in achieving safe, resilient, and reliable state highways;

- **Version 5 of Key Results Area (KRA) framework completed**

In the latest round of contracts, Waka Kotahi has removed some of the compliance-based Key Performance Indicators (KPI) from the Key Result Areas (KRA Framework Version 5).

Noting that the audit findings supported this approach, Waka Kotahi, in consultation with the industry, obtained an agreement for all the NOCs to adopt Version 5, which took place from the 2020/21 financial year. This means that the improvement in monitoring and reporting on NOC outcomes with the improved KRAs has been advanced by several years.

- **A draft of the network condition KRA framework is completed and tested with industry**

Among the developments targeted for the refreshed KRA framework for 2022/23, a Network Condition KPI was drafted and consulted with the industry for modelling in 2022/23. The modelling will encompass at least two different approaches as a result of feedback and engagement with the industry.

- **The gap analysis on the KRA framework is on target**

There has been a KRA sub-group established to review the KRA Framework and to undertake a gap analysis to determine if the right outcomes are being measured. This work is being undertaken by an external supplier, as part of the ¹*Call to Action* programme.

- **NOC benefit realisation is in its early stages**

A sub-group is looking at NOC benefit realisation, to understand the gaps from the NOC 2018 review.

2. Identify, mitigate, monitor, and report on the strategic risks from maintaining the state highway network to reduce the likelihood of those risks affecting the safety, reliability, and resilience of state highways;

- **Development of ownership of risks is on target.**

Waka Kotahi has reviewed a sample of contract risk registers to determine how these might be collated to identify common risks as suggested in the Office of the Auditor-General report. It was found that while individual contracts followed the Waka Kotahi risk policy Z44, there were differences in wording and structure that make collation across contracts challenging.

Waka Kotahi therefore has developed a detailed proposal to prepare more detailed guidance, structure and training for risk management on the NOCs. This is required to facilitate efficient and effective national collation of risks, to identify and manage common risks with more consistency. This will also improve risk management at a contract level and reduce uncertainty around the achievement of desired outcomes.

Waka Kotahi has confirmed the following strategic risks on maintaining the required road condition and is implementing the associated mitigation actions:

1. Ensuring a competitive market for NOC suppliers:

Following the award of the West Waikato NOC to Fulton Hogan, there are now only six suppliers operating as lead contractors in this market. There are three leading contractors holding multiple contracts and three other contractors who only hold one contract each and who each rely on support from one of the major contractors for delivering significant portions of the contract. The challenge in New Zealand's market is to maintain sufficient back-office support to tender and manage contracts of this complexity. Individual contracts do not have the scale to support the required technical resources necessary for the asset management and delivery management functions.

This matter is of concern to Waka Kotahi and will be included as a line of enquiry in the NOC review noted below.

2. Retaining Waka Kotahi contract management capability:

Waka Kotahi has advanced this item in two work streams, the first is in the revision to SM034 (the Contract Management Manual for the NOCs). This document was prepared in 2015 and has had

¹ A Waka Kotahi project initiated in 2021 to address the declining condition of the network and to fix underlying reasons that led to that decline.

minimal revision to incorporate learnings. Waka Kotahi has initiated a project to review SM034 and to update the document to provide practical guidance for people managing these contracts.

For the second workstream, the Maintenance and Operations group has developed a skills matrix and training programme for the people responsible for managing our contracts. Some training packages have been developed and delivered in 2021, with more training planned. This work was done independently of *Tā Tātou Rautaki Akoranga | Our Waka Kotahi Learning Strategy* which has since been launched. Work is now underway with representatives from across the organisation to align these efforts.

3. Ensuring the efficacy of the NOC model.

As part of our *Call to Action* project last year, Waka Kotahi conducted a detailed evaluation of the NOC model and developed a series of recommended improvements that were to be trialled in the forthcoming Gisborne contract. These were targeting improvements in use of the contract model, de-risking pavement maintenance activities and pursuing more efficiencies in pavement renewals.

However, an opportunity has been identified to conduct a more detailed review of the NOC approach in general. We have initiated a new review project that will look at the overall maintenance delivery model to identify ways of procuring maintenance services more efficiently and effectively.

This review is expected to take approximately 12 – 18 months before any significant changes to contract form or procurement methodologies can be introduced. This will cause the deferral of some tenders and negotiations of extensions for contracts that were due to expire within this period.

In the interim, the enhancements identified in the *Call to Action* project will be implemented on those contracts that require extensions.

3. Review the roles and delegations of the parties involved in the Network Outcomes Contracts to ensure that they are clear and support collaborative processes between the agency and suppliers; and

Waka Kotahi is actively continuing to review roles and delegations involved in the NOC where it is necessary. Some progress of our current work on this area is detailed below:

- longer term programming and alignment with *Call to Action* programme is on track
- working on KPIs with suppliers to provide better outcomes is on track with some portions completed
- training competency development is continuing
- improved NOC governance training for Contract Management Teams and Boards is on target
- Industry Liaison Meeting – Maintenance (ILM-M) collaboration work group developed and delivered a training programme titled *Mahi Tahī*, working together. This programme has been delivered to each contract, building the skills of collaborative practice in both contractor and Waka Kotahi people. The programme is continuing so that these skills are embedded and are utilised to the development of a more collaborative sector.
- refreshing the Responsibility (RASCI) Matrix to confirm the allocation of duties and communications for key NOC functions. This will provide better clarity of responsibilities, empowering people to make decisions.

4. Measure, assess, and report its own performance in supporting the Network Outcomes Contracts, as intended, so it can identify opportunities to improve and be held to account for its own performance.

The project plan for developing the Waka Kotahi performance framework for supporting network outcomes has been approved. Next steps are currently being put on hold while the planning of the detailed review of the contract takes place, so that a decision can be made on how this workstream is impacted.

Review of the Annual Plan Improvement Project outcomes and implementation report is due to start in Quarter 4 as part of SM018 review and update. The revised SM018 is due for release in September 2022.

You have also asked about how we are addressing other opportunities for improvement, including further actions taken to share lessons and innovation more effectively. The refreshed KRA Framework for 2023/24 includes trialling an Innovations KPI that has been collaboratively developed with ILM-M Innovation sub-group, Industry Advisory Group, KRA sub-group and a wider industry consultation.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Brett Gliddon', written in a cursive style.

Brett Gliddon
General Manager Transport Services