

Dear,

Thank you for your request received 21 April 2022 seeking “Pursuant to the official information act, I request all drafts, emails, official reports as well as meeting notes related to the 2021 investigation into whether the city council should bring more services in house. I also request the minutes of the Morrison low presentation to which the below article refers.”

Further to my email dated 20 May 2022 in which I advised the timeframe for your request had been extended, I am now able to provide you with copies of the information requested.

Thank you for your patience whilst your request has been progressed.

Please find copies of the information attached.

Under section 7 2)(a) of the Local Government Official Information and Meetings Act 1987, some information has been redacted as it contains personal information about private individuals.

If you disagree with the decision to redact the documents, you can apply in writing to the Ombudsman to have the decision investigated and reviewed under section 27(3) of the Local Government Official Information and Meetings Act 1987.

Please contact me if you have any further questions.

Kind regards,
Ian

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Absolutely Positively
Wellington City Council

Me Heke Ki Pōneke

Context & contents

- Lead through a workshop on merits of WCC doing construction work inhouse
- Start by making sure we are all talking about the same things, same understanding, what they are and how that works, impacts etc
- Looked at the LTP & what's involved, when
 - Some work can/cannot be done inhouse
- Are there other ways to achieve the same/similar outcomes
- Questions at the end, unless quick clarification – acknowledge some things are harder over zoom.
- We will answer questions

Background

- This is a very challenging time for project delivery, not just WCC but regionally, nationally and internationally. Looking at alternatives is prudent
- Looked at this in a structured way, open mind
 - Looked at the LTP and what work is included in that – type, timing and nature. Some stuff simply isn't suited to inhouse, other work is. Some is already committed.
 - Talked to Councils who deliver work inhouse already – understand what they do, how that works, what the benefits of that are
 - Dunedin -
 - Napier – largely 3 waters O & M : they are Council staff
 - We have helped establish business units, council owned companies – a variety of delivery models
- Starting point
 - Because we are consultants we are looking for a why, something against which we can judge whether the alternative is better than the status quo
 - In this case that's "looking for greater certainty over delivery, reduce the risk of under delivery".
- Worth noting that at 80% (by value) WCC is doing better than many other Councils.
 - That's the average over the last 4 years
 - Auditor General has reported on this for a long time
 - Last report 2021 on results for FY2020
 - 52 Councils were less than 80%
 - Only 25% were higher than 80%
 - Yes, we should do better as a sector, deliver on what is promised but let's caution chasing 100% for the sake of it
 - Different ways of reporting
 - Spending for spending sake may not be prudent

Inhouse models

- Delivery is a spectrum
- History of NZ local govt we have gone from almost entirely inhouse, through a period in 90s when CCOs/CCTOs were prevalent, through to now where contracting out is the dominant delivery model for most Councils [not just construction, technical/professional services too]

- There is an argument that the pendulum has swung too far, and that the emerging preference for alliance contracts/partnership models is an attempt to bring the relationships back towards something in the middle
- Explain differences so that we are thinking and talking about the same thing today
 - In-house means inhouse/business unit
 - I will assume you are familiar with CCO/CCTO and understand the arms length nature of them
 - A CCTO can make profit – unlike a CCO
- Council uses a variety of these models already
 - Parks & gardens – inhouse/business unit
 - Three waters – CCO (management) – then physical works contracted out
 - Transport – contracted out

Set up inhouse entity

- Is a significant exercise, due to the change from what you do now.
- This is not an exhaustive or definitive list and the purpose is to give context to the discussion. Not provide an answer
- What you would need to do
 - Legal incorporation of the entity (depending on structure), similarly you may need to consult with the community
 - Create governance structure and recruit senior leadership
 - Recruit management, administrative, business development, technical and operational staff
 - Fund the purchase of depot, plant, systems & equipment (again, you need to keep that utilised so as to make the purchase prudent (or rent it)
 - Establish disciplines, processes and systems of a contracting company
 - Track labour, plant utilisation, cash & cashflow
 - Large workforce – manage them and the relationships with unions
 - QA, WHS, certifications
 - Insurance – for work done by you, as owners of the completed assets
- Many considerations such as
 - Resources – everyone is aware of the tight labour market, if you enter it to hire a large labour force will exacerbate that, take on significant costs (staff) that you will need to continue to keep busy or else you will be left with large costs (i.e. you will need to keep your construction programme going)
 - You do get greater ownership, build institutional knowledge & capability, responsiveness etc
 - Competition – who will you be ‘taking’ work away from the companies currently doing it. Who are they? What's the impact
 - Transparency over the cost of projects : Currently full costs are clear – project and overhead costs are built into the contracts, there is transparency around the cost of an activity. Moving to inhouse these costs, that are a part of the cost of the activity can become less transparent and therefore hidden. 3 waters is good example, the unpicking of that service in many Councils will leave large amounts of stranded costs (unfunded) which will now be borne by general rate payers.

If you were doing the opposite, moving from in-house to outsourced – you would face a similar list of considerations and actions. They aren't determinative, they are the result of change. But they are relevant

Transport CCTO

- Why are we looking at this
 - Under the Land Transport and Management Act 2003, of the in-house options, only a CCTO can deliver transport-related physical works
 - Around 35% of value of LTP in theory and which peaks around 2022/23 (significant value of work)
- CCTO is still arms length, the control is through the SOI, Board etc
- Would have to consult (noted earlier) [SCP or through the LTP]

But

- A CCTO would need to compete with current suppliers in the market – not just for your work (which is would have too due to procurement rules) but also for other work, you would not create a CCTO solely to do your own work. Council then becomes another client and all that is associated with that.
- Council has now entered the commercial contracting market and exposed to the associated risks and benefits of that (some Council CCTOs have been very successful e.g. CityCare, or Excell which came out from Manukau (sold – success or not?), but there are many examples where it was not successful.
- If we draw back to certainty of delivery as the key objective – then that is not the reason for forming a CCTO

Greater certainty

- Mix of models is what is required – And Council is already doing some of these and in our view you've asked the pertinent question (get better certainty) but in looking at inhouse as the solution we missed a step – what other options are there that might achieve the outcome.
- When we engaged with other Councils the comments around in-house v external the general questions we asked where what was the biggest constrain to programme delivery
 - All comments were about planning, programming – having projects ready for delivery – consents, designs, statutory requirements, professional services and project managers
 - Physical construction, resources for that and the mode of delivery were not the factor
- One of the key activities of Te Waihangā – Infracomm is developing the pipeline
 - Construction sector accord “lack of a visible, coordinated pipeline of work.”
 - At a national level, but at regional and local its just as relevant.
- Outsourcing everything isn't simply the answer though, and we will never claim that and there are good ways to do that and lessons to be learnt from all across NZ e.g We have reviewed many different approaches and some interesting lessons come out of that

- Certainty over the pipeline of work was critical to investment by suppliers
 - (easy to say but what does that mean in practice) Setting up in a new area or expanding meant recruiting staff, that means relocating people & their families. Significant exercise for all involved
 - Contrast two different approaches by large City councils in NZ
 - Allocated work across all members of the panel on a reasonably equitable/collaborative way = working effectively
 - Another where work for the panel was through a procurement processes as cumbersome as if open market. Suppliers
 - Certainty allows suppliers to plan, programme and respond to client needs
- MoE – personal involvement in a nationwide, 3 year \$140M classroom upgrade process using product manufactured in NZ and offshore [**Ngā iti Kahurangi**]
 - In this case the key to delivery wasn't just availability of resources to do the work, it was actually about planning, programming & logistics
 - Rather than MoE taking that role – they wrapped all aspects of the contract together and asked the market to do that. So what we ended up with is a programme run by project managers using the smart technologies & systems of the F&L providers to manage the inventory to each school
 - The whole approach is generally reflective of a change in the way MoE are engaging with the market, focussing on planning & programming & not just delivery
 -

Physical works in LTP

- Took your programme and looked at the nature of the projects
 - Scale – combined and for individual projects
 - Complexity – technically – where should the risk sit
 - Repeatability – would you need to have plant, skills etc again
 - Speciality – not necessarily highly technical but specialist skills needed
- Gave us this breakdown – fairly subjective to a degree but for the purposes of this exercise doesn't matter too much
- Will explain groups on next slide

Some groupings

- Note that this audience will be more aware of some of this – intended audience was elected members so may seem a bit obvious
- This is also the first filter of whether work could or should be done in-house

External vs in-house

- Broke it down and this is the result
- \$645M vs \$445million

Some work cannot be done

- Minor roading
- Cycleway construction
- Traffic related technology

Some work should not be done

- Commercial building renewals – mostly sub-contractors or specialist
- Quarrying - specialist
- Building renewals – most sub-contractors or specialist
- Tiger enclosure – specialist and not repeatable
- Specialist seismic – highly technical and specialist
- Landfill extension – technical and specialist

So what work is suitable

- From the “in-house pool” left with
 - PS for cycleways,
 - urban and
 - parks and gardens that you already do



Wellington City Council

Review of City Works concept

January 2022

Document status

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1 Introduction

1.1 Background and Purpose

Morrison Low prepared a report in November 2021¹ (Construction Sector Constraints) which detailed the conditions surrounding the infrastructure industry in New Zealand along with the specific constraints facing Wellington City Council (WCC) with respect to competition and demand on resources and materials.

This report was discussed at a Council meeting² on 16th November and a motion was passed that a revised programme be accepted. Part of the discussion at that meeting was around the potential for a “city works” entity to self-deliver Long Term Plan (LTP) projects. The elected members have now requested that council investigate the potential for the creation of a self-delivered, “city works³” style entity to deliver the programme in lieu of more widely used external mechanisms.

This report investigates the feasibility of this, specifically in the context of the impact it would have on the time and cost predictability of LTP programme delivery.

1.2 Problem Statement and Desired Outcomes

1.2.1 Problem Statement

WCC delivered an average of 79% of its planned capital works over the last four years. It is worth noting that this is better than the national average but the timing and scale of current infrastructure programmes across New Zealand, together with challenges posed by Covid restrictions, has created a rapidly changing environment that is putting extra pressure on WCC’s 2021-2031 LTP delivery.

1.2.2 Desired Outcome

To establish whether an in-house mechanism is an effective delivery method for the infrastructure works included in the current 2021-2031 Long term Plan for Wellington City Council.

Wellington City Council’s priorities for the next three years are:

- A functioning, resilient and reliable three waters infrastructure– with improving harbour and waterway quality and reducing water usage and waste.
- Wellington has affordable, resilient and safe housing– within an inclusive, accessible, connected, and compact city.
- The city’s core transport infrastructure is a safe, resilient, reliable network– that supports active and public transport choices, and an efficient, productive and an environmentally sustainable economy.
- The city has resilient and fit-for-purpose community, creative and cultural spaces– including libraries, marae, museums and community halls, where people connect, develop and express their arts, culture and heritage.

¹ Construction Sector Constraints, dated November 2021

² <https://wellington.govt.nz/-/media/your-council/meetings/committees/puuroro-tahua---finance-and-performance-committee/2021-11-18-agenda-pt-fpc-web.pdf#page=519&zoom=100,109,144>

³ In the context of this report, “city works” can refer to one or more in-house options as presented in Section 2.1. From here on these are referred to as “in-house”.

- An accelerating zero-carbon and waste-free transition– with communities and the city economy adapting to climate change, development of low carbon infrastructure and buildings, and increased waste minimisation.
- Strong partnerships with mana whenua– upholding Te Tiriti o Waitangi, weaving Te Reo and Te Ao Māori into the social, environmental and economic development of our city and restore the city’s connection with Papatūānuku.

It is appropriate to be cognisant of these priorities when assessing the suitability of options to deliver the LTP.

1.3 Approach

In-house delivery is the approach that is the focus of this review but in order to understand how appropriate this is, other approaches have also been examined and the extent of the programme able to be delivered by the different options considered to provide context and comparison.

We have structured the analysis by looking at options for delivery (including in-house), the scope and scale of Council’s programme and then analysing the suitability of an in-house option (or others) as a delivery model.

We have broken down the LTP programme by nature, scale and complexity of the work programmes in terms of delivery approach (e.g. refurbishment or renovation of earthquake prone buildings is highly specialised work and so is quite different from routine parks and reserves maintenance). We have developed criteria to differentiate between the risks and benefits of different approaches. The in-house and other approaches are then evaluated against these criteria in Section 4, together with the WCC three-year priorities.

It is important to note that the scope of the report reflects the physical works phase of projects. However, that is only one phase of a project lifecycle and if delivery certainty is the key objective, then in our view other phases of the lifecycle are likely to provide greater benefit. For predictability of the LTP, better certainty could be obtained through optimisation of scoping, planning and approvals and design. This is explored in Section 6.

We also note that before changing delivery models it is likely that the Council would need to undertake a formal s17A review as required under the Local Government Act.

2 Programme Delivery Options

2.1 Potential Options

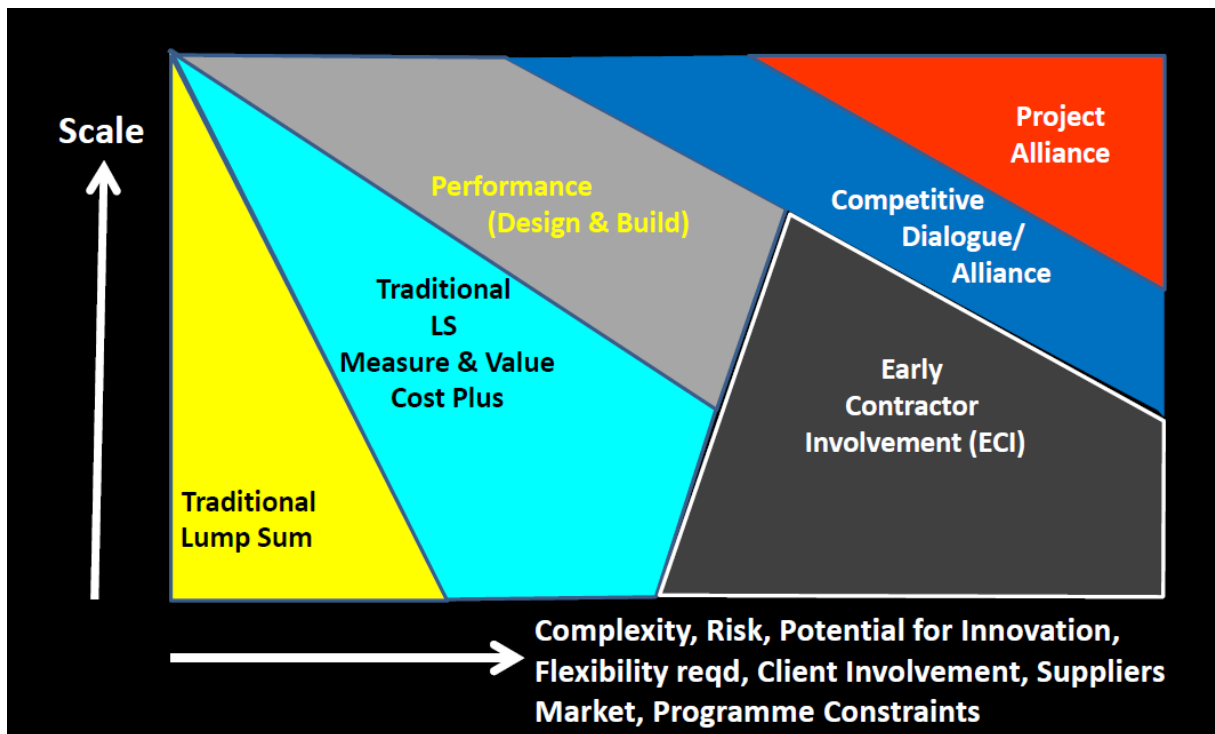
The long list of potential options for delivery models includes:

- 1 In-house
 - a. Creation of a new council business unit
 - b. Creation of a Council Controlled Organisation (CCO)
 - c. Creation of a Council Controlled Trading Organisation (CCTO)
 - d. Part or all self-delivery either using a business unit or creating a CCO / CCTO
- 2 Outsourced
 - a. Panel – following a procurement and selection process to qualify, panels can be created (involving consultants or contractors) to deliver a programme of work. Typically, the work commissions will be similar in nature i.e. a cycleway design panel or a minor works panel).
 - b. Traditional contact - lump sum, measure and value, design and build, early contractor involvement.
 - c. Alliance (pure, hybrid etc) – this is a risk-sharing model typically used for high value, highly complex projects or programmes which involves the creation of a commercial entity with a board and generally comprises client, consultant and contractor.
- 3 Hybrid approach – a blend of the above across the LTP programme.

Further explanation of requirements that need to be considered for CCO and CCTO are detailed in Section 2.2.

We have used Clever Buying’s procurement model diagram to illustrate the relationship between project scale and complexity and procurement / delivery approach as this helps show the differences between different outsourced approaches.

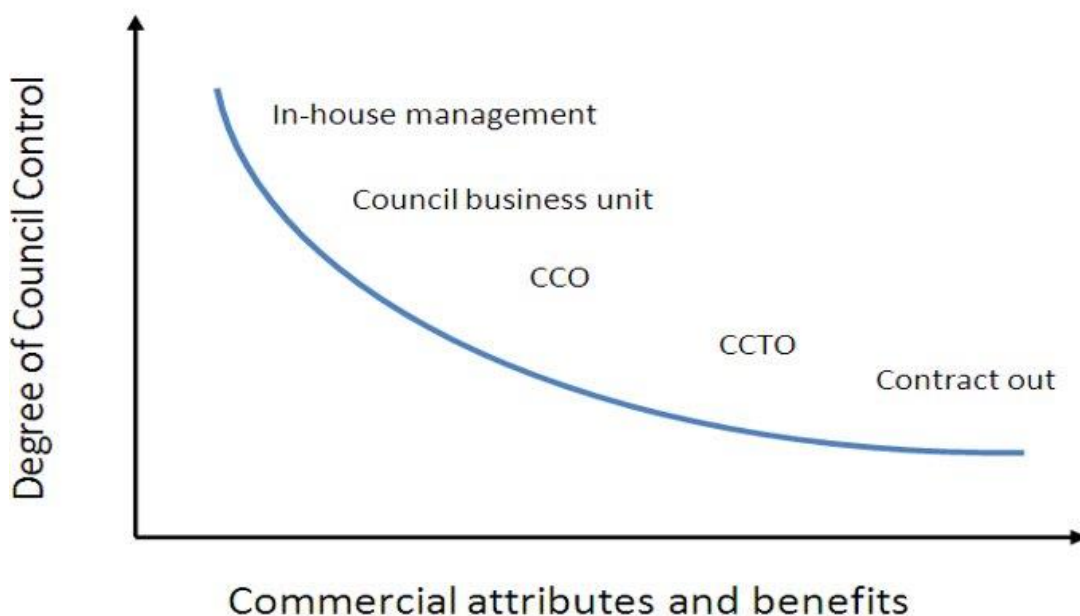
Figure 1 Illustrates the relationship between scale and complexity for external models⁴



⁴ Credit: Clever Buying

Different Council services or activities sit in different places along the spectrum of Figure 2. For example, policy development is a service typically delivered in-house as there are no benefits from that being undertaken in a corporate or commercial manner, whereas road construction, for example, would typically be highly commercial with significant financial risk and reward and is therefore more suited to contracting out.

Figure 2 Typical relationship between council control and commercial attributes and benefits⁵



2.2 Legal Considerations and Implications

There are some constraints and rules around different delivery models that are important to consider.

If in-house entity was established, WCC would need to set up a business unit, a Council Controlled Organisation (CCO) or a Council Controlled Trading Organisation (CCTO). A CCO can be a company, trust, partnership, incorporated society, joint venture, or other similar profit-sharing arrangement that Council controls at least 50% of voting rights or governance.

2.2.1 Council Controlled Organisations

The following section highlights some points to consider about council organisations which are relevant to the suitability of in-house delivery. Any reference below to legal requirements should not be considered exhaustive.

- For the purposes of this report, the key difference between a CCO and a CCTO is that a CCO cannot make profit, whereas a CCTO can.

⁵ Credit: Morrison Low

- Under the Land Transport and Management Act 2003, of the in-house options, only a CCTO can deliver transport-related physical works. Therefore, it can be assumed that any project involving physical works for which Waka Kotahi would ordinarily provide a contribution could only be delivered externally or via CCTO. (Note Council can self-deliver professional services and maintenance).
- Section 56 of the Local Government Act requires council to undertake consultation before establishing a CCO or CCTO. As this was not include as part of the current WCC LTP, a special consultation exercise would be required.
- Various other legislation applies, such as the Local Government Official Information and Meetings Act 1987 and potentially the Companies Act 1193 and the Charities Act 2005.
- The OAG published a document in 2015 (Governance and accountability of council-controlled organisations⁶) which sets out good practice for councils to adopt and consider when setting up any form of CCO.
- A CCTO can be jointly owned with other councils or a private business.
- Council cannot give the CCTO any favourable loans or other forms of financial accommodation to CCTOs or underwrite its obligations. (S62 and s63 of the LGA Act 2003 refer.)
- Procurement guidelines come in play and the principles of competitive neutrality, as does the cost efficiencies considerations of s17a reviews when Council review services.
- A CCTO structure would be subject to the tendering and the principles akin to those currently in the Transport Procurement Strategy 2020–2023.
Under Section 25⁷ of the Land Transport Management Act 2003 a Procurement Strategy is required by Waka Kotahi.

An example of a CCTO is City Care Ltd which is owned solely by the Christchurch City Council and is a subsidiary of the holding company established by CCC called Christchurch City Holdings Ltd. City Care was set up in 1999.

In addition, the creation of an in-house entity would require a significant investment of funds and time into premises (including plant yards etc with associated overheads), recruitment and staff salaries and overheads, purchase or lease of plant, process and systems infrastructure and provision of cash flow until won work was paid. While that has not been quantified, the cost, benefit and risk involved is taken into account in the assessment of suitability.

2.3 WCC LTP Assessment

The WCC Long Term Plan is made up of a wide range of projects. These different projects have different characteristics. Some for example involve very specialist skills and expertise, some are technical, some are standard construction projects and others are routine maintenance. It is important to understand:

- the different nature of the work as some types of work are more suitable for delivery by specialists and some could be suited to delivery in-house.

⁶ <https://oag.parliament.nz/2015/cco-governance>

⁷ <https://www.legislation.govt.nz/act/public/2003/0118/latest/DLM228046.html>

- the volume of work which may be suitable for delivery in-house.

We have broken down the LTP forecast into basic construction types as the size and scale of available work relevant to different delivery models. The three and ten-year totals have then been aggregated to provide a view of scale. These are shown in Figures 3 and 4 below.

The programme of significant project work included in this forecast includes the following:

- Cycleway network programme
- Te Matapihi Central Library
- Tākina Wellington Convention & Exhibition Centre
- Social housing
- Te Whaea
- Pōneke Promise
- Children & Young People (CYP) Strategy
- St James extra funding
- Kiwi Point quarry
- Town centre upgrades – Berhampore and Island Bay
- Skatepark
- Sky Stadium seismic strengthening
- Garden of Beneficence at Frank Kitts

The LGWM contributions and projects being undertaken by Wellington Water have been excluded as they are already being delivered separately with other delivery partners

Figure 3 Three-year totals

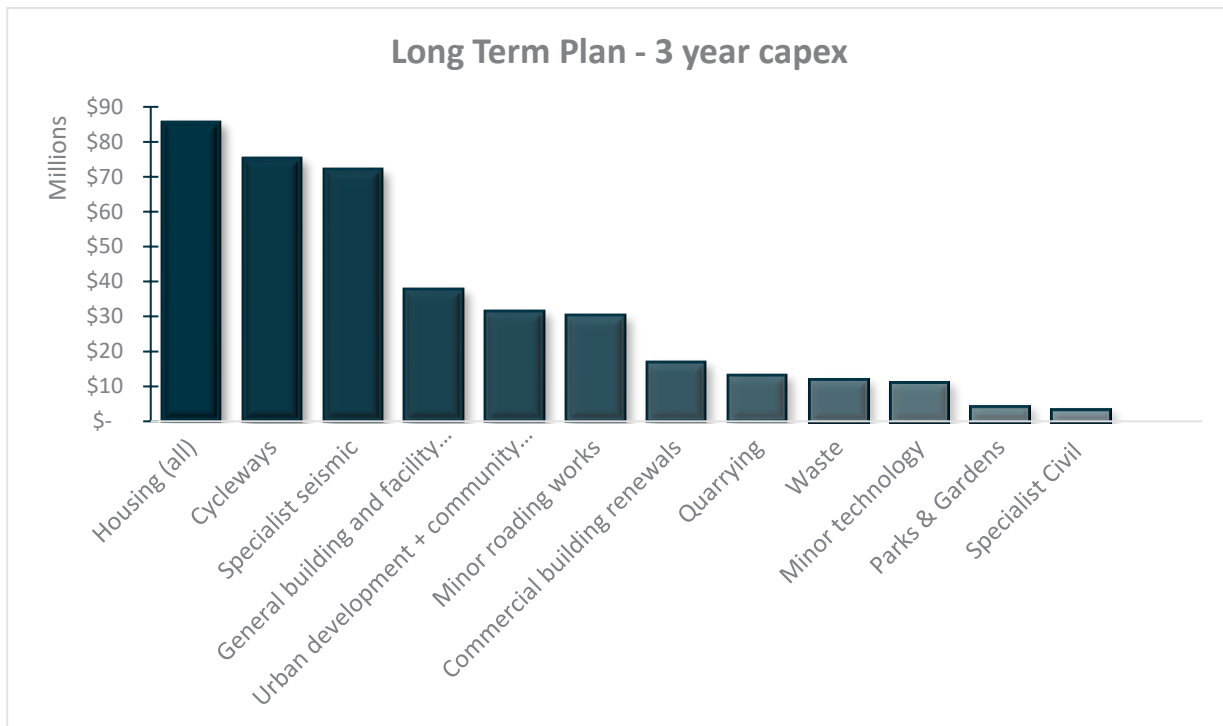
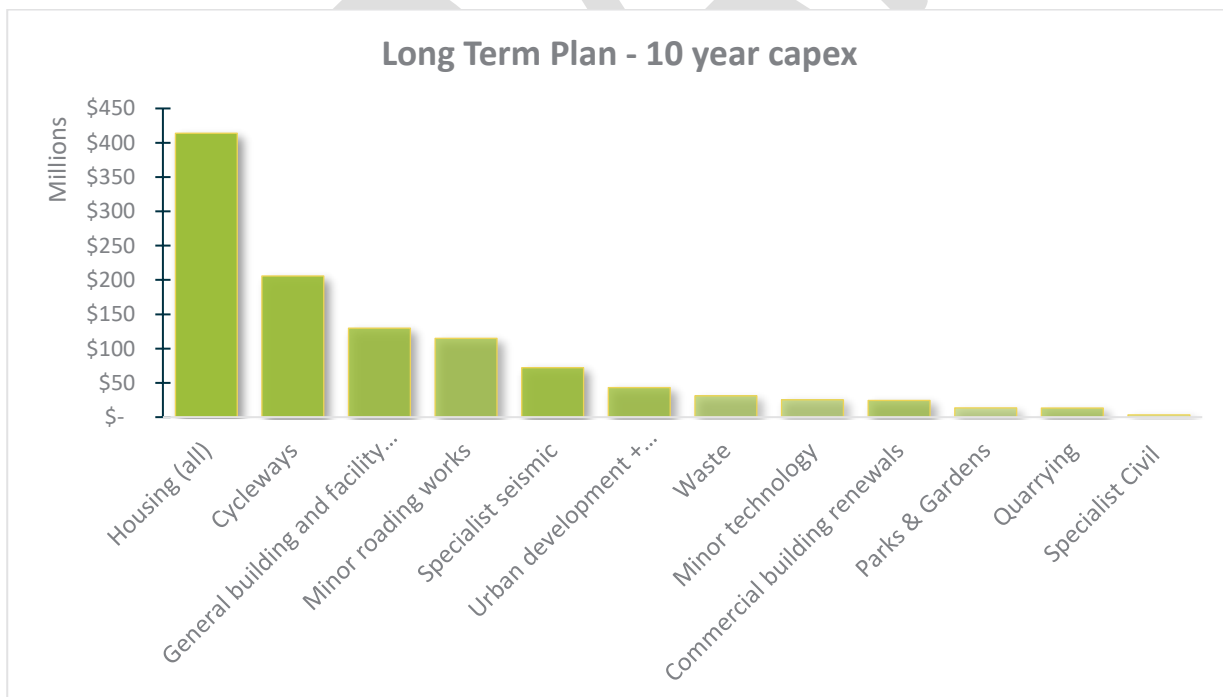


Figure 4 Ten-year totals



The assessment of suitability takes the scale, complexity, legal and institutional factors into consideration. An initial assessment of which parts of the programme are suitable for in-house delivery or requires specialist expertise is shown in Table 1 below.

At this stage, this high-level assessment has been done on the basis of scale or technical feasibility and where there are no legislative blockers (i.e. if the work is objectively possible to do in-house, at this stage it has not been excluded from potentially being done in-house).

Table 1 Summary of approaches for LTP work groupings

Type	Initial Assessment	Notes
Housing (all)	External or City Works	Competing with Kāinga Ora for resource – a combined CCTO could be considered Requires both professional services and physical works High dependence on current external market comprising a wide range of size and type of suppliers
Cycleways	External or City Works In-house (design)	LTA applies – Council cannot self-deliver works, though design could be done and managed in-house CCTO would compete against other contractors
Specialist seismic	External	Complex, high-risk work
General building and facility renewals	External	Due to size and nature of works, likely to be specialised and required specialised plant and expertise
Urban development & community assets	External or City Works In-house (design)	Potentially partly classed as roading works as they are on road corridors Urban design etc could potentially be done in-house
Minor roading works	External or City Works	LTA applies – Council cannot self-deliver
Commercial building renewals	External	Due to size and nature of works, likely to be specialised and required specialised plant and expertise
Quarrying	External	Specialist, heavy civil and quarrying operations
Waste	External	Heavy civil for landfill extension
Minor technology	City Works	Depends on whether classed as a roading activity (lighting, parking meters and traffic signals) or maintenance and renewals
Parks & Gardens	Already in-house	Retain in-house model as the expertise and knowledge is already in-house
Specialist Civil	External	Specialist works

When the assessment above is correlated with the programme then the potential values and types of work that could be done in-house is shown below in Figure 5. Again, this figure does not differentiate between types of in-house approaches except where a CCTO for LTP transport projects is necessary. In our view, once housing is excluded there is very little remaining to materially influence predictable LTP programme delivery.

Figure 5 Potential delivery options by type and value

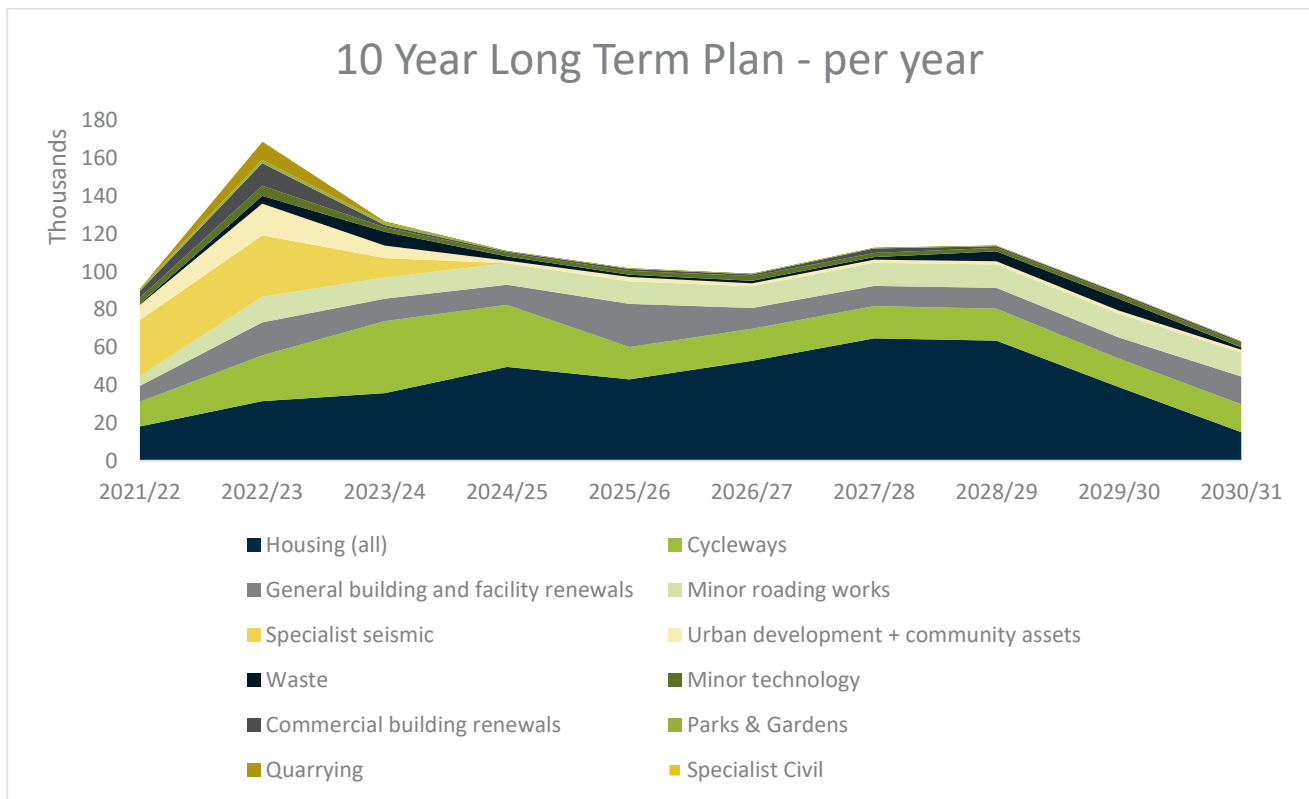


2.4 Timing

A decision to invest in the creation of an in-house unit should also take into account the creation and mobilisation period for any such entity (including hiring, premises, plant and equipment etc) which that work was required.

Figure 6 below illustrates the annual spend profile of the LTP budgets in accordance with the types of work categories used in this report. Apart from housing, the bulk of any currently forecasted spend will be complete before the halfway point of the LTP, which would mean any in-house approach would need to be able to deliver early to add value to this LTP.

Figure 6 – Aggregated LTP forecast



3 Examples of other in-house practices

We approached other authorities with which we have relationships and are aware do some degree of self-delivery. The questions below were used as a framework for consistency and the response are detailed further in this Section.

- How much work do you self-deliver?
- What types of work are insourced vs outsourced?
- Benefits of external vs insourcing
- Benefits of internal vs outsourcing
- Biggest constraints to programme delivery?

The New Zealand councils we approached have overall delivered 57%, 66% and 90% of their LTPs in the last four years using a blend of in-house and external delivery (not via CCTO). Note the Council with 90% delivery also included a year where they delivered 132% of their planned budget due to unforeseen requirements in service level improvements.

To gain a broader perspective we also approached Australian councils we work with. New Zealand differs from Australia in the scale and legislative requirements surrounding delivering work in-house and both Australian councils we have approached deliver a significant proportion of their annual works in-house. Unlike New Zealand, it is fairly difficult to initiate a CCO in Australia as this requires ministerial approval. Their in-house delivery is actually “in-house” as they retain their depots, plant and equipment together with staff. While this information was useful for context, due to the different environments we have not included any specific data from the Australian councils, though for completeness some of the qualitative responses have been included below.

How much work do you self-deliver?

Values were not available for the New Zealand councils, though once council estimated this would be around \$12million annually.

What types of work are insourced vs outsourced?

- Simple water connections and maintenance renewals
- Basic building maintenance
- Parks & reserves
- Wastewater treatment plant operations and maintenance

Benefits of external delivery models

- Offset higher risk in projects to where it can better be managed
- Regular confirmation of market / supply chain pricing
- Generally simple and well-understood contract mechanisms
- Better placed to manage H&S
- More appropriate solution for large, one-off projects where specific services may be required
- Quality control and management can be an issue for in-house works

- External delivery reduces the risk of planned work being disrupted if elected members feel the need to respond to reactive community issues by creating separation at a governance level
- Need to get internal structure right to create appropriate checks and balances
- Massive capital investment required to set up for in-house delivery

Benefits of internal delivery models

- Maintain organisational PM capability
- Higher responsiveness and faster mobilisation (Australian context only)
- More direct and broad engagement with the community
- Better delivery accuracy vs forecast (noting that the nature of the works should be taken into account)
- Lower costs (note this is when compared on a project basis only and does not include business start-up and wider overheads to service that business)
- Better knowledge of the asset and understanding of criticality
- Maintain internal capability (including knowledge retention)

Biggest constraint to programme delivery

- Pre-implementation work needs to be done and ready to deliver physical works
- Internal PMs are time-constrained
- Meeting legislative requirements while trying to deliver in a timely manner
- External PS suppliers are all tapped out - throwing money into the industry doesn't change that
- Government reform in New Zealand
- Historic underinvestment creates unpredictable and urgent repairs to assets which impacts the LTP programme

4 In-house Feasibility

Having established potential options and the likely size and scale of the programme that could be delivered in-house, this section overlays benefits, risks, challenges and opportunities of a series of objective criteria to assess establishing an in-house model.

As can normally be expected from a local authority portfolio, the nature of the individual construction works is generally not complex in engineering terms (with the exception of seismic strengthening and, potentially, quarrying). However, the programme itself is complex and challenging due to the breadth of types of projects and the planning, approvals, design and community engagement that is required prior to works reaching implementation. The programme also requires city-wide scheduling and co-ordination.

If the outcome required is predictable LTP programme delivery, given the time, effort and potential expense required to set up an entity to self-deliver, any self-delivery would need to be at a scale that would materially advantage the programme in this respect and would need to be legislatively compliant.

In our view, only housing and cycleways are simple enough and at a scale that the creation of a Council entity to deliver them in-house appears to be feasible. In addition, the physical works aspect of the cycleways programme would have to be delivered by a CCTO in competition with the market. Other activities (i.e. minor technology works) could feasibly be done in-house but this is unlikely to benefit the overall programme and they may also be classed as transport works.

Examination of the responses from other councils we have approached indicates that a blend of in-house, CCTO and external delivery can be beneficial, though typically in New Zealand the nature of the in-house works is relatively routine, such as minor water infrastructure renewals or maintenance. Note that the benefits identified lie more with retaining specific knowledge and community engagement in those particular areas rather than improving predictability of delivery.

The LTP is varied in scale, value, timing and complexity of physical works. For this reason, it could be expected that external delivery approaches would be matched accordingly. It is considered that creating an entire in-house entity that has the scale and breadth of skills to deliver the whole LTP would result in a large and inefficient entity with potentially significant amounts of downtime, the cost of which would be borne by ratepayers.

The relative merits and issues of each of in-house vs external delivery are explored further in Table 2 below.

It is assumed that there will be a procurement plan for any projects delivered externally and therefore an assessment of the appropriate procurement mechanism for these is outside the current scope of this paper.

4.1 Criteria

The criteria below have been developed for the purposes of a qualitative assessment of the options above and are intended to assess the desired outcome stated in Section 1.2.2. Each of these is assessed in terms of risk and alignment with the outcome of predictable LTP programme delivery.

- Community
 - Council reputation
 - Broader outcomes

- Community acceptability
- Financial
 - Whole of life cost (i.e. likely establishment costs, procurement costs together with project costs)
 - Who owns cost risk
- Commercial
 - Governance and management effort
 - Quality (self-checking, accountability, competency etc)
 - Performance levers
 - Workload pipeline
 - Certification and insurance
- Risk
 - Market acceptance / desire to engage
 - Council's risk appetite
- Constraints
 - Legal and Institutional (Waka Kotahi subsidy, LGA, LTMA)
 - Implementation
- Time and Resources
 - Efficiency of delivery programme
 - Effectiveness
 - Lead time to start works
 - Interdependencies (planning and design, third parties etc)
 - Annual delivery
 - Access to appropriately skilled resource
- WCC Three Year Priorities
 - Functioning, resilient and reliable three waters infrastructure
 - Affordable, resilient and safe housing
 - Core transport infrastructure is a safe, resilient, reliable network
 - The city has resilient and fit-for-purpose community, creative and cultural spaces
 - An accelerating zero-carbon and waste-free transition

4.2 Assessment

Table 2 below presents an assessment of in-house and external delivery against the criteria identified in Section 4.3.

Table 2 Option assessment vs criteria

	In-house delivery	External delivery
Community	<p><i>Council reputation</i></p> <p>Significant and lasting reputational issues if delivery fails as council will be both responsible and accountable to the community for delivery.</p> <p><i>Broader outcomes</i></p> <p>While this allows more control, it does not support the Government broader outcome of local industry growth in SME, though local people would be employed directly. However, it would allow more control over direct hires (quantity and diversity).</p> <p><i>Community acceptability</i></p> <p>Potential challenges with acceptability by the community due to the extra cost of inception and potential wastage during downtime.</p>	<p><i>Council reputation</i></p> <p>While council is accountable, contractors would be responsible for delivery and would therefore share any consequences for under-delivery.</p> <p><i>Broader outcomes</i></p> <p>This can be provided through contractual requirements e.g. training and upskilling of the local community and market together with investment and potential market share for local businesses.</p> <p><i>Community acceptability</i></p> <p>This model is already accepted by the community.</p>
Financial	<p><i>Whole of life cost</i></p> <p>It is possible that any efficiencies in works delivery over a ten-year LTP could offset the establishment costs of creating an in-house unit.</p>	<p><i>Whole of life cost</i></p> <p>WLC would be determined by procurement models used for the delivery of projects and programmes that are part of the LTP.</p>

In-house delivery	External delivery
<p>However, further work would be needed to assess the scale of these costs in relation to any programme benefits.</p> <p>A mechanism would need to be determined to properly understand how any in-house model is performing and systems, processes and people would be required to monitor and report on these.</p> <p><i>Who owns cost risk?</i></p> <p>Council or a council organisation would own all of it as there would be no contract mechanism to offset cost risk.</p> <p>There are costs risks from both price fluctuations and from variations on projects. An in-house approach may provide more certainty of staff costs but any form of CCTO would also be subject to market increases in salaries and supply costs. Again, as a CCTO would have to operate as an independent supplier, it would not be immune to design issues, variations, third party delays etc and so would retain most if not all of the same cost risk as an external supplier with respect to Council budgets. A CCTO or completely in-house entity would need to absorb any costs of its own making so there is extra risk in that respect.</p> <p>Forming a CCTO essentially enters WCC (through its CCTO) into the contracting market and the potential risks and rewards of the industry.</p>	<p><i>Who owns cost risk?</i></p> <p>For construction this will be dependent on scoping and design as issues that arise following this are likely to be at Council's own risk though a contractor should own their own cost risks of delivery.</p> <p>An external supplier would own the risk of its own impact on project delivery costs (rework etc). Council would remain at risk of cost impacts on an external supplier which were not its fault.</p>

In-house delivery		External delivery	
Commercial	<p><i>Governance and management effort</i></p> <p>Significant – new and additional governance will be required along with management groups for each type of work together with management teams for projects.</p> <p><i>Quality (self-checking, accountability, competency etc)</i></p> <p>Some form of audit function would be necessary to determine and set quality requirements.</p> <p><i>Performance levers</i></p> <p>Very difficult to find ways of policing performance at an organisational level although if any entity would need to compete this would act in the same way as external delivery.</p> <p><i>Workload pipeline</i></p> <p>Would depend only on the LTP if internal and fluctuations in that programme would have large impact. Examples (such as Citycare) in other locations indicate that a CCTO would need to seek other work to remain commercially viable.</p> <p><i>Certification and insurance</i></p> <p>Any in-house entity would need to go through the process of obtaining the certifications Council requires from its suppliers. Insurance would be an extra cost not currently borne by Council (except in situations where Council arranges insurance for projects).</p>	<p><i>Governance and management effort</i></p> <p>This option requires the lowest levels of overall governance and management by Council. A single Council PM can oversee multiple external projects and overall governance is provided through existing roles and structures.</p> <p><i>Quality (self-checking, accountability, competency etc)</i></p> <p>This can be set depending on the need.</p> <p><i>Performance levers</i></p> <p>Council is able to set required levels of performance criteria and the likelihood of winning future work can be partially dependent on past performance depending on the tender scoring.</p> <p><i>Workload pipeline</i></p> <p>A key advantage to procuring works externally is the ability to switch this on or off depending on Council’s pipeline plans and not having to bear any overhead costs while work is not being done.</p> <p><i>Certification and insurance</i></p> <p>While the cost is passed on through prices (annualised), suppliers are accountable for obtaining their own certification and insurances. The cost of these are only allocated to Council on a proportionate project basis.</p>	

	In-house delivery	External delivery
Risk	<p><i>Market acceptance / desire to engage</i></p> <p>There would almost certainly be significant push back from the market, potentially leading to key suppliers leaving or reducing focus on the region depending on the extent and scale of in-house delivery.</p> <p><i>Council's risk appetite</i></p> <p>Council would hold all H&S risk under an internal option or through its CCTO and it should be considered whether this very different model is appropriate. Council should be monitoring the H&S performance of contractors it engages to do works under either model. Significant investment in people, processes and systems required to track and manage H&S risks would be required. Under WHS legislation, Council will be a PCBU and therefore there will be risks to executive staff (and training may be needed) though this risk will not extend to Councillors.</p>	<p><i>Market acceptance / desire to engage</i></p> <p>Noting the competition constraints detailed in the previous paper, local and national suppliers will be keen to compete for the right work. It is understood that in the past Council has struggled to get contractors interested in projects. However, pipeline transparency and appropriate procurement models can provide the right incentives.</p> <p><i>Council's risk appetite</i></p> <p>Council can allocate risk accordingly as they procure.</p>
Constraints	<p><i>Legal and Institutional (Waka Kotahi subsidy, LGA, LTMA)</i></p> <p>Transport-related physical works cannot be self-delivered under the LTMA. Establishment of a CCTO is necessary. Consideration then needs to be given to whether any CCTO offers services wider than transport or whether more than one entity is necessary.</p> <p><i>Implementation</i></p> <p>There is a construction infrastructure labour shortage both regionally and nationally in New Zealand.</p>	<p><i>Legal and Institutional (Waka Kotahi subsidy, LGA, LTMA)</i></p> <p>No additional constraints as this the default approach.</p> <p><i>Implementation</i></p> <p>There are significant and potentially unprecedented delivery challenges regionally and nationally due to the current infrastructure environment in New Zealand and the international supply and logistics market for materials.</p>

	In-house delivery	External delivery
	<p>This is combined with a significant volume of infrastructure work being released to the market. At a summary level this incentivises employers to retain their current staff and also provides a visible pipeline of work. To find and recruit the necessary skills to start up a new entity in the current market will be a challenge. There is also a risk of affecting relationships with existing suppliers if they feel threatened by the removal of work, people or extra competition.</p> <p>Any transport-related work would need to be won in competition with other, more experienced suppliers. In this context, a new city works entity would not score well in non-price elements of an RFP.</p>	<p>Physical works implementation is at risk due to these issues.</p>
Time & Resources	<p><i>Efficiency of delivery programme</i></p> <p>Following necessary and significant investment in labour, plant, fleet and materials to deliver projects, together with systems, processes and premises, in theory scheduling would be more straightforward than with external suppliers as there would be certainty over who was doing the work (for non-transport projects).</p> <p>Key and senior resources may be distracted from their BAU activities during any establishment phases.</p> <p><i>Effectiveness</i></p> <p>There are potential issues around skills and plant and sub-contractors may be required where specialisms are needed.</p>	<p><i>Efficiency of delivery programme</i></p> <p>One disadvantage of this method is that there is less control and certainty over the overall programme delivery due to the involvement of more third parties and the need to undertake a range of procurement activities. This can work if well-coordinated but takes proper planning and identification and management of key project milestones (i.e. consenting, design, property, consultation).</p> <p><i>Effectiveness</i></p> <p>On the assumption that suppliers selected to deliver works projects on the basis of competence, it is likely that delivery will be effective.</p>

In-house delivery	External delivery
<p><i>Lead time to start works</i></p> <p>Procurement timescales would be reduced. There would still need to be a need to design and cost any works and in our view this is the key blocker to delivery in New Zealand.</p> <p>The same timeframes exist as for external delivery.</p> <p><i>Interdependencies (planning and design, third parties etc)</i></p> <p>Any in-house entity would only be able to deliver once the necessary consenting and design steps and gateways have been achieved, as per an external supplier. These will continue to be the highest risk project lifecycle activities with regard to programme certainty.</p> <p>Physical works requires land acquisition, planning, consultation consenting and approvals, design and procurement to be complete prior to commencing whether in-house, CCTO or external.</p> <p><i>Annual delivery</i></p> <p>Once an in-house entity is established, successful annual delivery will still be dependent on people, processes, systems and resources along with external influences. It is likely that annual delivery in the earlier years of the current LTP programme will be disadvantaged by the effort and activities needed to set up an in-house entity.</p>	<p>This does depend on the procurement method chosen and a move away from traditional procurement into alliances and partnering, especially for programmes of work is advised.</p> <p><i>Lead time to start works</i></p> <p>This will depend on the size and nature of the project but assuming all designs and approvals are complete, typically 3 – 6 months. Note these can be done concurrently depending on the capacity of the procurement and delivery team in Council.</p> <p><i>Interdependencies (planning and design, third parties etc)</i></p> <p>Physical works requires land acquisition, planning, consultation consenting and approvals, design and procurement to be complete prior to commencing.</p> <p><i>Annual delivery</i></p> <p>Using external delivery, Council has on average delivered 79% of its LTP in the last four years. This is better than average Council delivery in New Zealand.</p> <p><i>Access to appropriately skilled resource</i></p> <p>The advantage of going to the supplier market to deliver projects is that it allows Council to call on the right skills and equipment and materials to deliver projects. Notwithstanding current supply issues, this is the optimum approach to obtain high levels of expertise and technology.</p>

	In-house delivery	External delivery
	<p>No evidence has been found to show that in-house improves the amount of work delivery annually compared to external models.</p> <p><i>Access to appropriately skilled resource</i></p> <p>This is likely to be a challenge as the resources at all levels would need to come from the current supplier market. It is potentially unlikely that Council could match wages and salaries and though there may be other incentives that could be offered which may be attractive to parts of the workforce.</p> <p>There will be a need of both experienced and senior leaders to oversee any entity along with skilled specialists in technical, delivery, legal and administrative roles.</p>	
WCC Priorities	<p><i>Functioning, resilient and reliable three waters infrastructure</i></p> <p>N/A</p> <p><i>Affordable, resilient and safe housing</i></p> <p>Under this option, council would have full control over the delivery of their housing programme.</p> <p><i>Core transport infrastructure is a safe, resilient, reliable network</i></p> <p>Council would, however, be accountable and responsible for safe delivery and safety of the travelling public.</p>	<p><i>Functioning, resilient and reliable three waters infrastructure</i></p> <p>N/A</p> <p><i>Affordable, resilient and safe housing</i></p> <p>Assuming procurement is done correctly, external expertise and involvement can support this priority.</p> <p><i>Core transport infrastructure is a safe, resilient, reliable network</i></p> <p>Arguably, any issues with succeeding in this in the past have not been due to physical works and therefore external delivery is not a barrier to this priority.</p>

In-house delivery	External delivery
<p><i>The city has resilient and fit-for-purpose community, creative and cultural spaces</i></p> <p>N/A</p> <p><i>An accelerating zero-carbon and waste-free transition</i></p> <p>While Council can mandate requirements of suppliers in this regard, this option could provide greater scope for council to adopt best practice in this area and be a market leader.</p>	<p><i>The city has resilient and fit-for-purpose community, creative and cultural spaces</i></p> <p>N/A</p> <p><i>An accelerating zero-carbon and waste-free transition</i></p> <p>Council can opt to make this a key requirement in tenders they put to the market, which would support this priority.</p>

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5 Summary of Assessment

Council has largely been using a model of external delivery of physical works, with the exception of parks and reserves works. Over the past four years this approach has resulted in an average 79% delivery of the programme. This is above the national average.

Other councils we have approached that use a blend of external delivery with in-house typically only do relatively simple works, for example water and building maintenance, parks and reserves. The three New Zealand councils approached had delivered averages of 57%, 66% and 90% of their LTPs over the past four years. This is also now a relatively uncommon approach in New Zealand.

Although this is a small sample size, there does not appear to be any immediately obvious improvement in delivery when self-delivering aspects of physical works.

5.1 In-house – Council establishes City Works

Our high-level assessment is that around 58% of the value of the projects in the current LTP should not be delivered fully in-house due to their nature (scale, uniqueness and technical complexity) or the requirements of the LTMA prohibiting that.

90% of the remainder is housing projects. The nature of Council's housing programme requires a very diverse supplier market (diversity in scale and nature of services, materials and skills). While an in-house entity could act as a head contractor and sub-contract the specialist skills and materials, this would put it in direct competition with the market as well as taking on additional liability. It is likely that the supplier market would not see this as a favourable approach and so relationships with suppliers risk being damaged.

Once the above activities are excluded, there is little remaining of the LTP capital programme. The existing parks and reserves work is already done internally. Maintenance and professional services relating to design and consenting could be done in-house. In our view, an in-house City Works model is unlikely to provide any meaningful advantage to predictable delivery of the LTP programme.

5.2 Council Controlled Trading Organisation

A CCTO would have to be established to deliver the transport elements of the LTP programme. Theoretically, this could account for around 35% of the value of the programme. However, there are several factors that are likely to reduce this contribution:

- A CCTO would need to operate independently and in competition with other suppliers in the market. For this report, it is difficult to predict what proportion of the market a CCTO would gain but like any new supplier it would take time to establish track record and market presence
- The current programme has the cycleway work peaking in around 2023/24 – this may not allow sufficient time to set up a CCTO fully to maximise any benefits (including hiring staff, setting up systems and processes, purchasing plant and equipment etc). Rescheduling the cycleway programme to allow a CCTO to take advantage in this way is likely to be deemed uncompetitive (and potentially unlawful) behaviour on Council's part

- The length of time required to undertake consultation prior to setting up a CCTO and then establishing the entity is likely to mean that a significant portion of the transport-related work has already been delivered or allocated
- In the current market, recruiting staff of the necessary skills and quality to create the CCTO will be highly challenging. Transferring existing staff from Council will also leave vacancies that would need to be backfilled
- There will need to be a team of people dedicated to planning and establishing the CCTO which will mean already busy Council staff being taken away from BAU work unless external suppliers are engaged to support Council (though even so senior Council staff will need to be involved)
- The Government's procurement rules require broader outcomes to be considered and achieved and this approach is unlikely to benefit the independent and local supplier market
- The establishment costs for a CCTO would need to be assessed against a financial metric to determine benefit. This would not necessarily be a pure financial exercise as the budget would be spent otherwise anyway by external suppliers – it would need to show the value being obtained by adopting this approach in lieu of a traditional external approach

The transport-related component of the LTP is significant in value and is also a contentious and highly relevant issue between Council and community and therefore there are real benefits in delivering this work to plan.

Based on the above, it is difficult to predict the likely value of work that a CCTO would deliver throughout the period of the LTP. However, what can be concluded is that any aspiration of achieving better certainty of LTP delivery through self-delivering (in this case in the form of a CCTO) would only be realised if all of the transport works were delivered in this way. Partial delivery in competition with the market is unlikely to realise much overall benefit to the LTP.

5.3 Cost Certainty

5.3.1 Material Supply

With respect to price certainty of materials, only buying power within the local import market could create any real confidence and this would be as a result of volume. Designs (and in some cases, consents) would need to be substantially complete to determine what materials would be required and in what quantities. This is another example of processes other than physical works having more of an impact on the certainty of delivery than the delivery of the physical works themselves.

As with the other issues around competition for a CCTO noted above, there would be little merit in a CCTO stocking up on materials it may not need. An external supplier may have a number of contacts nationwide for which it needs materials and so would be able to pre-order in bulk. Purchasing the materials needed for the actual in-house work would not have any meaningful advantage to the LTP delivery.

5.3.2 Cost Variations

As noted previously in this report, variations during projects are likely to be from design issues, unforeseen circumstances or external influences. While these happen at a project level, the cumulative effect can be felt at a programme level if sufficient contingency is not allowed for.

The same issue arises for CCTO work in that work would be won competitively and operated under a contract and at arm's length and so any cost increase on the contract would be treated the same. The advantage of using an external supplier is that they would wear any cost increases arising from their own performance issues. A CCTO would also have to do this and so from Council's perspective, cost risks are better allocated to a supplier where possible and reasonable.

Overall, the positive impact of in-house works on cost control is not significant.

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6 Supplementary Ideas

The LTP forecast we have reviewed is not broken down into project phases (i.e. pre-implementation and implementation etc) so we have assumed 5% of overall budget figures for pre-implementation costs where we think those would not be done in-house already (i.e. cycleway or minor works design). Although this is lower than would normally be allowed for against capital works costs, it takes into account pre-implementation work which is likely to be complete already and that the budgetary figures are not just implementation figures. Consultation with the Council housing team indicates that professional services would be typically around 20-30% of the overall budget for upgrades.

While these activities form a small component of the overall budget, they are critical for predictable delivery. Our experience with procurement, PMO establishment, delivery models and contract reviews has shown that any one of the activities listed below can create significant delays to projects with consequent impacts on wider programmes. We have included quotes below from two of the other councils we have contacted during this exercise that support these findings.

- IBC / PBC / DBC / Preliminary Design / Detailed / Tender Design staging and gateway reviews
- Resource consent
- Cultural Impact Assessments
- Change in priorities
- Land acquisition or access
- Procurement planning
- Tender documentation
- RFT response and assessment
- Sign-off delegations
- Award and mobilisation (including consultants having secured the right resource)

Money into the last part of the chain at the construction part isn't going to solve the issue. It exacerbates it

Having projects and services advance planned/designed/ approved/contracted so the works can proceed as the new financial year commences."



Wellington City Council
Review of City Works concept
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1 Introduction

1.1 Background and Purpose

Morrison Low prepared a report in November 2021 (Construction Sector Constraints) which detailed the conditions surrounding the infrastructure industry in New Zealand along with the specific constraints facing Wellington City Council (WCC) with respect to competition and demand on resources and materials.

This was discussed at a Council meeting on 16th November and a motion was passed that a revised programme be accepted. The elected members have requested that council investigate the potential for the creation of “city works” style entity to deliver the programme in lieu of more widely used external mechanisms.

<https://wellington.govt.nz/-/media/your-council/meetings/committees/puuroro-tahua---finance-and-performance-committee/2021-11-18-agenda-pt-fpc-web.pdf#page=519&zoom=100,109,144>

1.2 Problem Statement and Desired Outcomes

1.2.1 Problem Statement

As noted in the Construction Sector Constraints report, WCC delivered an average of 79% of its planned capital works over the last four years. This is better than the national average but the timing and scale of current infrastructure programmes across New Zealand, together with challenges posed by Covid restrictions, has created a rapidly changing environment that is putting extra pressure on WCC’s 2021-2031 Long Term Plan (LTP) delivery.

1.2.2 Desired Outcome

To establish whether the “city works” mechanism is an effective delivery method for the infrastructure works included in the current 2021-2031 Long term Plan for Wellington City Council.

Wellington City Council’s priorities for the next three years are:

- A functioning, resilient and reliable three waters infrastructure– with improving harbour and waterway quality and, reducing water usage and waste.
- Wellington has affordable, resilient and safe housing– within an inclusive, accessible, connected, and compact city.
- The city’s core transport infrastructure is a safe, resilient, reliable network– that supports active and public transport choices, and an efficient, productive and an environmentally sustainable economy.
- The city has resilient and fit-for-purpose community, creative and cultural spaces– including libraries, marae, museums and community halls, where people connect, develop and express their arts, culture and heritage.
- An accelerating zero-carbon and waste-free transition– with communities and the city economy adapting to climate change, development of low carbon infrastructure and buildings, and increased waste minimisation.

- Strong partnerships with mana whenua– upholding Te Tiriti o Waitangi, weaving Te Reo and Te Ao Māori into the social, environmental and economic development of our city and, restore the city’s connection with Papatūānuku.

It is therefore appropriate to be cognisant of these when assessing suitability of options to deliver the LTP.

1.3 Approach

Self-delivery / city works etc is the option that has been asked to review but in order to define how appropriate this is, other approaches also need to be examined and the extent of the programme able to be delivered by the different options also needs to be considered.

We have broken down the LTP programme by nature, scale and complexity of the work in order to assess what single or blend of approaches would be appropriate as different programmes are sired to different methods e.g. Refurbishment or renovation of earthquake prone buildings is highly specialised work and so is quite different from routine local road maintenance. These are then evaluated against the criteria in Section 3 together with the WCC three-year priorities.

It is important to note that the scope of this report focusses on the works phase of a project. However, that is only one phase of a project lifecycle and if delivery certainty is the key objective then other phases of the lifecycle are likely to provide greater benefit. For predictability of the LTP, better certainty could be obtained through optimisation of scoping, planning and approvals and design. This is explored in Section XX.

2 Programme Delivery Options

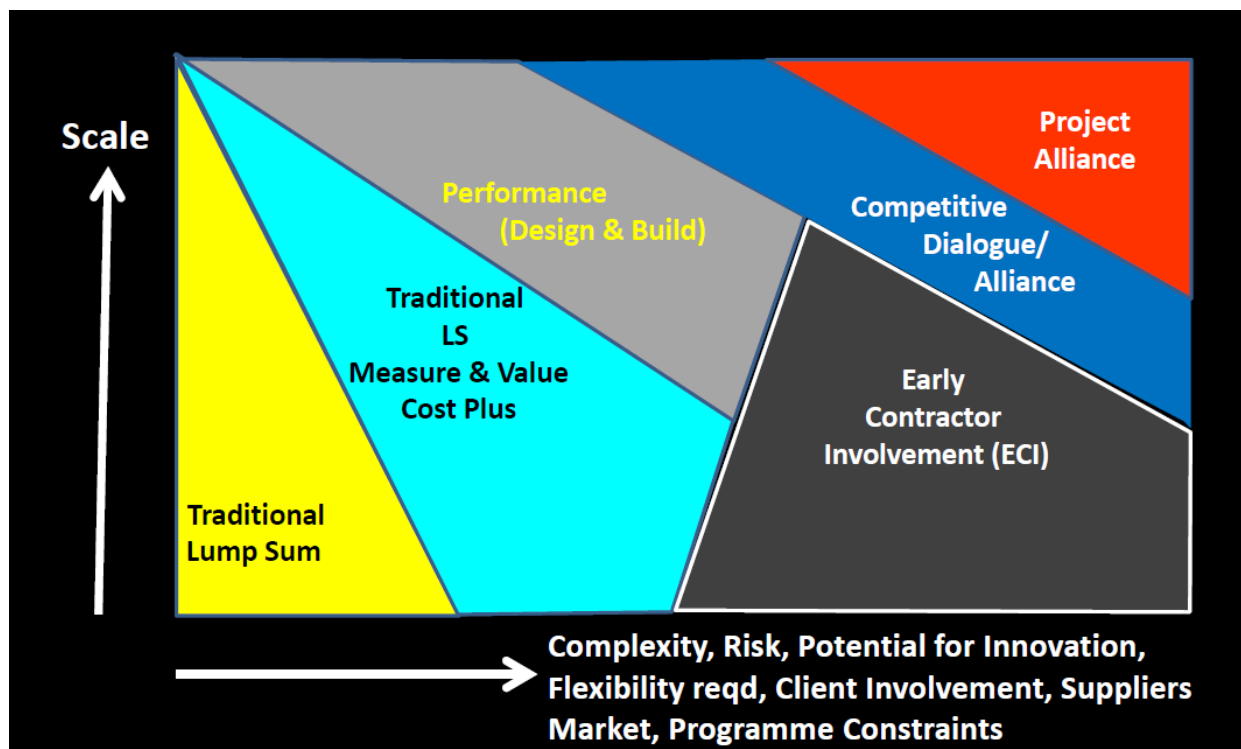
2.1 Potential Options

The long list of potential options includes:

- 1 In-house
 - a. Creation of a new council business unit
 - b. Creation of a Council Controlled Organisation (CCO)
 - c. Creation of a Council Controlled Trading Organisation (CCTO)
 - d. part or all self-delivery either using a business unit or creating a CCO / CCTO
- 2 Outsourced
 - a. Panel – following a procurement and selection process to qualify, panels can be created (involving consultants or contractors) to deliver a programme of work. Typically the work commissions will be similar in nature i.e. a cycleway design panel or a minor works panel)
 - b. Lump sum, measure and value, design and build, early contractor involvement
 - c. Alliance (pure, hybrid etc) – this is a risk-sharing model typically used for high value, highly complex projects or programmes which involves the creation of a commercial entity with a board and generally comprises client, consultant and contractor
- 3 Hybrid approach – a blend of the above across the LTP programme

Further explanation of requirements that need to be considered for CCO and CCTO are detailed below.

Figure 1 Illustrates the relationship between scale and complexity for external models¹



2.2 Legal Considerations and Implications

For an in-house “city works’ Style approach, WCC would need to set up a Council Organisation (business unit), a Council Controlled Organisation (CCO) or a Council Controlled Trading Organisation (CCTO). A CCO can be a company, trust, partnership, incorporated society, joint venture, or other similar profit-sharing arrangement that Council controls at least 50% of voting rights or governance. A CCO cannot make profit, whereas a CCTO can.

Any reference below to legal requirements should not be considered exhaustive.

We also note that before changing delivery model it is likely that the Council would need to undertake a formal s17A review.

2.2.1 Council Controlled Organisations

With reference to the purpose of this document, there are some points to note about CCOs and variants thereof.

- Section 56 of the Local Government Act requires council to undertake consultation before establishing a CCO and CCTO. As this was not in the LTP, a special consultation exercise would be required.

¹ Credit: Clever Buying

- Various other legislation applies, such as the Local Government Official Information and Meetings Act 1987 and potentially the Companies Act 1193 and the Charities Act 2005.
- The OAG published a document in 2015 (Governance and accountability of council-controlled organisations²) which sets out good practice for councils to adopt and consider when setting up any form of CCO
- A CCTO can be jointly owned with other councils or a private business.
- Council cannot give the CCTO any favourable loans or other forms of financial accommodation to CCTOs or underwrite its obligations. S62 and s63 of the LGA Act 20003 refer.
- Procurement guidelines come in play and the principles of competitive neutrality, as does the cost efficiencies considerations of s17a reviews when Council review services.
- Council cannot self-deliver roading capital works projects and therefore a CCTO would be necessary to deliver any of the Transport LTP portfolio. (Note it can self-deliver professional services and maintenance).
- A CCTO structure would be subject to the tendering and the principles akin to those currently in the Transport Procurement Strategy 2020–2023. Under Section 25³ of the Land Transport Management Act 2003 a Procurement Strategy is required by NZTA.
- There needs to be a mechanism in place for Council to monitor the CCO. Council is ultimately accountable for the performance of the CCO and its own accountability to the community served by Council.

An example of a CCTO is City Care Ltd which is owned solely by the Christchurch City Council and is a subsidiary of the holding company established by CCC called Christchurch City Holdings Ltd. City Care was set up in 1999.

Note that any change in service would require a Section 17a review and therefore, depending on the outcomes of any Council discussions, the next legal step would be to undertake a Section 17a on any works programme involved.

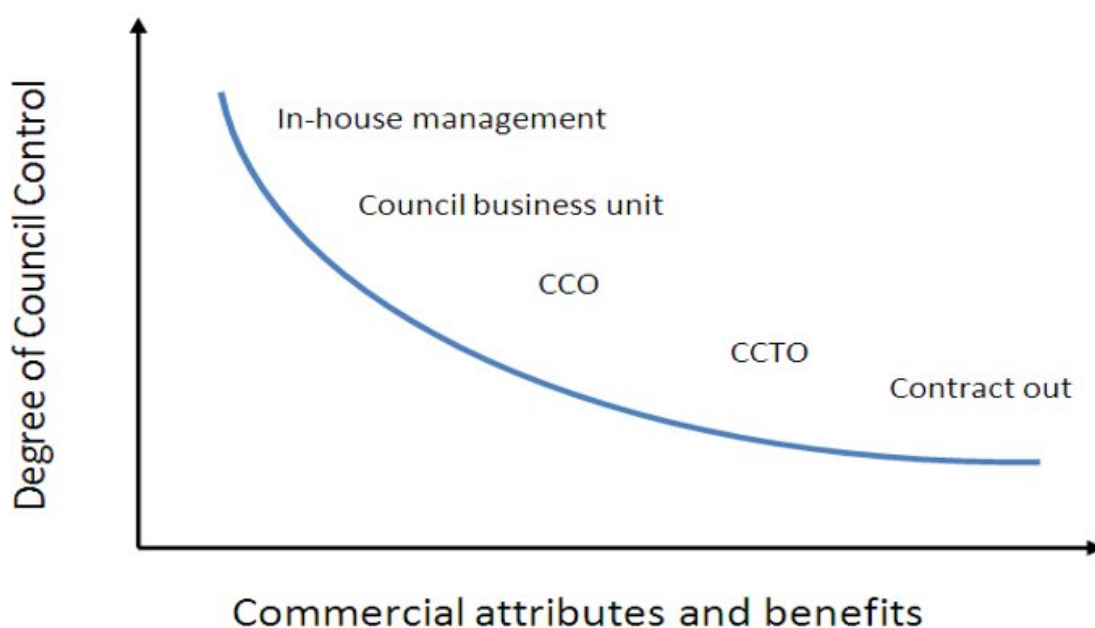
The legal creation of a CCO is a relatively simple and quick process that is typically done under normal opex. However, there would then need to be a significant investment of funds and time into premises (including plant yards etc with associated overheads), recruitment and staff salaries and overheads, purchase or lease of plant, process and systems infrastructure and cash flow until won work was paid.

Figure 2 below illustrates that the relationship between the advantages of being in control of a form of work and self-delivering is approximately inversely proportional to the complexity and value of a form of work. This would typically be assessed during preparation of a procurement plan and an appropriate procurement model would be selected that takes this into consideration.

² <https://oag.parliament.nz/2015/cco-governance>

³ <https://www.legislation.govt.nz/act/public/2003/0118/latest/DLM228046.html>

Figure 2 Typical relationship between council control and commercial attributes and benefits⁴



2.3 WCC LTP Assessment

The WCC Long Term Plan is made up of a wide range of projects. These different projects have different characteristics. Some for example involve very specialist skills and expertise, some are technical, some are standard construction projects and others are routine maintenance. It is important to understand;

- the different nature of the work as some types of work are more suitable for delivery by specialists and some could be suited to delivery by City Works
- the volume of work which may be suitable for delivery by City Works

We have broken down the LTP forecast into basic construction types that would be undertaken by different sizes and types of suppliers and set these out in the table below. The three and ten-year totals have then been aggregated to provide a view of scale.

The LGWM contributions and projects being undertaken by Wellington Water have been excluded as they are already being delivered under a different model.

⁴ Credit: Morrison Low

These are shown in Figures 3 and 4 below:

Figure 3 Three year totals

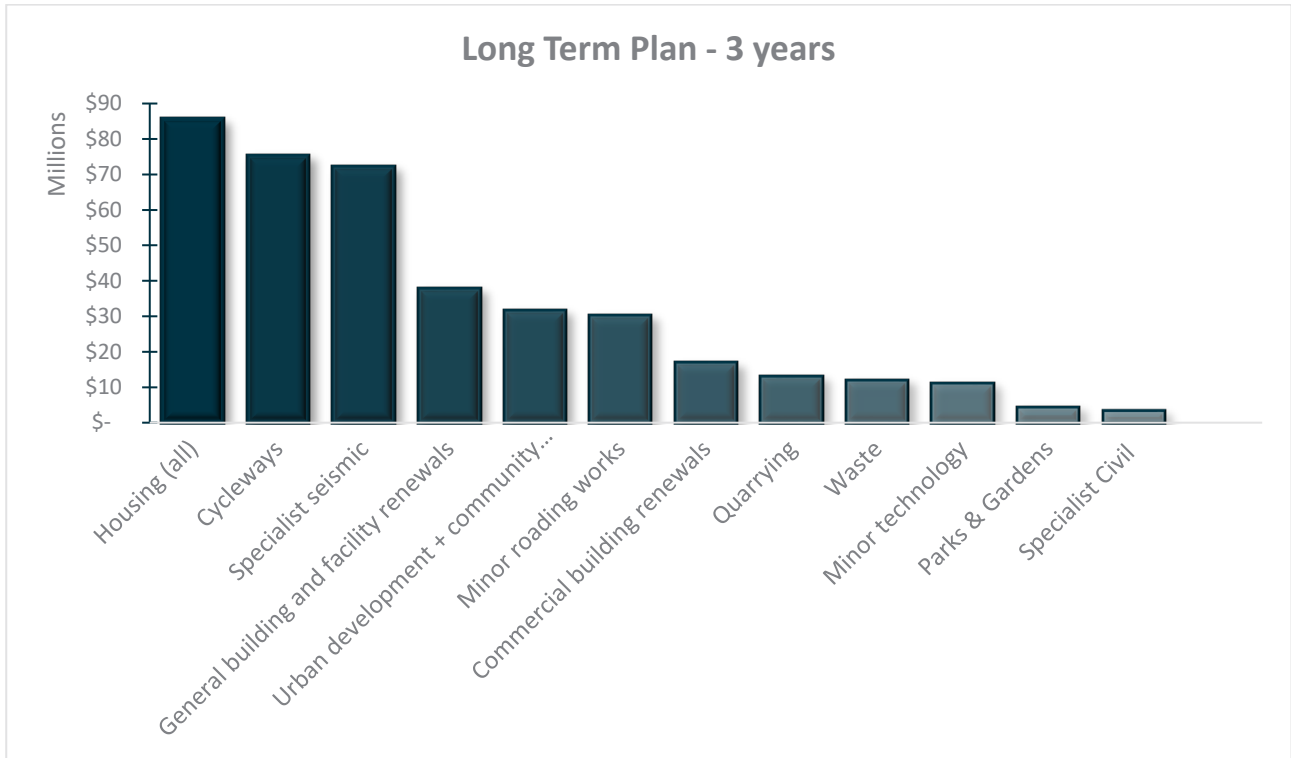
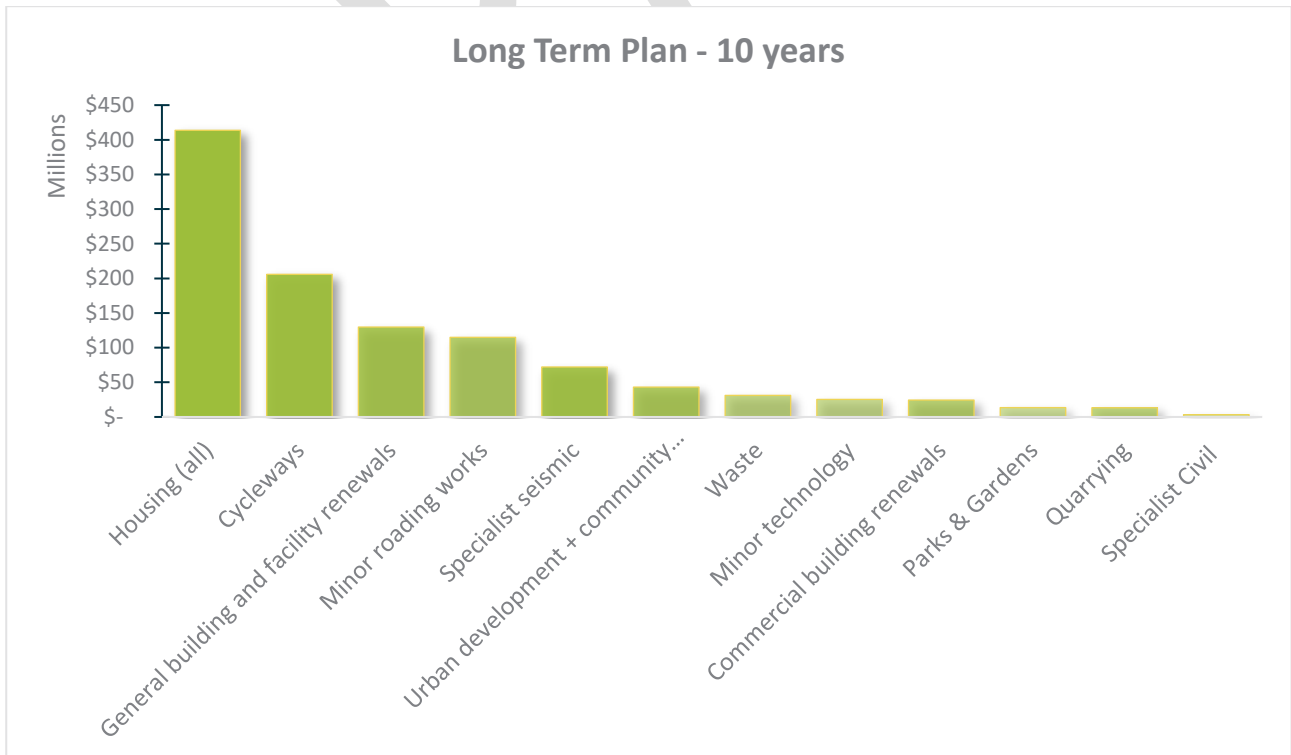


Figure 4 Ten year totals



Taking the scale, complexity, legal and institutional factors into consideration, the LTP works groupings above have been considered at a high level against suitable delivery models in Table xx below.

Table 1 Summary of approaches for LTP work groupings

Type	Options	Notes
Housing (all)	External or City Works	Competing with Kāinga Ora for resource – a combined CCTO could be considered Check refurb vs new build vs design
Cycleways	External or City Works In-house (design)	LTA applies – Council cannot self-deliver works, though design could be done and managed in-house CCTO would compete against other contractors
Specialist seismic	External	Complex, high-risk work
General building and facility renewals	External	Due to size and nature of works, likely to be specialised and required specialised plant and expertise
Urban development & community assets	External or City Works In-house (design)	Potentially partly classed as roading works as they are on road corridors Urban design etc could potentially be done in-house
Minor roading works	External or City Works	LTA applies – Council cannot self-deliver
Commercial building renewals	External	Due to size and nature of works, likely to be specialised and required specialised plant and expertise
Quarrying	External	Specialist, heavy civil and quarrying operations
Waste	External	Heavy civil for landfill extension
Minor technology	City Works	Depends whether classed as a roading activity (lighting, parking meters and traffic signals) or maintenance and renewals
Parks & Gardens	Already in-house	Retain in-house model as the expertise and knowledge is already in-house
Specialist Civil	External	Specialist works

Graphs need updating, titles and text once housing questions answered

Figure 5 Split no CCTO

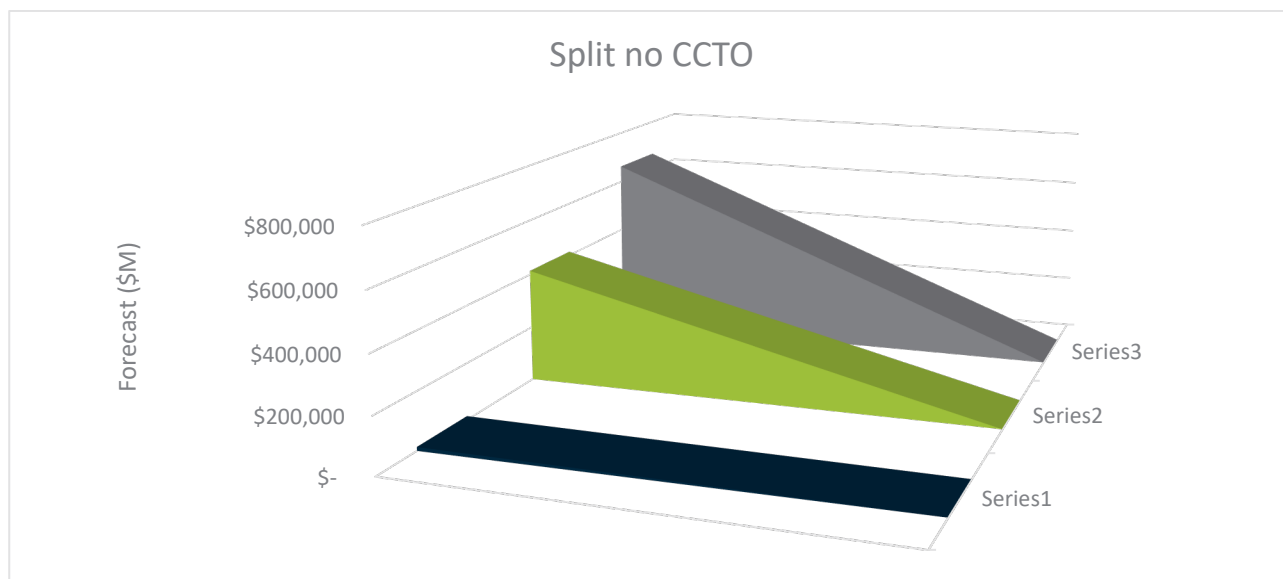
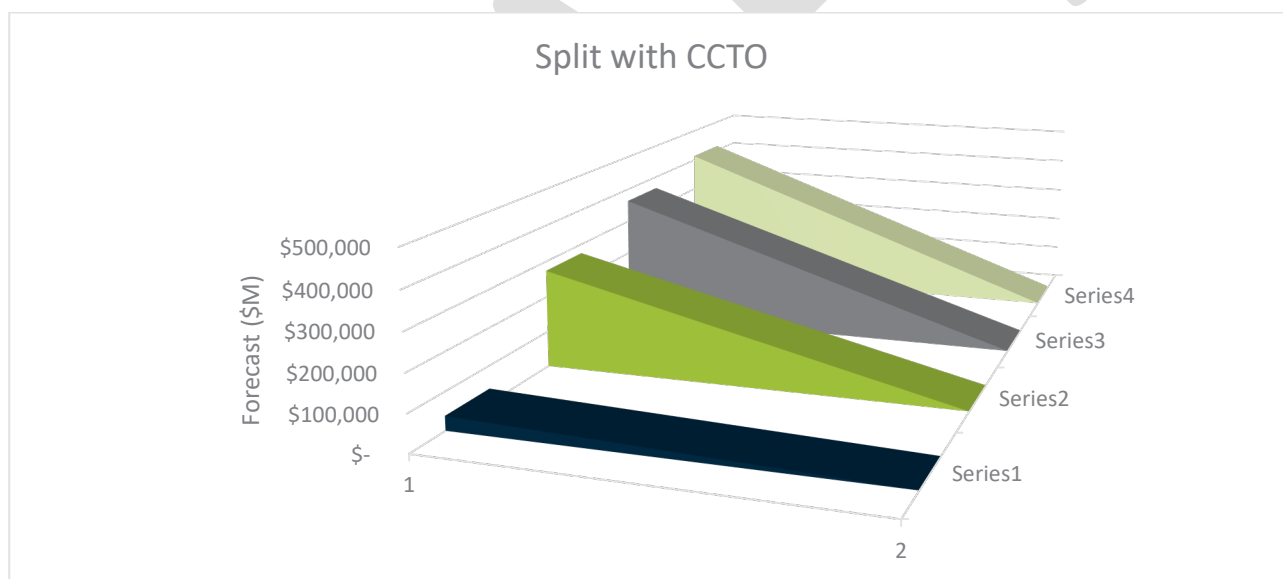


Figure 6 Split with CCTO



2.4 Shortlist of Options

As can be expected from a local authority portfolio, the nature of the individual construction works is generally not complex in engineering terms (with the exception of seismic strengthening and, potentially, quarrying). However, the programme itself is complex and challenging due to the breadth of types of projects and the planning, approvals and community engagement that is required prior to works reaching implementation. The programme also requires city-wide scheduling and co-ordination.

If the outcome required is predictable LTP programme delivery, given the time, effort and potential expense required to set up an entity to self-deliver, any self-delivery would need to be at a scale that would materially advantage the programme in this respect and would need to be legislatively compliant.

As with the external approach, only housing and cycleways are simple enough and at a scale that the creation of a Council entity to deliver them in-house would be feasible. In addition, the physical works aspect of the cycleways programme would have to be delivered by City Works, were external delivery not preferred. This is discussed in detail in Section 3.3. Other activities (i.e. minor technology works) could feasibly be done in-house but this is unlikely to benefit the overall programme.

Examination of the responses from other councils we have approached indicates that a blend of in-house / CCTO and external delivery can be beneficial, though typically in New Zealand the nature of the in-house works is simple, such as minor water infrastructure renewals or maintenance.

2.4.1 Key themes for other councils

We approached other authorities with which we have relationships and as such are aware that do some degree of self-delivery. The questions below were used as a framework for consistency and the response are detailed further in this Section.

- How much work do you self-deliver?"
- What types of work are insourced vs outsourced?
- Benefits of external vs insourcing
- Benefits of internal vs outsourcing
- Biggest constraints to programme delivery?

The New Zealand councils we approached have overall delivered 57% and 66% of their LTPs in the last four years using a blend of in-house and external delivery (not via CCTO). We were able to obtain delivery completion figures from one Australian council who delivered approximately 83% of their last annual programme and while the other Australian council we approached did not provide completion figures, they delivered a sizeable amount of planned work in-house.

New Zealand differs from Australia in the scale and legislative requirements about doing work in-house and both Australian councils we have approached deliver a significant proportion of their annual works in-house. Unlike New Zealand, it is fairly difficult to initiate a CCO in Australia and this actually requires ministerial approval. Their in-house delivery is literally in-house as they retained their old works ministries so own depots, plant and equipment together with having staff, albeit their working approach is governed by Australia's unionised system.

How much work do you self-deliver?

Values were not available for the New Zealand councils though the two Australian Councils gave the following summaries (\$AUS)

Table 2 Summary of both Australian council approaches

	Council 1	Council 2
Annual renewals budget (in-house only)	\$19million	\$24million
Roads program	\$4million	\$13million
Buildings	100% (owner builder model)	\$4million
Drainage	100% (of all works)	\$4million
Streetscape/Amenity	100% (of all works)	\$1million
Open Space	50% (of all works)	\$9million

What types of work are insourced vs outsourced?

- New Zealand
 - Simple water connections and maintenance renewals
 - Basic building maintenance
 - Parks & reserves
- Australia
 - Roading
 - Drainage
 - Urban, parks and amenities
 - Buildings
 - Roading

Benefits of external vs insourcing

- Offset higher risk in projects to where it can better be managed
- Regular confirmation of market / supply chain pricing
- Generally simple and well-understood contract mechanisms
- Better placed to manage H&S
- More appropriate solution for large, one-off projects where specific services may be required
- Quality control and management can be an issue for in-house works
- In-house works can end up being councillor directed and council then has to deal with budgetary impacts
- Need to get internal structure right to create appropriate checks and balances
- Massive capital investment required to set up for in-house delivery

Benefits of internal vs outsourcing

- Maintain organisational PM capability
- Higher responsiveness and faster mobilisation (Australian context only)
- More direct and broad engagement with the community
- Better delivery accuracy vs forecast (noting that the nature of the works should be taken into account)
- Lower costs
- Maintain internal capability

Biggest constraint to programme delivery

- Pre-implementation work needs to be done and ready to deliver physical works
- Internal PMs are time-constrained
- Meeting legislative requirements while trying to deliver in a timely manner
- External PS suppliers are all tapped out - throwing money into the industry doesn't change that

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3 Option Assessment

3.1 Options to be assessed

The LTP is varied in scale, value, timing and complexity of physical works. For this reason, it could be expected that external delivery approaches would be matched accordingly. It is considered that creating an in-house “city works” business unit or entity that has the scale and breadth of skills to deliver the whole LTP would result in a large and inefficient entity with potentially significant amounts of downtime, the cost of which would be borne by ratepayers.

The LTP forecast we have reviewed is not broken down into project phases – pre-implementation and implementation etc so we have assumed 5% of overall budget figures for pre-implementation costs where we think those would not be done in-house already (i.e. cycleway or minor works design). Although this is lower than would normally be allowed for against capital works costs, it takes into account pre-implementation work which is likely to be complete already and that the budgetary figures are not just implementation figures.

Table 3 High level breakdown of potential delivery models by forecast split

Delivery	Work programmes	Total 10 Year LTP Value (thousands)	% of LTP (\$1,043,463,000)
In-house	Cycleway and urban development pre-implementation*	\$12,228	5%
	Minor technology	\$25,305	
	Parks & gardens	\$13,489	
		\$51,082	
CCO	Housing	\$413,714	69% (29% ex housing)
	Cycleways	\$195,501	
	Urban development	\$36,833	
	Minor roading works	\$72,541	
		\$718,589	
External	Specialist seismic	\$72,099	26%
	General and commercial buildings / facility renewals	\$154,088	
	Quarrying	\$13,284	
	Waste	\$31,099	
		\$3,282	
	Specialist civil	\$273,852	

*pre-implementation assumed at 5% of forecast budget value

The advantages and disadvantages of each of the three approaches above are discussed further in Table XX below.

It is assumed that there will be a procurement plan for any projects delivered externally and therefore an assessment of the appropriate procurement mechanism for these is outside the scope of this paper.

3.2 Criteria

The criteria below have been developed for the purposes of a qualitative assessment of the options above and are intended to assess the desired outcome stated in Section 1.2.2. Each of these is assessed in terms of risk and alignment with the outcome of predictable LTP programme delivery.

- Community
 - Council reputation
 - Broader outcomes
 - Community acceptability
- Financial
 - Whole of life cost (i.e. likely establishment costs, procurement costs together with project costs)
 - Who owns cost risk
- Commercial
 - Governance and management effort
 - Quality (self-checking, accountability, competency etc)
 - Performance levers
 - Workload pipeline
 - Certification and insurance
- Risk
 - Market acceptance / desire to engage
 - Council's risk appetite
- Constraints
 - Legal (Waka Kotahi subsidy, LGA, LTMA)
 - Institutional
 - Implementation
- Time and Resources
 - Efficiency of delivery programme
 - Effectiveness
 - Lead time to start works
 - Interdependencies (planning and design, third parties etc)
 - Annual delivery
 - Access to appropriately skilled resource
- WCC Three Year Priorities
 - Functioning, resilient and reliable three waters infrastructure
 - Affordable, resilient and safe housing

- Core transport infrastructure is a safe, resilient, reliable network
- The city has resilient and fit-for-purpose community, creative and cultural spaces
- An accelerating zero-carbon and waste-free transition

3.3 Assessment

Have graphic showing all stages as involved in all options, including set-up of the vehicle / BU, procurement etc plus scoping and planning, design, works, ops etc in the context of the 10 year LTP showing

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Table 4 – Option assessment vs criteria

	Council delivery	External delivery	Blended delivery
Community	<p><i>Council reputation</i></p> <p>Significant and lasting reputational issues if delivery fails as council will be both responsible and accountable to the community for delivery</p> <p><i>Broader outcomes</i></p> <p>Does not support the broader outcome of local industry growth, though staff would be employed directly</p> <p><i>Community acceptability</i></p> <p>Unlikely to be accepted by the community due to the extra cost of inception and potential wastage during downtime</p>	<p><i>Council reputation</i></p> <p>While council is accountable, contractor would be responsible for delivery and would therefore share any 'blame'</p> <p><i>Broader outcomes</i></p> <p>This is the ideal broader outcomes scenario as it facilitates the training and upskilling of the local community together with investment and potential market share for local businesses</p> <p><i>Community acceptability</i></p> <p>This model is already accepted by the community</p>	<p><i>Council reputation</i></p> <p>Some excess risk to reputation depending on the services that are self-delivered. Likely to be routine and not complex but also potentially customer facing.</p> <p><i>Broader outcomes</i></p> <p>Some benefits and broader outcomes through procurement should still be achievable.</p> <p><i>Community acceptability</i></p> <p>Potentially acceptable as the nature of works may be seen as fairly well aligned to activities such as parks and amenities.</p>
Financial	<p><i>Whole of life cost</i></p> <p>It is possible that efficiencies in works delivery over a ten-year LTP (if any) could offset the cost of creating a city works unit but this is unlikely and further work would be needed to estimate costs.</p>	<p><i>Whole of life cost</i></p> <p>WLC would be determined by procurement models used for the delivery of projects and programmes that are part of the LTP</p>	<p><i>Whole of life cost</i></p> <p>Creation of a partial self-delivery entity is likely to take some time for the benefits to outweigh the costs of inception and establishment</p>

	Council delivery	External delivery	Blended delivery
	<p><i>Who owns cost risk</i></p> <p>Council would own all of it as there would be no contract mechanism to offset cost risk</p>	<p><i>Who owns cost risk</i></p> <p>For construction this will be dependent on scoping and design as issues that arise following this are likely to be at Council's own risk though a contractor should own their own cost risks of delivery.</p>	<p><i>Who owns cost risk</i></p> <p>Council will own all self-delivered works cost risk</p>
Commercial	<p><i>Governance and management effort</i></p> <p>Significant – some form of governance board will be required along with management groups for each type of work together with management teams for projects</p> <p><i>Quality (self-checking, accountability, competency etc)</i></p> <p>Some form of audit function would be necessary to determine and set quality requirements.</p> <p><i>Performance levers</i></p> <p>Very difficult to find ways of policing performance at an organisational level although as any entity would need to compete this would act in the same</p>	<p><i>Governance and management effort</i></p> <p>This option requires the lowest levels of overall governance and management by Council. A single Council PM can oversee multiple external projects and overall governance can be addressed through existing roles and structures.</p> <p><i>Quality (self-checking, accountability, competency etc)</i></p> <p>This can be set depending on the need</p> <p><i>Performance levers</i></p> <p>Council is able to set required levels of performance criteria and the likelihood of winning future work can be partially dependent on past performance depending on the tender scoring</p>	<p><i>Governance and management effort</i></p> <p>There will be an added component over and above current BAU for any works that end u being self-delivered.</p> <p><i>Quality (self-checking, accountability, competency etc)</i></p> <p><i>Performance levers</i></p> <p><i>Workload pipeline</i></p> <p><i>Certification and insurance</i></p>

	Council delivery	External delivery	Blended delivery
	<p>way as external delivery</p> <p><i>Workload pipeline</i></p> <p>Would depend only on the LTP. Examples (such as Citycare) in other locations indicate that a self-delivery entity may need to seek other work to remain commercially viable.</p> <p><i>Certification and insurance</i></p> <p>Any entity would need to go through the process of obtaining the certifications Council requires from its suppliers. Insurance would be an extra cost not currently borne by Council (except in situations where Council arranges insurance for projects)</p>	<p><i>Workload pipeline</i></p> <p>A key advantage to procuring works externally is the ability to switch this on or off depending on Council's pipeline plans and not having to bear the overhead costs while work is not being done.</p> <p><i>Certification and insurance</i></p> <p>While the cost is passed on through prices (annualised), suppliers are accountable for obtaining their own certification and insurances.</p>	
Risk	<p><i>Market acceptance / desire to engage</i></p> <p>There would almost certainly be significant push back from the market, potentially leading to key suppliers leaving or reducing focus on the region.</p> <p><i>Council's risk appetite</i></p> <p>Council would hold all H&S risk under this option and it is questionable</p>	<p><i>Market acceptance / desire to engage</i></p> <p>Noting the competition constraints detailed in the previous paper, local and national suppliers will be keen to compete for the right work. It is understood that in the past Council has struggled to get contractors interested in projects. However, pipeline transparency and considered</p>	<p><i>Market acceptance / desire to engage</i></p> <p><i>Council's risk appetite</i></p>

	Council delivery	External delivery	Blended delivery
	<p>whether this is an appropriate model, as Council should be monitoring the H&S performance of contractors it engages to do works and a self-policing approach may not lead to the correct reporting and outcomes.</p>	<p>procurement can provide the right incentives.</p> <p><i>Council's risk appetite</i></p> <p>Council can allocate risk accordingly as they procure</p>	
Constraints	<p><i>Legal (Waka Kotahi subsidy, LGA, LTMA)</i></p> <p>Need Jessie's work</p> <p>Public value – need to reflect this</p> <p><i>Institutional</i></p> <p><i>Implementation</i></p>	<p><i>Legal (Waka Kotahi subsidy, LGA, LTMA)</i></p> <p>Need Jessie's work</p> <p><i>Institutional</i></p> <p><i>Implementation</i></p>	<p><i>Legal (Waka Kotahi subsidy, LGA, LTMA)</i></p> <p>Need Jessie's work</p> <p><i>Institutional</i></p> <p><i>Implementation</i></p>
Time & Resources	<p><i>Efficiency of delivery programme</i></p> <p>Assuming the entity has the resources (labour, plant, materials) to deliver projects, scheduling would be more straightforward than with external suppliers as there would be certainty over who was doing the work</p>	<p><i>Efficiency of delivery programme</i></p> <p>One disadvantage of this method is that there is less control and certainty over the overall programme delivery due to the involvement of more third parties and the need to undertake a range of procurement activities.</p>	<p><i>Efficiency of delivery programme</i></p> <p><i>Effectiveness</i></p> <p><i>Lead time to start works</i></p>

Council delivery	External delivery	Blended delivery
<p><i>Effectiveness</i></p> <p>There are potential issues around skills and plant and sub-contractors may be required where specialisms are needed.</p> <p><i>Lead time to start works</i></p> <p>Procurement timescales would be reduced though there would still need a need to design and cost any works</p> <p><i>Interdependencies (planning and design, third parties etc)</i></p> <p>Any “city works” entity would only be able to deliver once the necessary consenting and design steps and gateways have been achieved, as per an external supplier</p> <p><i>Annual delivery</i></p> <p>Check time to set up an entity</p> <p><i>Access to appropriately skilled resource</i></p> <p>This is likely to be a challenge as the resources at all levels would need to come from the current supplier market. It is potentially unlikely that Council could match wages and salaries and</p>	<p><i>Effectiveness</i></p> <p>On the assumption that suppliers selected to deliver works projects on the basis of competence, it is likely that delivery will be effective. This does depend on the procurement method chosen.</p> <p><i>Lead time to start works</i></p> <p>This will depend on the size and nature of the project but assuming all designs and approvals are complete, typically 3 – 6 months. Note these can be done concurrently depending on the capacity of the procurement and delivery team in Council.</p> <p><i>Interdependencies (planning and design, third parties etc)</i></p> <p>Physical works requires land acquisition, planning, consultation consenting and approvals, design and procurement to be complete prior to commencing.</p> <p><i>Annual delivery</i></p>	<p><i>Interdependencies (planning and design, third parties etc)</i></p> <p><i>Annual delivery</i></p> <p><i>Access to appropriately skilled resource</i></p>

	Council delivery	External delivery	Blended delivery
	<p>though there may be other incentives that could be offered which may be attractive to parts of the workforce.</p>	<p>Using this method Council has on average delivered 79% of its LTP in the last four years.</p> <p><i>Access to appropriately skilled resource</i></p> <p>The advantage of going to the supplier market to deliver projects is that it allows Council to call on the right skills and equipment and materials to deliver projects. Notwithstanding current supply issues, this is the optimum approach to obtain high levels of expertise and technology.</p>	
WCC Priorities	<p><i>Functioning, resilient and reliable three waters infrastructure</i></p> <p>N/A</p> <p><i>Affordable, resilient and safe housing</i></p> <p>Under this option, council would have full control over the delivery of their housing programme.</p> <p><i>Core transport infrastructure is a safe, resilient, reliable network</i></p>	<p><i>Functioning, resilient and reliable three waters infrastructure</i></p> <p>Outside the scope of this report – currently delivered by Wellington Water</p> <p><i>Affordable, resilient and safe housing</i></p> <p>Assuming procurement is done correctly, external expertise and involvement can support this priority.</p>	<p><i>Functioning, resilient and reliable three waters infrastructure</i></p> <p><i>Affordable, resilient and safe housing</i></p> <p><i>Core transport infrastructure is a safe, resilient, reliable network</i></p>

Council delivery	External delivery	Blended delivery
<p>Under this option, Council would have full control over their cycleways programme and also works such as traffic signal replacements. Council would however, be accountable for safe delivery and safety of the travelling public.</p> <p><i>The city has resilient and fit-for-purpose community, creative and cultural spaces</i></p> <p>N/A</p> <p><i>An accelerating zero-carbon and waste-free transition</i></p> <p>While Council can mandate requirements of suppliers in this regard, this option would provide licence for council to adopt best practice in this area</p>	<p><i>Core transport infrastructure is a safe, resilient, reliable network</i></p> <p>Arguably, any issues with succeeding in this in the past have not been due to physical works and therefore external delivery is not a barrier to this priority.</p> <p><i>The city has resilient and fit-for-purpose community, creative and cultural spaces</i></p> <p>N/A</p> <p><i>An accelerating zero-carbon and waste-free transition</i></p> <p>Council can opt to make this a key requirement in tenders they put to the market, which would support this priority.</p>	<p><i>The city has resilient and fit-for-purpose community, creative and cultural spaces</i></p> <p><i>An accelerating zero-carbon and waste-free transition</i></p>

4 Summary of Option Suitability

Council has been using a model of external delivery of physical works (with the exception of parks and reserves works). Over the past four years this approach has resulted in an average 79% delivery of the programme (noting that the gap is not necessarily due to under-delivery of physical works).

As noted previously, other councils we have approached use a blend of external delivery with in-house delivery of some relatively simple works, for example water and building maintenance, parks and reserves. The three New Zealand councils had delivered averages of 57%, 66% and 86% of their LTPs over the past four years (note that the council that achieved 86% had one year where they over-delivered in increase LoS and without that would have been around 70%.)

Although this is a small sample size, there does not appear to be any immediately obvious improvement when self-delivering.

Specifically to give surety in delivery of the LTP programme

Etc

Set up CCTO – consultation etc would be into next FY earliest and then would need to find skills and equipment and win work against other contractors

Need to consider over LTP period and beyond to be objective (i.e. if it costs \$10m to establish a self-delivery entity, could more than this be saved through self-delivery over the duration of the LTP)

Include risks in each (e.g. scoping, RMA, land, consultation – some will apply to all)

Need to build capability in-house – will take time

Some stuff can be adapted from routine M&O

Suitability of skills across different types of work

Need some tension between in-house and external suppliers – tendency will be for in-house to get complacent and not approach commercially as they have a captive market. How to incentivise performance of in-house deliverer

5 Supplementary Ideas

Consent and design alliance / in-house delivery vehicle (seconded)

Delivery constraints as highlighted by the councils we have contacted (other than the ones discussed in the previous report)

- Pre-implementation work needs to be done and ready to deliver physical works
- Internal PMs are time-constrained
- Meeting legislative requirements while trying to deliver in a timely manner
- External PS suppliers are all tapped out - throwing money into the industry doesn't change that

How to mitigate

People is the constraints – bring back NZCE, cadets, training, investment into people etc – the broader outcomes. We can't solve the challenge without addressing the people aspect.

“Having projects and services advance planned/designed/ approved/contracted so the works can proceed as the new financial year commences.”

Design etc vs planned construction - % delivery.
Cycleways

Blockers / Gateways

“Money into the last part of the chain at the construction part isn't going to solve the issue. It exacerbates it”

All of these can put weeks or months into a programme

- PBC to DBC to Prelim Design to Detailed Design
- Resource consent
- CIA
- Change in priorities
- Land acquisition or access
- Procurement Plan
- Tender documentation
- RFT response and assessment
- Sign-off
- Award

Turn into diagram that illustrates how they can block and the impact

In-house delivery review briefing

Wellington City Council

1st March 2022





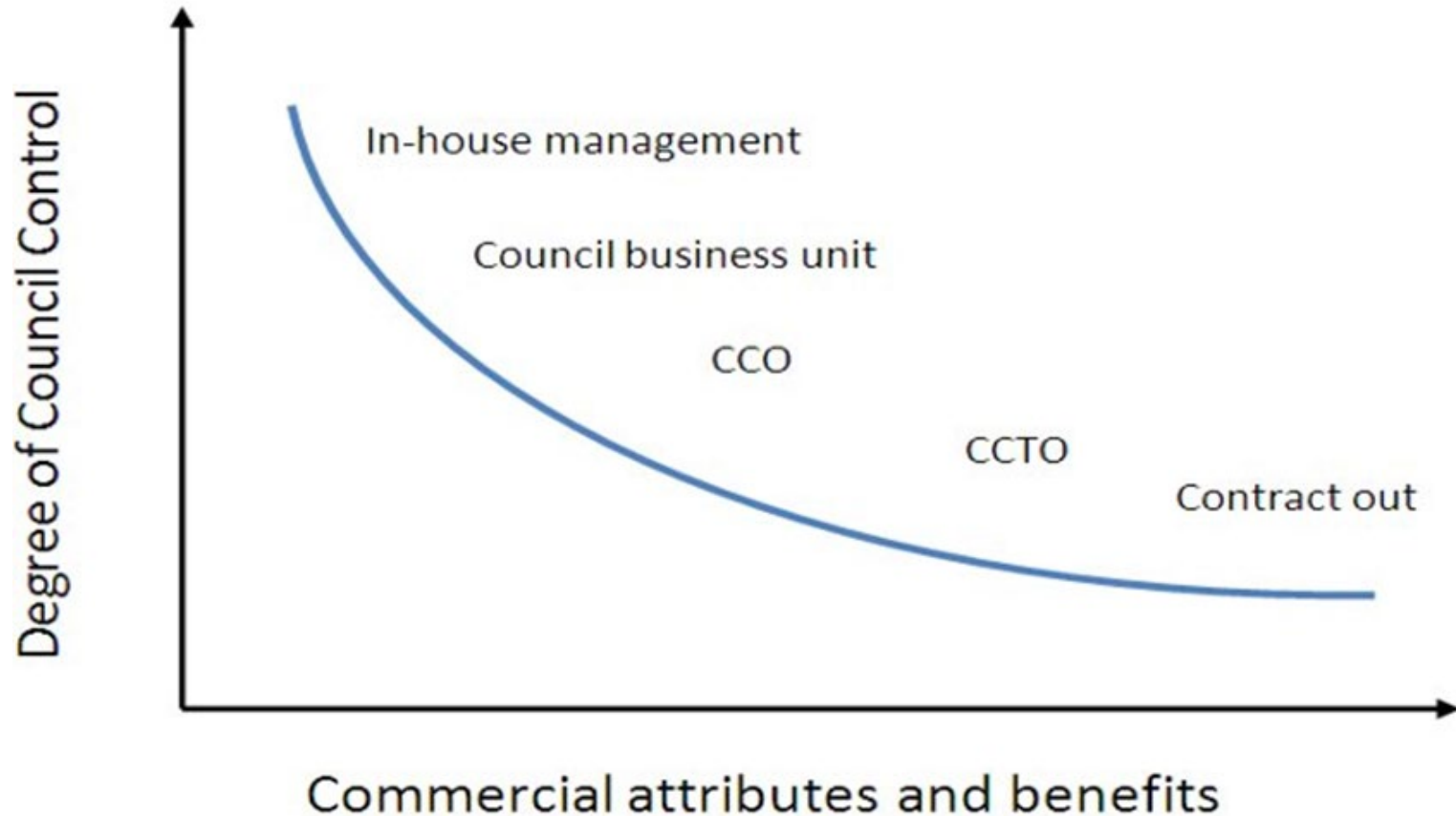
Contents

- Background and Context
- In-house entity considerations
- LTP review and work types
- Suitability for in-house delivery
 - What can and can't be done and why
- How else to get programme certainty?

Background

- Challenging industry and social environment for project delivery
- Council officers have been asked to investigate any benefits to predictable programme delivery through bringing physical works back in house
- WCC currently delivers around 80% of its LTP programme annually – above the national average
- A review has been undertaken to establish what improvements could be made on this
- Review summarised in this briefing

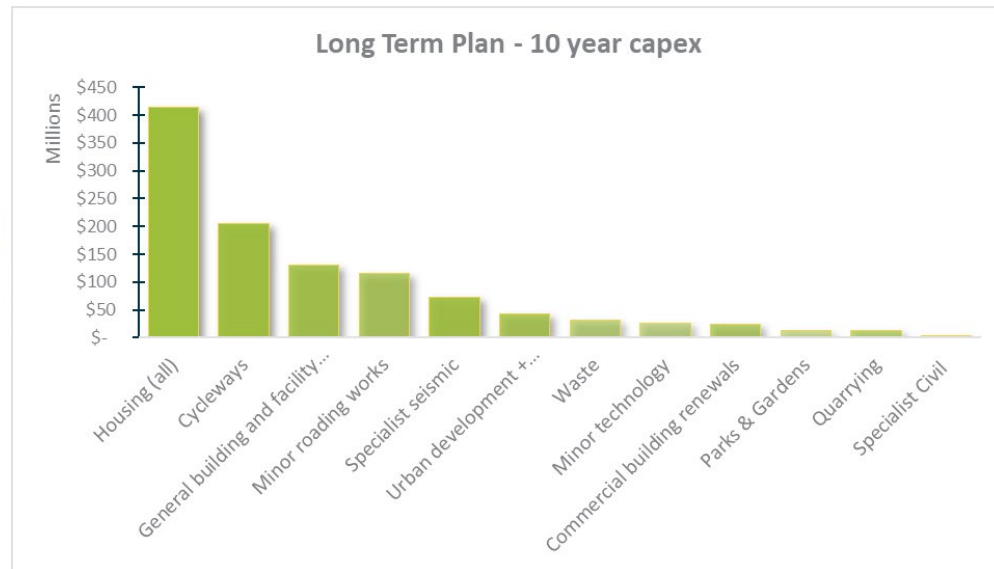
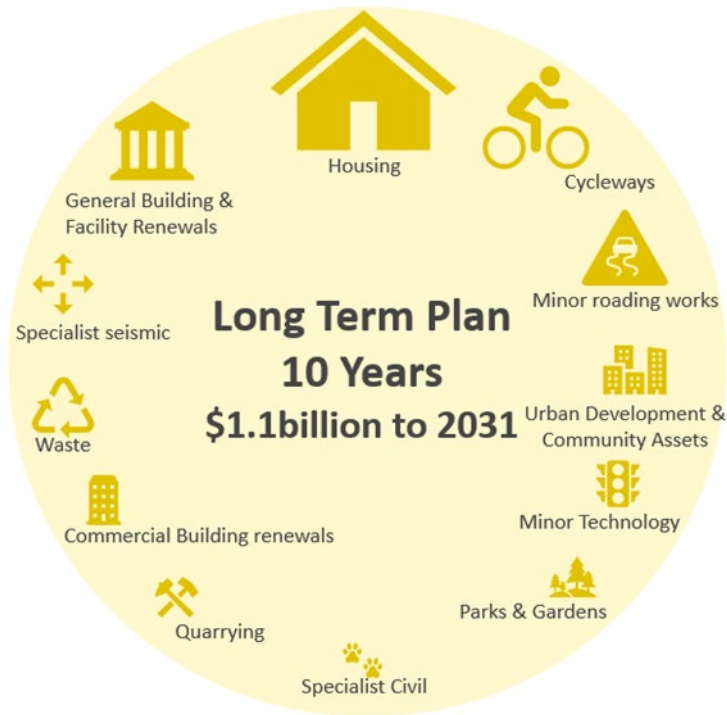
What in-house models are there?



Setting up an in-house entity



Physical works in the LTP



Some groupings of the work

Type	Notes
Housing (all)	<ul style="list-style-type: none"> ➤ Competing with Kāinga Ora for resource ➤ Requires both professional services and physical works ➤ High dependence on current external market comprising a wide range of size and type of suppliers
Cycleways	<ul style="list-style-type: none"> ➤ LTA applies – Council cannot self-deliver works ➤ Design could be done and managed in-house
Specialist seismic	<ul style="list-style-type: none"> ➤ Complex, high-risk work
General building and facility renewals	<ul style="list-style-type: none"> ➤ Due to size and nature of works, likely to be specialised and required specialised plant and expertise
Urban development & community assets	<ul style="list-style-type: none"> ➤ Potentially partly classed as roading works as they are on road corridors ➤ Urban design etc could potentially be done in-house
Minor roading works	<ul style="list-style-type: none"> ➤ LTA applies – Council cannot self-deliver
Commercial building renewals	<ul style="list-style-type: none"> ➤ Due to size and nature of works, likely to be specialised and required specialised plant and expertise
Quarrying	<ul style="list-style-type: none"> ➤ Specialist, heavy civil and quarrying operations
Waste	<ul style="list-style-type: none"> ➤ Heavy civil for landfill extension
Minor technology	<ul style="list-style-type: none"> ➤ Depends on whether classed as a roading activity (lighting, parking meters and traffic signals) or maintenance and renewals
Parks & Gardens	<ul style="list-style-type: none"> ➤ Retain in-house model as the expertise and knowledge is already in-house
Specialist Civil	<ul style="list-style-type: none"> ➤ Specialist works

External vs in-house [in theory]



Some work cannot be done in-house



Cycleway construction

Reason:
Land Transport & Management
Act (2003) applies

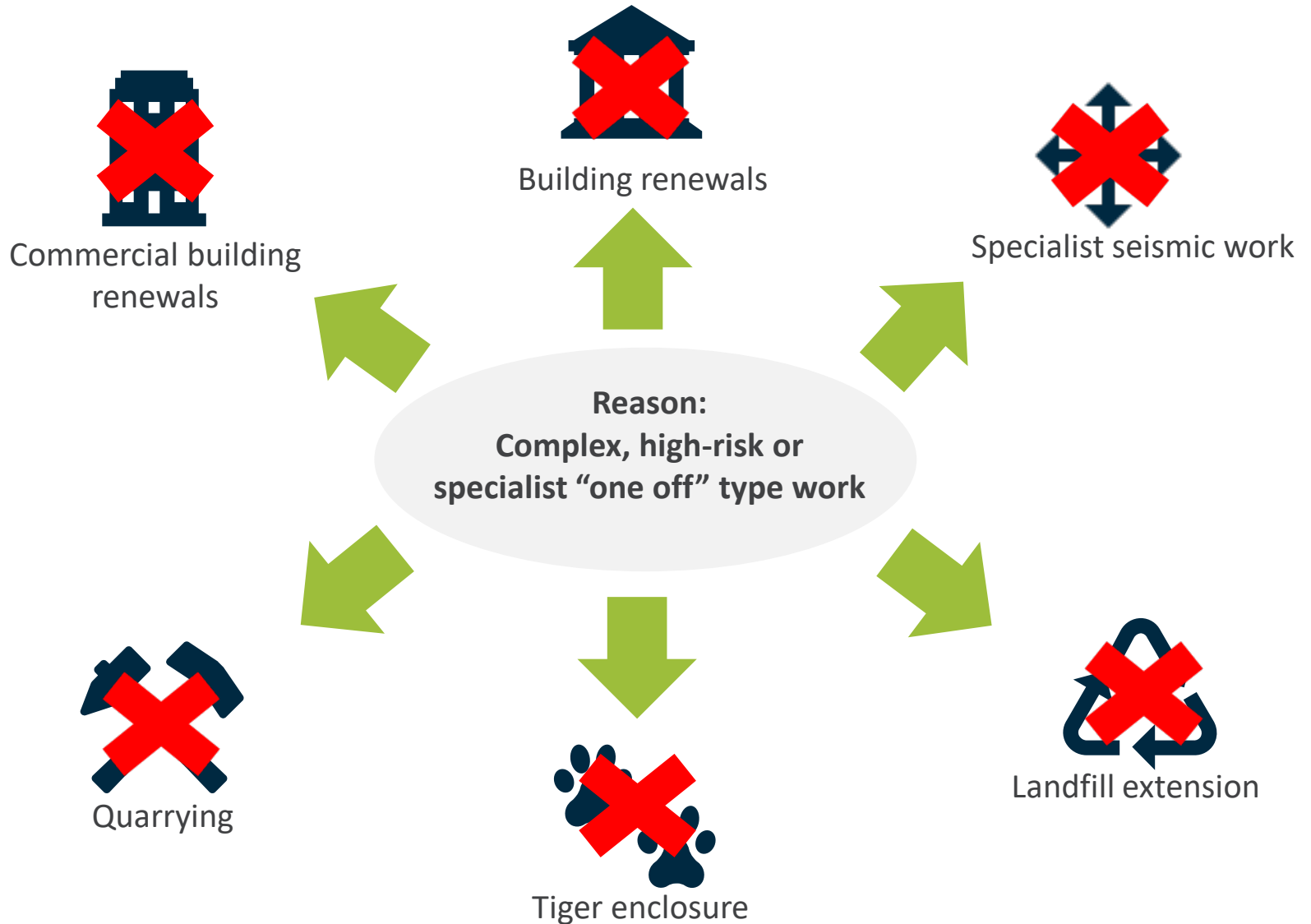


Minor roading works

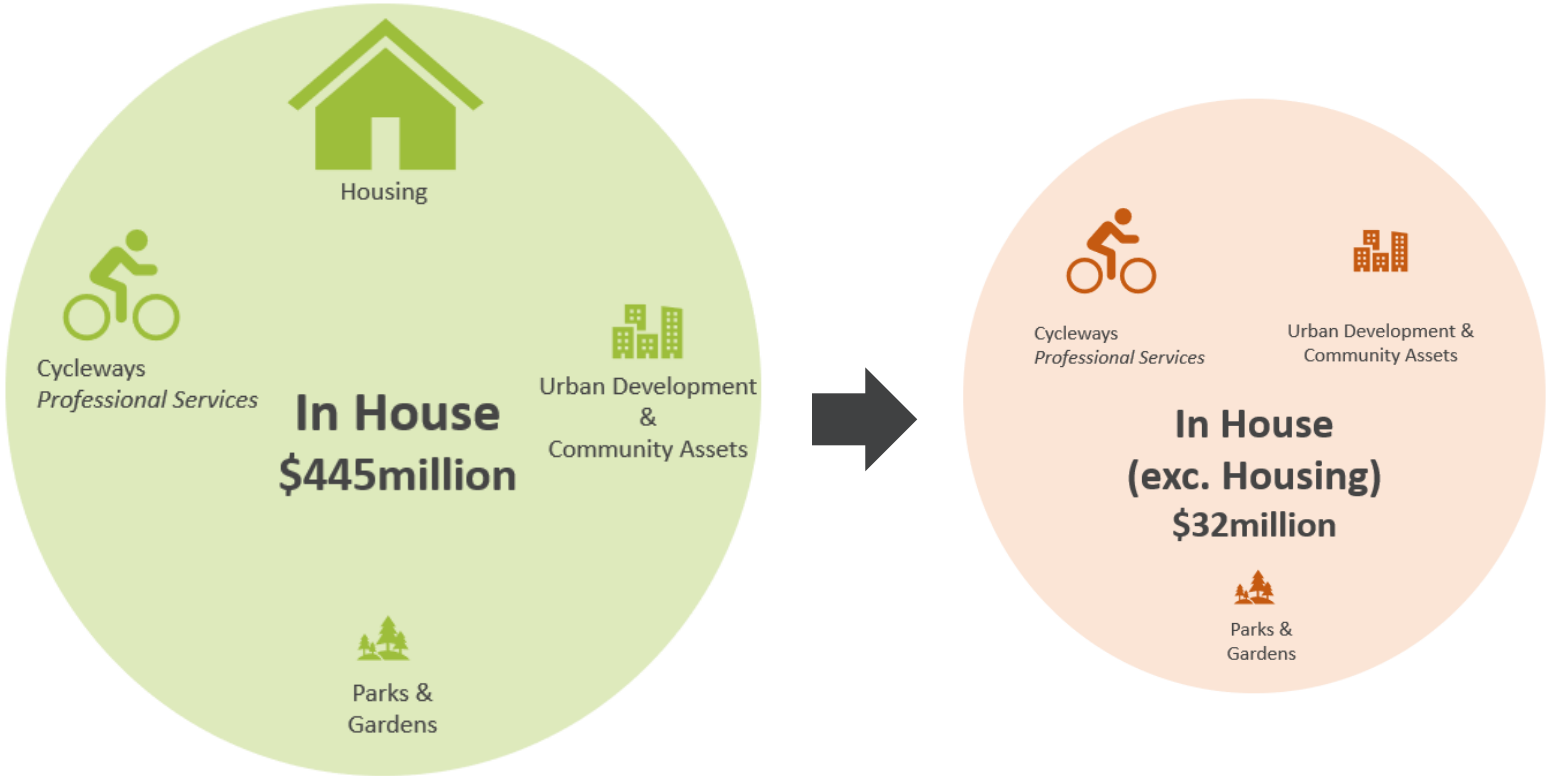


Traffic signals and parking meters
(minor technology)

Some work should not be done in-house



So what work is suitable?



What about housing?

- 90% of the potential “In House” value is housing (refurb, new build, maintain)
- WCC compete with Kāinga Ora for constrained resource
- Requires both professional services and physical works
- High dependence on a very diverse external market comprising a wide range of size and type of suppliers (sole traders)
- Would still need to sub-contract a significant amount of specialist skills and materials
- LGA requires specific processes for housing procurement which drives external procurement

What remains of the LTP?



Case Study – Traffic Management

- Legislation to consider:
 - CoPTTM
 - HSWA 2015
 - LTMA 2003
- Other considerations:
 - Certifications
 - Equipment
 - Plant
 - Accommodation
 - Labour
 - Software



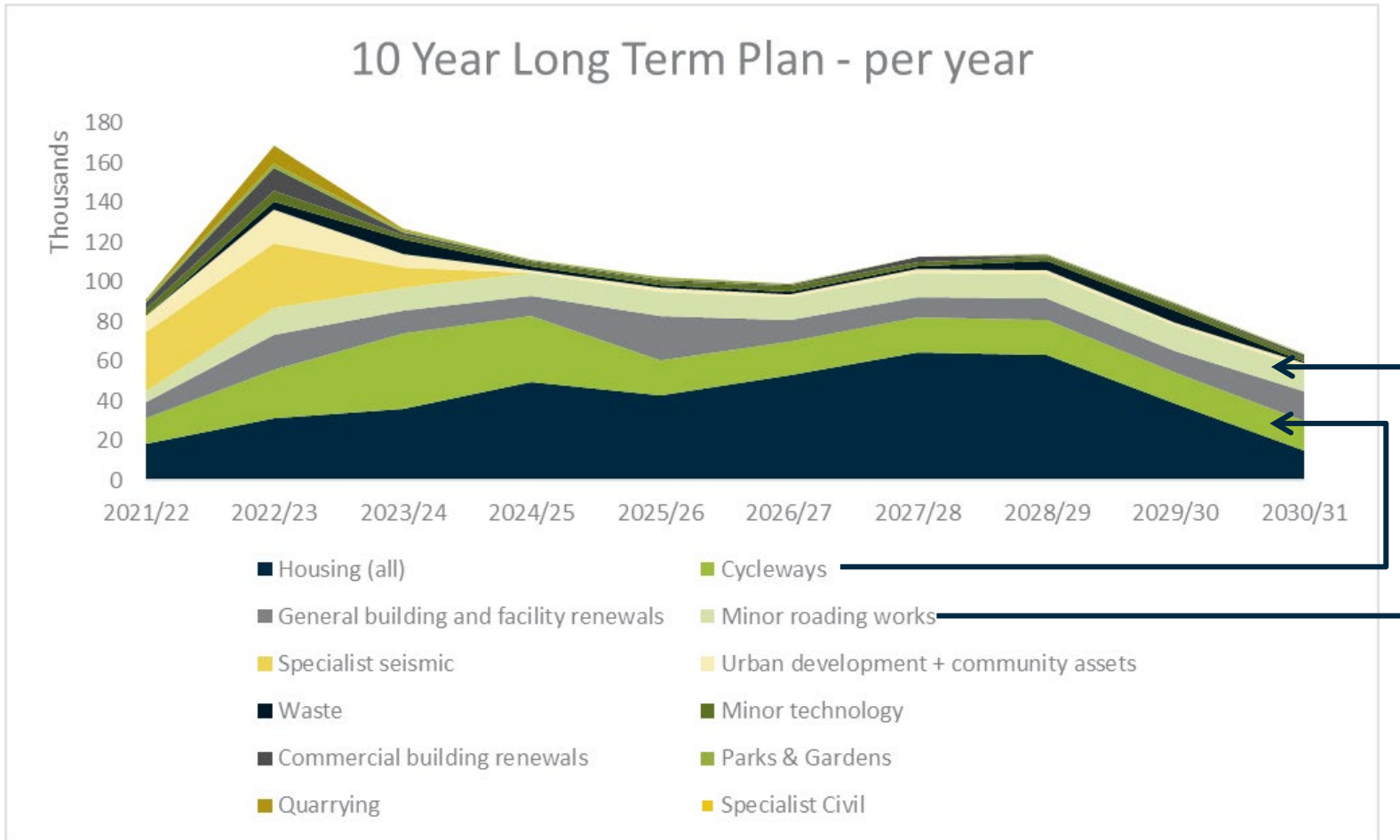
- Capex investment = \$2m to \$4m
- Ongoing Opex = \$7m to \$9m
- Resourcing in current labour market
- Competing with ourselves???

What would it look like to insource?

A CCTO for Transport?



A CCTO for Transport?



But then...



A CCTO will have to compete in the same market as WCC's current suppliers – how much will it win? Will it compete in other regional council markets?



Transport works peak around 2023/24 – highly unlikely to be able to mobilise a CCTO in this time



The length of time required to undertake consultation prior to setting up a CCTO and then establishing the entity is likely to mean that a significant portion of the transport-related work has already been delivered or allocated



In the current market, recruiting staff of the necessary skills and quality to create the CCTO will be highly challenging.



The establishment costs for a CCTO would need to be assessed to show the value being obtained by adopting this approach in lieu of a traditional external approach (on the work it would win)

So how else could you get greater certainty over delivery?



- Design
- Consent etc



- Programme confidence
- Cost control

In-house delivery review briefing

Wellington City Council

19th April 2022





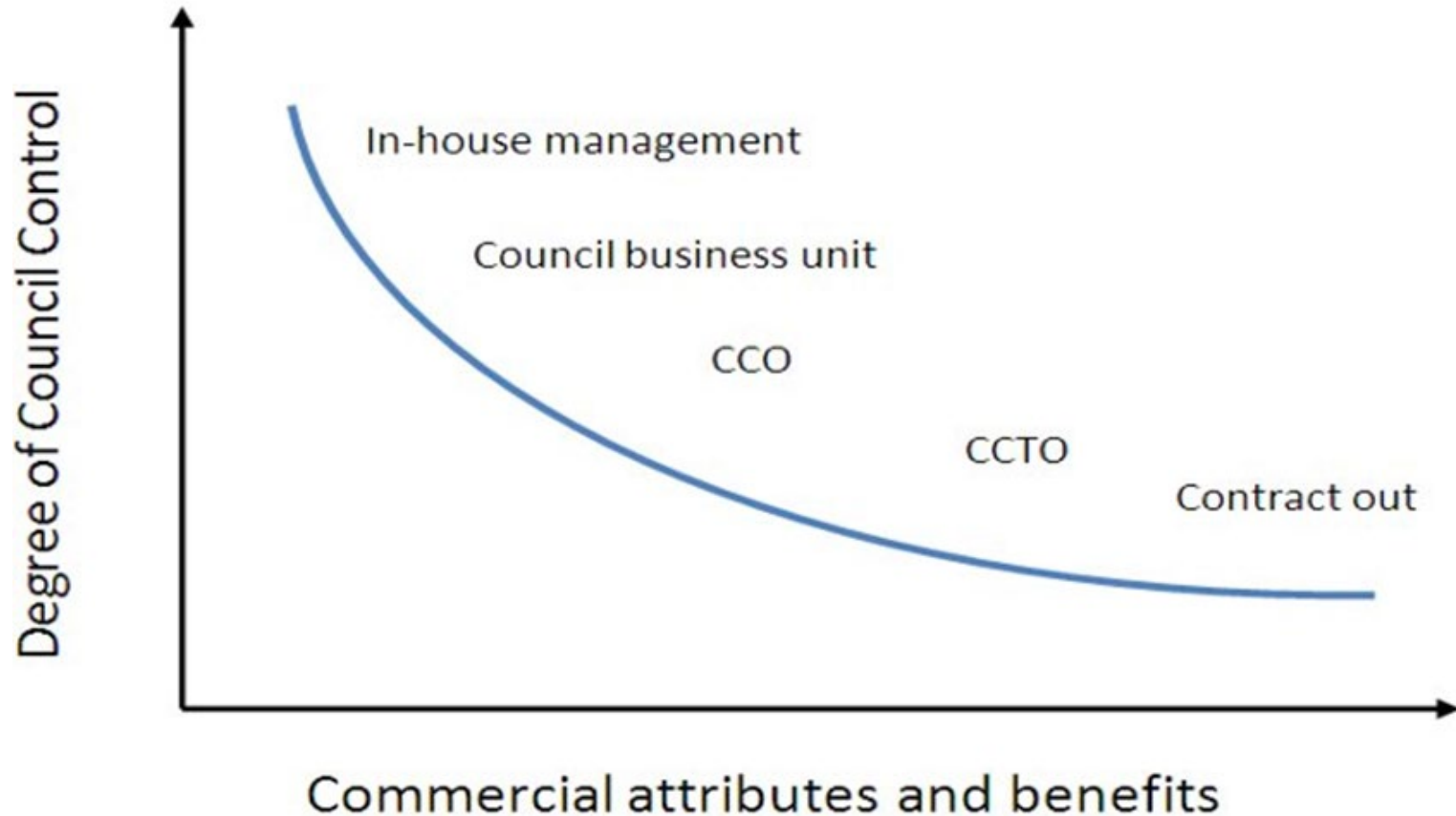
Contents

- Background and Context
- In-house entity considerations
- LTP review and work types
- Suitability for in-house delivery
 - What can and can't be done and why
- How else to get programme certainty?

Background

- Challenging industry and social environment for project delivery
- Council officers have been asked to investigate any benefits to predictable programme delivery through bringing physical works back in house
- WCC currently delivers around 80% of its LTP programme annually – above the national average
- A review has been undertaken to establish what improvements could be made on this
- Review summarised in this briefing

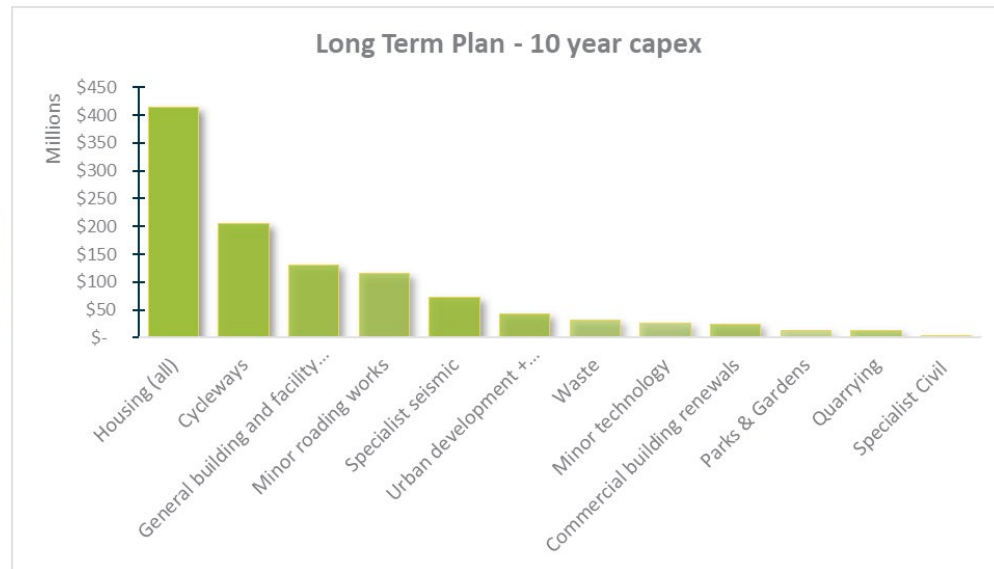
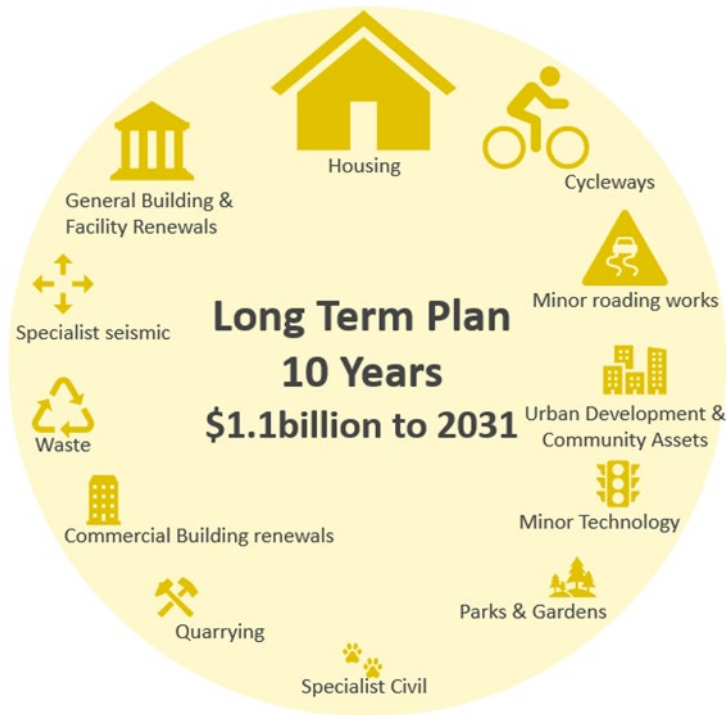
What in-house models are there?



Setting up an in-house entity



Physical works in the LTP



Some groupings of the work

Type	Notes
Housing (all)	<ul style="list-style-type: none"> ➤ Competing with Kāinga Ora for resource ➤ Requires both professional services and physical works ➤ High dependence on current external market comprising a wide range of size and type of suppliers
Cycleways	<ul style="list-style-type: none"> ➤ LTA applies – Council cannot self-deliver works ➤ Design could be done and managed in-house
Specialist seismic	<ul style="list-style-type: none"> ➤ Complex, high-risk work
General building and facility renewals	<ul style="list-style-type: none"> ➤ Due to size and nature of works, likely to be specialised and required specialised plant and expertise
Urban development & community assets	<ul style="list-style-type: none"> ➤ Potentially partly classed as roading works as they are on road corridors ➤ Urban design etc could potentially be done in-house
Minor roading works	<ul style="list-style-type: none"> ➤ LTA applies – Council cannot self-deliver
Commercial building renewals	<ul style="list-style-type: none"> ➤ Due to size and nature of works, likely to be specialised and required specialised plant and expertise
Quarrying	<ul style="list-style-type: none"> ➤ Specialist, heavy civil and quarrying operations
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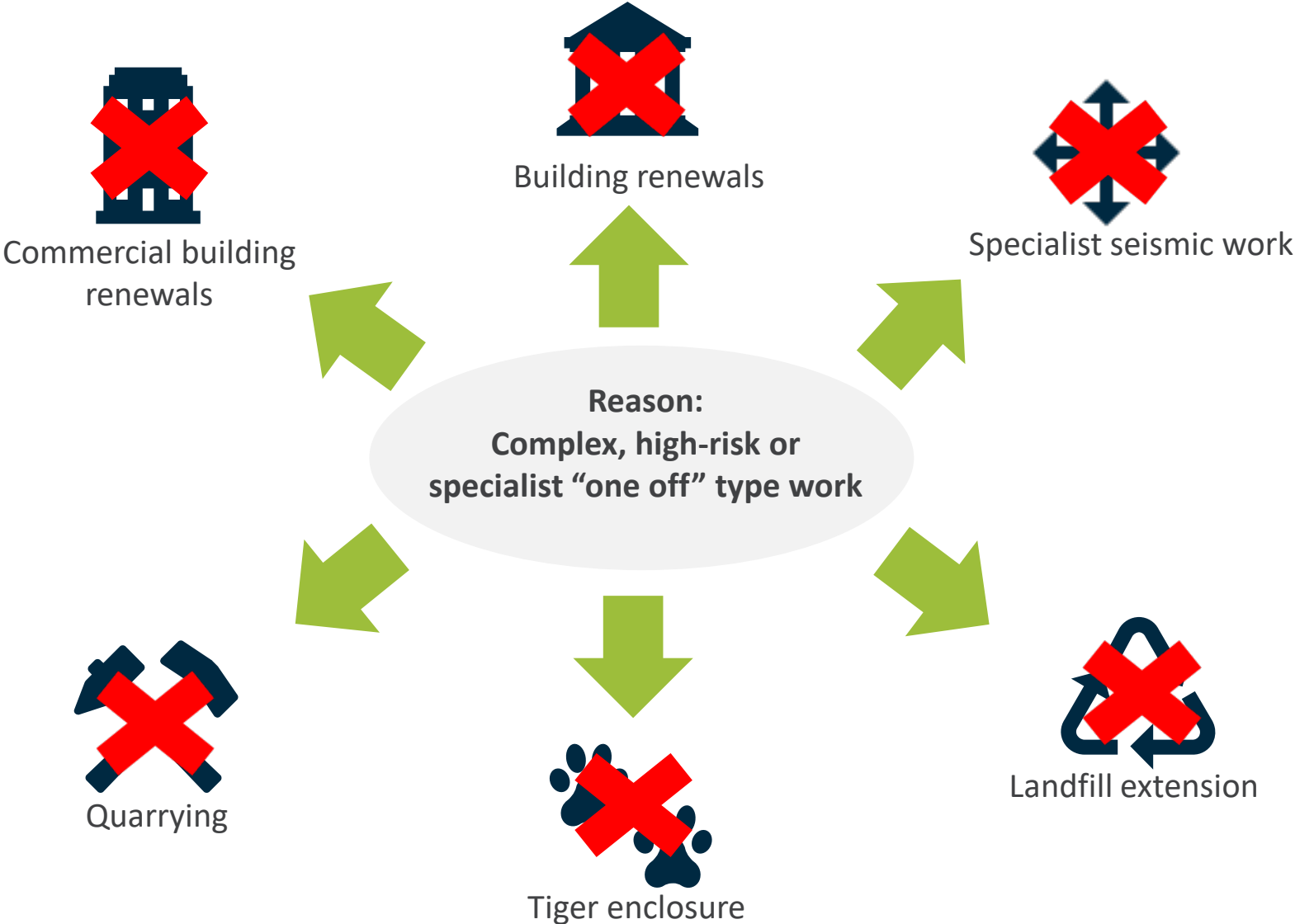


Minor roading works



Traffic signals and parking meters
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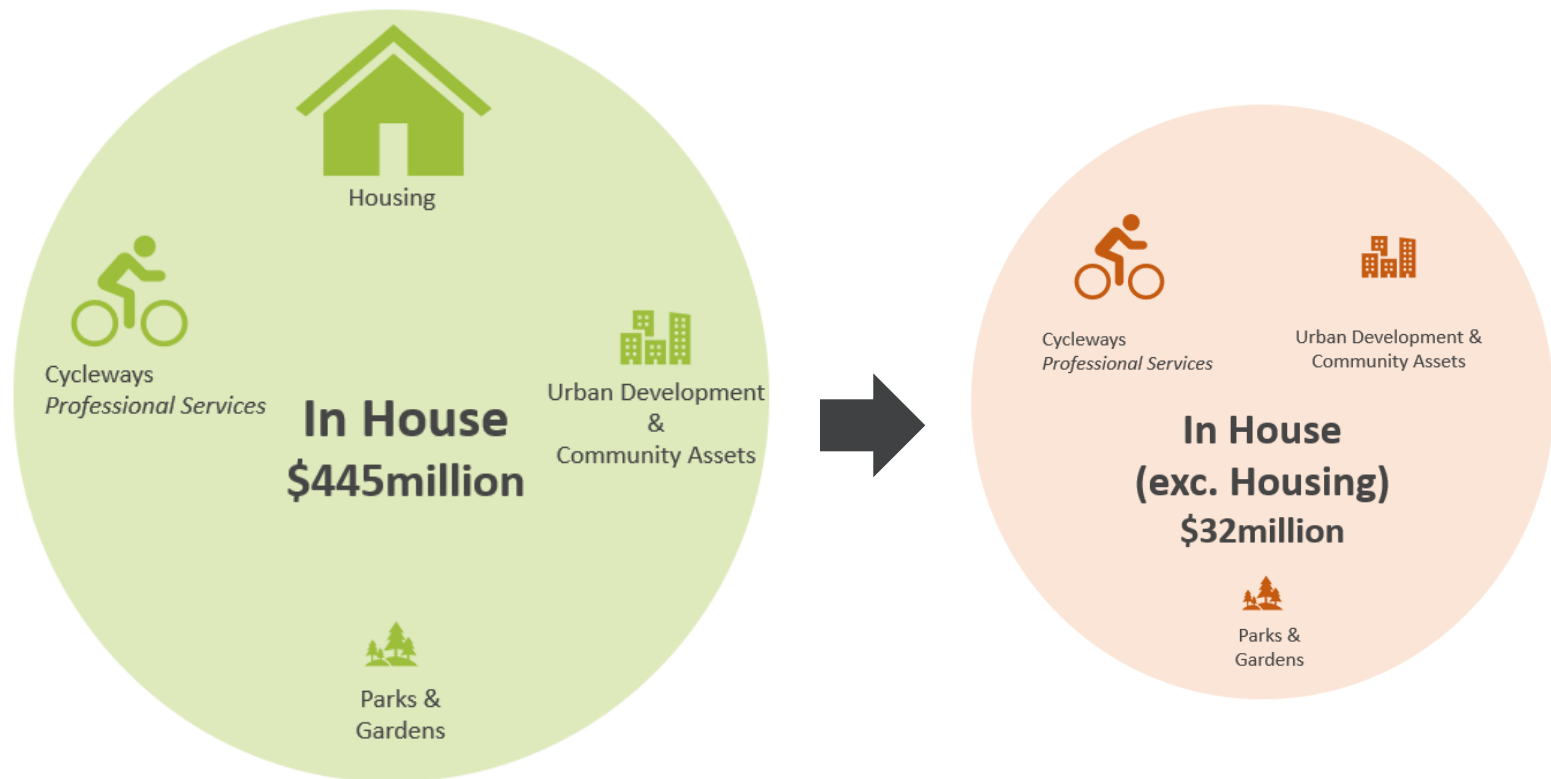
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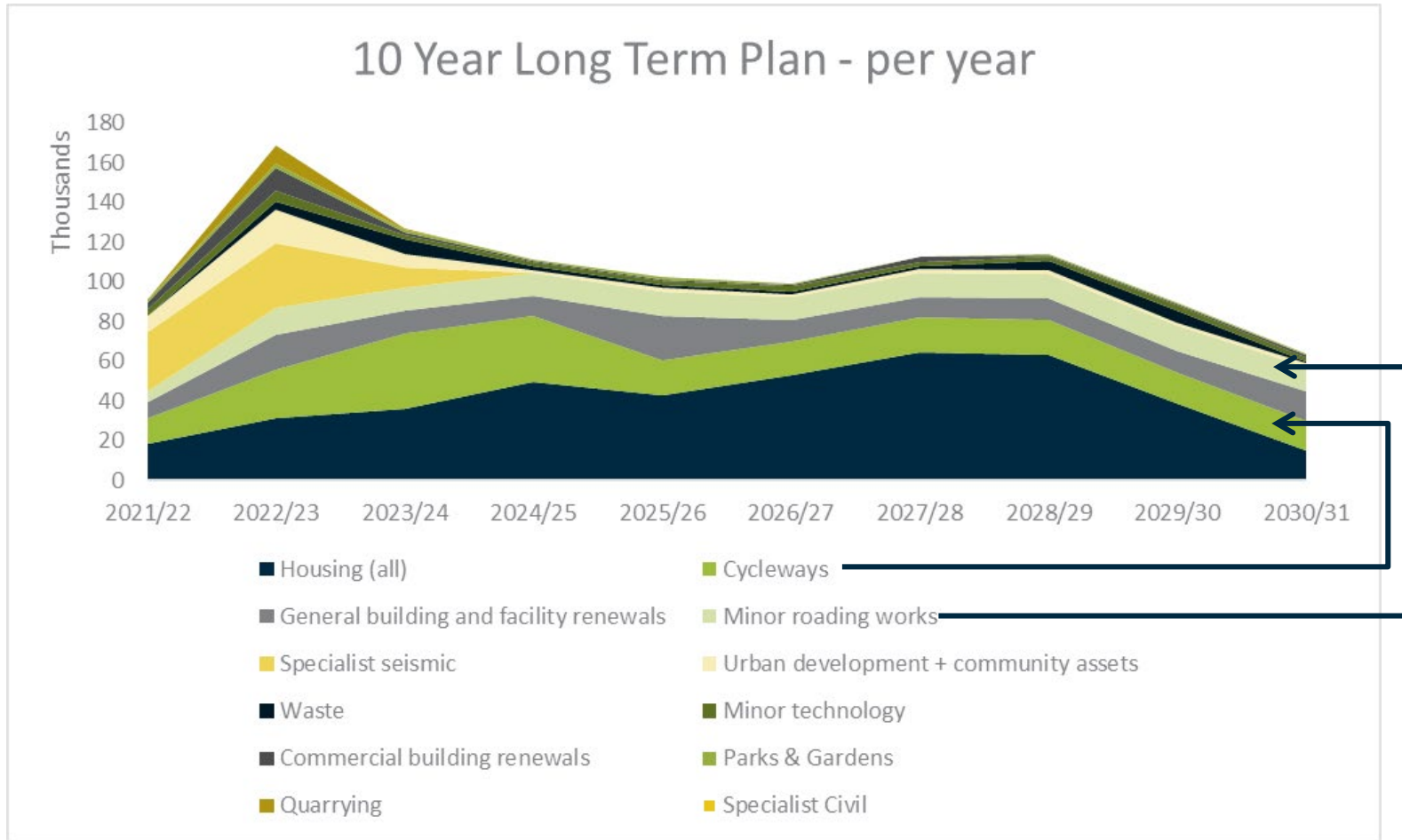


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So how else could you get greater certainty over delivery?



- Design
- Consent etc



- Programme confidence
- Cost control

From: Siobhan Procter
Sent: Tuesday, 19 April 2022 10:58 am
To: Councillor Sean Rush <Sean.Rush@wcc.govt.nz>; Councillor Jenny Condie <Jenny.Condie@wcc.govt.nz>
Cc: Rebecca Adams <Rebecca.Adams@wcc.govt.nz>
Subject: Delivery Models Briefing

Hi Sean and Jenny

Some context for today's briefing which I will use in my intro:

During the LTP deliberations, there was an informal request from Councillors for Officers to look into whether we would realise any cost efficiencies from insourcing traffic management.

A few months later, we presented a paper on the construction sector constraints which supported a re-phasing of the Capital Plan. There was a question asked at that meeting as to whether in-sourcing would assist with the deliverability of the capital plan.

This briefing has been prepared in response to those requests and presents the different delivery models that can be used to deliver a Councils' Long Term Plan.

We have with from Morrison Low:

Bruce Walton, Associate Director
Dan Bonifant, Managing Director

Bruce and Dan provided the independent view of the construction sector constraints presented to Council in November so it is great that they could follow on with an independent review on the delivery models available to us.

Brad Singh, our Manager, Transport and Infrastructure, Wellington City Council will also provide his insights into Traffic Management specifically.

Any questions – sing out

Siobhan Procter

Chief Infrastructure Officer | Infrastructure and Delivery | Wellington City Council

M [REDACTED] E siobhan.procter@wcc.govt.nz | W Wellington.govt.nz |

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Me Heke Ki Pōneke

From: Rebecca Adams
Sent: Monday, 4 April 2022 11:09 am
To: Bradley Singh <Bradley.Singh@wcc.govt.nz>
Subject: FW: Briefing confirmed - March 1st

Heya,

How's the plague? This was on the forward programme at ELT this morning, and Barbara is not comfortable, although it is some time since she has seen it, and Steven was comfortable with it. I wondered if you'd had a chance to add your case study. This is the latest message I can find on the preso, but I gather you and SP have talked about it further?

It'll be public so we'll need to get Comms across it too.

R

From: Bruce Walton | Morrison Low <b.walton@morrisonlow.com>
Sent: Monday, 28 February 2022 8:30 am
To: Rebecca Adams <Rebecca.Adams@wcc.govt.nz>; Dan Bonifant | Morrison Low <d.bonifant@morrisonlow.com>
Cc: Brad Singh <Bradley.Singh@wcc.govt.nz>
Subject: RE: Briefing confirmed - March 1st

Apologies – I got waylaid over the weekend.

Please find attached the updated slides. I think Brad was to do his case study after Slide 12 so we should probably work out how to dovetail that in – no issues from us to insert it if that's the easiest option.

Regards,
Bruce



Bruce Walton
Associate Director
Morrison Low
M: + [REDACTED]
b.walton@morrisonlow.com
www.morrisonlow.com

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From: Rebecca Adams <Rebecca.Adams@wcc.govt.nz>
Sent: Friday, 25 February 2022 5:44 pm
To: Dan Bonifant | Morrison Low <d.bonifant@morrisonlow.com>; Bruce Walton | Morrison Low <b.walton@morrisonlow.com>
Cc: Brad Singh <Bradley.Singh@wcc.govt.nz>
Subject: Re: Briefing confirmed - March 1st

Kia Ora,

I think Siobhan has resent you Tuesday's invite today but also wondering if we can check out the updated presentation on Monday?

Apologies for this late request, I'm confident you've got it all sorted but it has been a very busy couple of weeks and I've dropped the ball in terms of keeping in touch. I have some flexibility on Monday if you want to chat about anything or need me to chase anything up.

Hope you have a fantastic weekend.

Thanks
Rebecca

From: Dan Bonifant | Morrison Low <d.bonifant@morrisonlow.com>
Sent: Wednesday, February 2, 2022 5:01 PM
To: Rebecca Adams <Rebecca.Adams@wcc.govt.nz>; Bruce Walton | Morrison Low <b.walton@morrisonlow.com>
Cc: Brad Singh <Bradley.Singh@wcc.govt.nz>
Subject: RE: Briefing confirmed - March 1st

Thanks for confirming the date Rebecca

Cheers
Dan



Dan Bonifant
Managing Director
Morrison Low

M: [REDACTED]
d.bonifant@morrisonlow.com
<http://www.morrisonlow.com>

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From: Rebecca Adams <Rebecca.Adams@wcc.govt.nz>
Sent: Wednesday, 2 February 2022 4:27 pm
To: Bruce Walton | Morrison Low <b.walton@morrisonlow.com>; Dan Bonifant | Morrison Low <d.bonifant@morrisonlow.com>
Cc: Brad Singh <Bradley.Singh@wcc.govt.nz>
Subject: Briefing confirmed - March 1st

Kia Ora,

Good to meet you both today. We have confirmed a time for the presentation (Note that it is officially considered a briefing, rather than a workshop as we have been referring to it)

Briefing: Delivery Models
Tuesday 1 March 1:30-2:30pm

Briefing to provide Councillors with a high level assessment of the pros and cons of alternative delivery models for transport activities including traffic management, maintenance and capital delivery.

Key Officers: Brad Singh

ELT: Siobhan Proctor

We may have to think about reordering what we discussed today in order to emphasise alternate delivery models.

Thanks

R

Rebecca Adams (She/Her)

Chief Advisor to the Chief Infrastructure Officer

Wellington City Council

E @Rebecca.Adams@wcc.govt.nz | W Wellington.govt.nz |

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From: Rebecca Adams
Sent: Monday, 28 February 2022 11:21 am
To: Siobhan Procter <Siobhan.Procter@wcc.govt.nz>
Subject: FW: Morrison Low - insourcing ppt

From: Rebecca Adams
Sent: Monday, 28 February 2022 10:55 am
To: 'Siobhan Procter' <siobhan.procter@lgwm.nz>; 'Bradley Singh' <Bradley.Singh@wcc.govt.nz>
Subject: RE: Morrison Low - insourcing ppt

Sorry, we crossed in the ether. Brad have now updated your version. Latest V6.

From: Rebecca Adams
Sent: Monday, 28 February 2022 10:49 am
To: 'Siobhan Procter' <siobhan.procter@lgwm.nz>; Bradley Singh <Bradley.Singh@wcc.govt.nz>
Subject: Morrison Low - insourcing ppt

Kia Ora,

Morrison Low Presentation - I think it looks good, but have made changes for a couple of minor typos, Brad FYI we are working off V5 now.

Siobhan our notes are that Brad's case study section is after slide 12. Brad if you want help with slides let me know. I could draft a couple based on your original in-sourcing paper? We'll just have to let ML know our approach.

Rebecca

Rebecca Adams (She/Her)

Chief Advisor to the Chief Infrastructure Officer
Wellington City Council

E @Rebecca.Adams@wcc.govt.nz | W Wellington.govt.nz |  

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From: Siobhan Procter
Sent: Monday, 28 February 2022 3:34 pm
To: Sean Johnson <Sean.Johnson@wcc.govt.nz>; Jennifer Parker <Jennifer.Parker@wcc.govt.nz>
Subject: FW: Delivery Models Briefing - postponement

Hi guys

Now for the easy part.....
....can you suggest suitable dates for the rescheduled briefing per chance?

S

From: Siobhan Procter <Siobhan.Procter@wcc.govt.nz>
Sent: Monday, 28 February 2022 2:24 pm
To: GRP: Councillors <Councillors@wcc.govt.nz>; Liz Kelly <Liz.Kelly@wcc.govt.nz>
Cc: GRP: Executive Leadership Team (ELT) <GRP_ExecutiveLeadershipTeam_ELT@wcc.govt.nz>; Brad Singh <Bradley.Singh@wcc.govt.nz>; Rebecca Adams <Rebecca.Adams@wcc.govt.nz>; Jennifer Parker <Jennifer.Parker@wcc.govt.nz>; Sean Johnson <Sean.Johnson@wcc.govt.nz>
Subject: Delivery Models Briefing - postponement

Kia Ora Mayor and Councillors,

Unfortunately, due to the unavailability of key personnel, we need to postpone tomorrow's briefing:

High-level assessment of the pros and cons of alternative delivery models for transport activities including traffic management, maintenance, and capital delivery.

My apologies for the short notice. We will be in touch again soon to arrange another date.

Ngā mihi

Siobhan Procter

Chief Infrastructure Officer | Infrastructure and Delivery | Wellington City Council
M [REDACTED] E siobhan.procter@wcc.govt.nz | W Wellington.govt.nz |

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Me Heke Ki Pōneke

From: Siobhan Procter <Siobhan.Procter@wcc.govt.nz>
Sent: Wednesday, 20 April 2022 3:44 pm
To: GRP: Councillors <Councillors@wcc.govt.nz>; Liz Kelly <Liz.Kelly@wcc.govt.nz>
Cc: GRP: Executive Leadership Team (ELT) <GRP_ExecutiveLeadershipTeam_EL@wcc.govt.nz>; Rebecca Adams <Rebecca.Adams@wcc.govt.nz>; Brad Singh <Bradley.Singh@wcc.govt.nz>
Subject: FW: Morrison Lowe and Bike lanes

Kia ora Councillors

Please find enclosed the presentation from yesterday's presentation on Delivery Models.

In response to Councillor Fitzsimons query below:

The part of the LTA that states that council (or any approved organisation) cannot self-deliver is Section 25 (4). The Procurement Plan section of the Waka Kotahi manual states that this must be adhered to (Section 4.3 is of note and is based on the understanding that an approved organisation will want to encourage a healthy supplier market).

Section 25 states that: *"It is a condition of every procurement procedure that the Agency or an approved organisation must procure outputs from a provider other than the Agency or that organisation (as the case may require), or its employees."*

The notes around in-house professional services are in Section 26 and the rules that sit under this more generally are in the Waka Kotahi procurement manual which need to be in conjunction with the Act to get the complete picture.

For example, Morrison Low looked at inhouse delivery from a capital works perspective and the impact on the LTP, part (5) says: *"However, nothing in subsection (4) prevents an approved organisation from procuring from the organisation's own business units the provision of minor and ancillary works on terms approved by the Agency."*

The Waka Kotahi funding manual further provides that 'minor and ancillary works' (delivered through an approved Business Unit – which comes with its own set of rules, as does the use of in-house professional services) are all minor maintenance activities, not capital works and therefore not the \$208m of cycleways or \$115M of roading works in the LTP.

The link to the Act is here:

<https://www.legislation.govt.nz/act/public/2003/0118/77.0/DLM227500.html> and Waka Kotahi procurement manual Sections 4.3 and 10.20:

<https://www.nzta.govt.nz/assets/resources/procurement-manual/docs/procurement-manual-amendment-6-april-2022.pdf>

It's also worth noting Government Procurement Rule 16 – Broader Outcomes applies which again is fundamentally about creating a bigger, more skilful and safer construction supplier sector and which is mandatory and is intended to deliver better social outcomes.

Regards

Siobhan Procter

Chief Infrastructure Officer | Infrastructure and Delivery | Wellington City Council

M [REDACTED] E siobhan.procter@wcc.govt.nz | W Wellington.govt.nz |

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**Absolutely Positively
Wellington City Council**

Me Heke Ki Pōneke

From: Councillor Fleur Fitzsimons <Fleur.Fitzsimons@wcc.govt.nz>

Sent: Tuesday, 19 April 2022 4:31 pm

To: Siobhan Procter <Siobhan.Procter@wcc.govt.nz>

Subject: Morrison Lowe and Bike lanes

Hi there,

Can you please send Councillors a copy of the report from today's workshop?

They agreed to come back to me with details about why the Council is not able to deliver co-funded projects such a cycleways in-house.

I would appreciate getting the advice on this please.

Thanks

Fleur

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From: Rebecca Adams
Sent: Monday, 31 January 2022 9:24 am
To: Monique Vincent <Monique.Vincent@wcc.govt.nz>
Subject: FW: Scope for High level review of service delivery

Kia Ora Monique,

I'm on leave tomorrow, and tied up this afternoon, so Weds is better for me if there is any way you can make Brad's diary work!

R

From: Bruce Walton | Morrison Low <b.walton@morrisonlow.com>
Sent: Monday, 31 January 2022 8:21 am
To: Brad Singh <Bradley.Singh@wcc.govt.nz>; Dan Bonifant | Morrison Low <d.bonifant@morrisonlow.com>
Cc: Monique Vincent <Monique.Vincent@wcc.govt.nz>; Rebecca Adams <Rebecca.Adams@wcc.govt.nz>
Subject: RE: Scope for High level review of service delivery

Thanks Brad.

Dan and I have a reasonable amount of time this afternoon and also Tue and Wed afternoons to go through the brief if you and Rebecca are free?

FYI Dan is on leave on 11th and I have some existing meetings so we'd be happy to catch up on 10th if that works?

Cheers,
Bruce



Bruce Walton
Associate Director
Morrison Low
M: +[REDACTED]
b.walton@morrisonlow.com
www.morrisonlow.com

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From: Brad Singh <Bradley.Singh@wcc.govt.nz>
Sent: Monday, 31 January 2022 5:55 am
To: Bruce Walton | Morrison Low <b.walton@morrisonlow.com>; Dan Bonifant | Morrison Low <d.bonifant@morrisonlow.com>
Cc: Monique Vincent <Monique.Vincent@wcc.govt.nz>; Rebecca Adams <Rebecca.Adams@wcc.govt.nz>
Subject: FW: Scope for High level review of service delivery

Hi Dan & Bruce

As we discussed last week – see below bullet points from Siobhan for the workshop with councillors.

Let me know your availability and I'll arrange a meeting with yourselves & Rebecca to discuss approach further.

Cheers
Brad

From: Siobhan Procter <Siobhan.Procter@wcc.govt.nz>

Sent: Sunday, 30 January 2022 8:03 pm

To: Brad Singh <Bradley.Singh@wcc.govt.nz>; Rebecca Adams <Rebecca.Adams@wcc.govt.nz>; Baz Kaufman <Baz.Kaufman@wcc.govt.nz>; Stephen McArthur <Stephen.McArthur@wcc.govt.nz>; Kirsty Kernahan <Kirsty.Kernahan@wcc.govt.nz>

Cc: Moana Mackey <Moana.Mackey@wcc.govt.nz>

Subject: Scope for High level review of service delivery

Hi team

Having now had the opportunity to reflect on our conversation earlier this week, I suggest the scope of the review and presentation to be as follows:

What's the problem we are trying to solve?

- Initial informal request from Councillors was in relation to Traffic Management as it "appeared" to be very expensive and could we deliver it for a lower cost?
- Scope of high level review was increased following our paper on Construction sector resource constraints – could insourcing be a way to provide better certainty for capital delivery

Scope of high level review - transport services such as operations, maintenance and capital delivery

Current state

- 50% funded by WK – requirements on delivery imposed by funding partner
- Maintenance contract with 2 providers to ensure both price and quality tension. Also provides resilience – living that now with Covid – contractors can cover if one is short on resource
 - Strong emphasis on collaboration with strong performance management framework to ensure quality service delivery
 - Contract has well established governance and contract management expertise across it – competitive tender every 5 years
 - Separate contracts for traffic signals and street lighting
- Operations – we have an in house operations team which look after the day to day operations of the traffic signals
- Capital Delivery – we use our maintenance contract for minor works and for the first 2 transitional cycleways. For larger projects including seawalls, bridges, tunnels etc, we tender – thereby getting competitive price tension
- Traffic management is provided for as part of our maintenance contract or as required for individual capex projects
- Anything else? -Brad

Genesis of Review

- Question as to whether traffic management could be self-delivered at a lower cost than currently
- Capital delivery constraints paper delivered at November Infracom meeting – question from Councillors as to whether we would be better insourcing to provide delivery certainty
- Anything else? - **anyone**

Delivery options

- Current state
- CCO
- CCTO
- Completely insource

Pros and cons of each option

Case study of traffic management – to work with Brad

- Our role as regulator and importance of keeping separation between the TMP design and execution and regulation
- Why does it cost so much – it's a super important function and human resource intensive
- Estimated cost of self delivery versus current model
- Pros and cons of in source vs outsource
- Is there a high level case to change and if not why not?

Conclusion of high level review

If there are any ideas/ comments on this approach – please feel free to provide them

Suggest Brad continues to lead this and takes it forward with Morrison Lowe in a meeting early this week – Brad, please include Rebecca.

We should run through draft presentation with Morrison Lowe on 11 February or earlier if they can – **Kirsty – can you please book in an hour placeholder on 11 Feb for now.**

Cheers

Siobhan Procter

Chief Infrastructure Officer | Infrastructure and Delivery | Wellington City Council

M [REDACTED] E siobhan.procter@wcc.govt.nz | W Wellington.govt.nz | [REDACTED]

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**Absolutely Positively
Wellington City Council**

Me Heke Ki Pōneke

From: Rebecca Adams
Sent: Wednesday, 19 January 2022 4:58 pm
To: Geoff Lawson <Geoff.Lawson@wcc.govt.nz>
Subject: RE: Bringing services back in-house

Perfect, thanks Geoff.

R

From: Geoff Lawson <Geoff.Lawson@wcc.govt.nz>
Sent: Wednesday, 19 January 2022 4:20 pm
To: Rebecca Adams <Rebecca.Adams@wcc.govt.nz>
Subject: RE: Bringing services back in-house

Yes Baz is back on Tuesday and is probably a better person than me on this one. S17A is a bit murky but it is something that lines up with our business planning/service planning approach that we are trying to work through at the moment.

So maybe we can set something up for early next week?

Geoff

Geoff Lawson

Team Leader, Policy | Strategy, Policy & Research | Wellington City Council

P 04 803 8098 | M [REDACTED]

E geoff.lawson@wcc.govt.nz | W Wellington.govt.nz |

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Me Heke Ki Pōneke

From: Rebecca Adams <Rebecca.Adams@wcc.govt.nz>
Sent: 19 January 2022 09:51
To: Geoff Lawson <Geoff.Lawson@wcc.govt.nz>
Subject: FW: Bringing services back in-house

Hiya Geoff,

Looks like Baz is MIA. Can you help me out with this, or let me know who the right person might be please?

R

From: Rebecca Adams
Sent: Wednesday, 19 January 2022 9:50 am

To: Baz Kaufman <Baz.Kaufman@wcc.govt.nz>

Subject: FW: Bringing services back in-house

Kia Ora,

I have landed this gem as my first priority. I'd like to talk through the implications of a 17a review with someone from your team please – can you let me know who'd be best so I can flick an invite. Pretty tight timelines (obvs!)

R

From: Brad Singh <Bradley.Singh@wcc.govt.nz>

Sent: Tuesday, 14 December 2021 11:22 am

To: Baz Kaufman <Baz.Kaufman@wcc.govt.nz>; Siobhan Procter <Siobhan.Procter@wcc.govt.nz>; Sara Hay <Sara.Hay@wcc.govt.nz>; Stephen McArthur <Stephen.McArthur@wcc.govt.nz>

Cc: Geoffrey Coe <Geoffrey.Coe@wcc.govt.nz>

Subject: RE: Bringing services back in-house

Guessing here but I assume it was generated from the forward work programme and then speaking to the councillors. Wasn't really an amendment, more of a councillor request....

I'm holding the pen on the report and have engaged Morrison Low to do an independent review – at this stage, the work we are doing isn't exhaustive enough to undertake a section 17a review, but we are mentioning that should the council wish to progress this further, a review would need to be undertaken

From: Baz Kaufman <Baz.Kaufman@wcc.govt.nz>

Sent: Tuesday, 14 December 2021 8:22 am

To: Siobhan Procter <Siobhan.Procter@wcc.govt.nz>; Sara Hay <Sara.Hay@wcc.govt.nz>; Stephen McArthur <Stephen.McArthur@wcc.govt.nz>

Cc: Geoffrey Coe <Geoffrey.Coe@wcc.govt.nz>; Brad Singh <Bradley.Singh@wcc.govt.nz>

Subject: Bringing services back in-house

Hi team

Not sure where this story originated <https://www.stuff.co.nz/dominion-post/news/wellington/127263730/trash-water-roads-wellington-council-looking-at-bringing-it-all-back-inhouse>, but presume it's the result of an amendment at committee.

I'm not sure who is doing the work, but it will be worth considering whether the review is done at a scale where we can say it has met all the requirements of 17A of the LGA <https://www.legislation.govt.nz/act/public/2002/0084/latest/DLM6236168.htm>. That will save the organisation having to do it down the line again which would be inefficient

Happy to chat through any of the above

Cheers

Baz

!

Baz Kaufman
Manager Strategy Policy and Research
Wellington City Council
M: [REDACTED]

From: Bruce Walton | Morrison Low <b.walton@morrisonlow.com>
Sent: Tuesday, 19 April 2022 9:01 am
To: Rebecca Adams <Rebecca.Adams@wcc.govt.nz>; Brad Singh <Bradley.Singh@wcc.govt.nz>
Cc: Dan Bonifant | Morrison Low <d.bonifant@morrisonlow.com>
Subject: RE: Delivery models presentation notes please

Morning Rebecca and Brad,

Here is the final version of the presentation for today. It isn't much different from the version we ran through with the team at the end of Feb but takes into the feedback from then and also has today's date on it.

Will it be possible for someone to drive the slides when we present please (unless we can do it as we go)?

Regards,
Bruce



Bruce Walton
Associate Director
Morrison Low
M: +[REDACTED]
b.walton@morrisonlow.com
www.morrisonlow.com

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From: Rebecca Adams <Rebecca.Adams@wcc.govt.nz>
Sent: Tuesday, 12 April 2022 11:33 am
To: Bruce Walton | Morrison Low <b.walton@morrisonlow.com>
Cc: Dan Bonifant | Morrison Low <d.bonifant@morrisonlow.com>
Subject: RE: Delivery models presentation notes please

Hi Bruce,

Just confirming it would be great if you could attend in person please.

Rebecca

From: Rebecca Adams
Sent: Tuesday, 12 April 2022 9:54 am
To: Bruce Walton | Morrison Low <b.walton@morrisonlow.com>
Subject: RE: Delivery models presentation notes please

Kia Ora Bruce,

Yes we are on track for next week, we are moving to Hybris Council meetings, so I expect we'd like you to come in, but I will double check the protocol for visitors with our Democracy Services team.

R

From: Bruce Walton | Morrison Low <b.walton@morrisonlow.com>
Sent: Monday, 11 April 2022 12:00 pm
To: Rebecca Adams <Rebecca.Adams@wcc.govt.nz>
Subject: RE: Delivery models presentation notes please

Hi Rebecca,

Just double-checking the meeting is still taking place next week and will it be on Zoom or shall we come up to the Terrace?

Cheers,
Bruce



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From: Rebecca Adams <Rebecca.Adams@wcc.govt.nz>
Sent: Wednesday, 6 April 2022 2:01 pm
To: Bruce Walton | Morrison Low <b.walton@morrisonlow.com>
Subject: RE: Delivery models presentation notes please

Thanks, that's brilliant.

R

From: Bruce Walton | Morrison Low <b.walton@morrisonlow.com>
Sent: Wednesday, 6 April 2022 1:26 pm
To: Rebecca Adams <Rebecca.Adams@wcc.govt.nz>
Subject: RE: Delivery models presentation notes please

Hi Rebecca,

Sure no problem – I've attached the original presentation with the notes pages and also the separate "script" for the presentation.

Dan is in client workshops all day for the rest of the week but if you need anything further please let me know.

Regards,
Bruce



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From: Rebecca Adams <Rebecca.Adams@wcc.govt.nz>
Sent: Wednesday, 6 April 2022 12:13 pm
To: Bruce Walton | Morrison Low <b.walton@morrisonlow.com>
Subject: Delivery models presentation notes please

Kia Ora Bruce,

I was wondering if you could share your notes for the Delivery Models presentation please? As Barbara was in and out of our meeting with protest phone calls, she'd like to feel more confident with our approach.

We are planning to run through the presentation with the Manager Gov't Relations and Special Projects tomorrow, and try to find some time with Barbara too.

Happy for these to be in whatever form you use them in!

Rebecca

Rebecca Adams (She/Her)

Chief Advisor to the Chief Infrastructure Officer
Wellington City Council

E @Rebecca.Adams@wcc.govt.nz | W Wellington.govt.nz |  

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INFORMATION PAPER

1. PURPOSE

This paper provides a high-level view of the viability of in-house physical works as a solution to the risks associated with constraints in the construction market.

2. Detailed evaluation of the viability of insourcing is a significant task. This paper provides a high-level view only, but includes a traffic management case study, from which some key considerations may be extrapolated.

BACKGROUND

3. At the Finance and Performance Committee (18 November 2021) the Council unanimously voted to reschedule some of the 2021/22 annual capex programme due to construction market constraints on material supply, physical works suppliers and professional services.
4. Councillors requested Officers investigate insourcing physical works as a protentional solution to the risks associated with the constraints in the construction market.
5. During Long Term Plan considerations, Councillors requested Officers investigate specifically the insourcing of the traffic management function.
6. An independent review of options for insourcing physical works was commissioned in 2021 (Appendix 1)

CONTEXT

Council

7. Wellington City Council is currently delivering the most ambitious capital works programme in its history.
8. Council uses a model of external delivery of physical works (except for parks and reserves works). Over the past four years this approach has resulted in an average 79% delivery of the programme.
9. Other councils in New Zealand use a blend of external and in-house delivery for simple works such as water and building maintenance, parks and reserves (maintenance?)
10. Three New Zealand councils approached for the independent report (Morrison Low, appendix 1) delivered respective averages of 57%, 66% and

86% of their Long Term Plans over the same period. *Note the council delivering 86%, over-delivered **Level of Service** in one year, without which delivery would have been approximately 70% of Long Term Plan.*

Industry

11. Construction labour shortages are at their highest since 1975. In late 2021 there were estimated to be approximately 3,229 vacancies across 135 construction firms.
12. With pandemic pressure continuing to slow skilled migration, 90% of firms reported difficulty recruiting in New Zealand, with 66% receiving no local applicants.
- 13.

Summary of Morrison Low Review

Review of in-house Physical Works Concept

The focus of review is in house delivery of physical works. In order to understand how appropriate this is, other approaches have also been considered.

The objective of any new delivery model would be reliable, predictable Long Term Plan delivery.

According to the report in-house physical works business unit or entity designed to deliver the entire Long Term Plan would result in a large and inefficient entity. Therefore, the analysis breaks the Long Term Plan down by the nature, scale and complexity of the work programmes.

Delivery Models Considered

In-house

Creation of a new council business unit

Creation of a Council Controlled Organisation (CCO)

Creation of a Council Controlled Trading Organisation (CCTO)

Delivery through a business unit or CCO / CCTO

Outsourced

Panel – following a procurement and selection process to qualify

Traditional contact

Alliance

Hybrid approach

A blend of the above across the Long Term Plan programme.

Analysis

Each option was analysed to identify associated risks and benefits, and potential to support the WCC three-year priorities.

Summary of Assessment

Approximately 58% of the value of the projects in the current Long Term Plan should not be delivered fully in-house due to their nature (scale, uniqueness and technical complexity) in some cases in-house delivery is prohibited by the requirements of the LTMA. The existing parks and reserves work us already done internally.

Of the reminder approximately 90% is housing projects. An in-house entity could act as a head contractor and sub-contract the specialist skills and materials; however, this would put Council in competition with the market, risking relationships with suppliers. In-house delivery would also entail increased liability.

Maintenance and professional services relating to design and consenting could be delivered in house but would be unlikely to provide any meaningful advantage to reliable and predictable delivery of the Long Term Plan programme.

While project costs might appear to be lower, they do not account for set up or overheads. It is possible that any efficiencies in works delivery over a ten-year LTP could offset the establishment costs of creating an in-house unit.

No evidence was found to show that an in-house model improves the amount of work delivery annually compared to external models.

CASE STUDY – TRAFFIC MANAGEMENT

Background

Council operates a mixed model for Temporary Traffic Management (TTM) – In-house delivery of low-risk activities and outsourcing of high-risk activities.

The approximate cost of TTM over the past three years is NZD\$1.5m per annum. Road maintenance contracts managed by Transport & Infrastructure business unit account for the largest part of this.

Health and Safety

A change from the current model would signal an acceptance of significant risk should a serious injury or fatality result from inadequate traffic management.

Council would need lift capability across the discipline including in systems such as Near Miss and Incident Recording and Reporting, WorkSafe Reporting of Notifiable Incidents, and the Certified Incident Cause Analysis Method.

Adherence to the Code of Practice for Temporary Traffic Management

The Waka Kotahi Code of Practice for Temporary Traffic Management (CoPTTM) is the best practice guideline for TTM in New Zealand. It is not a statutory document but carries weight with coroners and the Environment Court.

The CoPTTM is currently being reviewed. Changes for TTM include a certification for Traffic Management Plan (TMP) specialists. (Anecdotal?) Temporary Traffic Management contractors are struggling to fulfil the certification requirement.

Land Transport Management Act 2003

The Land Transport Management Act (LTMA) governs the funding mechanism between Waka Kotahi and Council. Deviation from the LTMA would result in a breach in Waka Kotahi's Procurement Manual rules and may have implications on the level of funding provided by Waka Kotahi.

It is possible to mitigate this risk by setting up a subsidiary, such as a Council Controlled Organisation (CCO) and contracting them to deliver physical works. This approach is used by the Napier City Council.

Delivery through a Council Controlled Organisation

Delivery through a CCO has implications including:

- Resources required to set up a new organisation.
- The ability of the CCO to contract their services to other organisations
- Additional transactions required, with the CCO fundamentally treated as a contractor

High Level Costs of In-house TTM

Building an in-house TTM model requires Council investment. Some costs are detailed below in Table 1:

Table 1 – Estimated Costs

	Low Estimate	High Estimate
<i>Attenuator Trucks</i>	\$ 2,000,000	\$ 2,500,000
<i>Other vehicles</i>	\$ 400,000	\$ 600,000
<i>Variable Message Sign boards</i>	\$ 50,000	\$ 62,500
<i>Site Traffic Management Specialist</i>	\$ 720,000	\$ 900,000
<i>Traffic Controller</i>	\$ 2,720,000	\$ 3,400,000
<i>Labour</i>	\$ 3,250,000	\$ 4,550,000
<i>TMP writers</i>	\$ 400,000	\$ 700,000
<i>Training</i>	\$ 25,000	\$ 150,000
<i>Cones & delineators</i>	\$ 200,000	\$ 500,000
<i>Signs</i>	\$ 100,000	\$ 300,000
<i>Poles</i>	\$ 25,000	\$ 75,000
<i>PPE</i>	\$ 50,000	\$ 20,000
<i>Paddles</i>	\$ 2,250	\$ 6,750
<i>Rapid Plan</i>	\$ 180	\$ 315
<i>Pedestrian Ramps</i>	\$ 15,000	\$ 30,000
Total Capex Investment	\$ 2,842,430	\$ 4,094,565
Ongoing Opex Investment	\$ 7,115,000	\$ 9,700,000

Note this table is not exhaustive. Subject matter experts may identify additional costs.

Requirements

Certifications, software and functions will be required to run TTM in-house including:

- Traffic Management Plan (TMP) writer's certification per TMP writer
- Traffic Controller (TC) certification per TC
- Senior Traffic Management Supervisor (STMS) certification per STMS
- SiteSafe membership and SiteWise certification
- Health and Safety plan for TTM services
- Internal auditing function
- Software (ie RapidPlan) to develop TMP diagrams

Summary Analysis

Table 2 – Options analysis

	Description	Pros	Cons
In house model	<ul style="list-style-type: none"> Staff, plant and equipment to deliver TTM for whole of council. 	<ul style="list-style-type: none"> Increased Council control of: <ul style="list-style-type: none"> Management of network Allocation of resources Workflow of TTM Staff Health & Safety Revenue potential (servicing the other RCAs) Development opportunities for staff 	<ul style="list-style-type: none"> Capex investment required (\$2.5m to \$4m) Increased Opex costs (\$7m to \$10m pa) Requires Health and Safety capability uplift Waka Kotahi funding risks Management of resources (labour hire etc) Resourcing in a constrained market
No change	Maintain existing process – contracting TTM as required.	<ul style="list-style-type: none"> No new Capex or Opex investment No new management required H&S subject matter experts with Council maintaining responsibility as the RCA Maintain Waka Kotahi and LTMA compliance 	<ul style="list-style-type: none"> Council does not have direct control of services
TTM Contract	TTM contract to service whole of council.	<ul style="list-style-type: none"> Increased Council control of: <ul style="list-style-type: none"> Management of network Allocation of resources Workflow of TTM Health & Safety of staff Continuous improvement of TMP design and delivery Quality standardised service Greater control of Health & Safety Cost reduction potential 	<ul style="list-style-type: none"> Relationships contractors may suffer with if TTM removed Potential variation claims from maintenance contractors & need to procure another contractor - potential to double current cost Additional contract management Uncertainty of potential cost savings

Table 3 – Multi Criteria Analysis of options

The scores are rated from 1 (least risk/ greatest benefit) to 5 (greatest risk/ last benefit).

Weighting	40%	30%	20%	10%	
Options	Safety risk	Cost to Council	Customer impact	Management requirements	Score
In house model	4	5	2	5	4.00
No change	3	3	3	3	3.00
TTM Contract	3	4	3	4	3.40

Ratings:	1 (Good)	2	3 (Current)	4	5 (Bad)
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Appendix 1

Independent Review of Options for Insourcing Physical Works, Morrison Low.