

## Network Outcomes Contract Governance & Management Group Clarification

Reference Number:	NOCC No. 27
Subject Title:	Maintenance Activity Cost Model
Issue Date:	29 September 2017
Clarification Purpose	Clarification is provided to ensure the NOC is being interpreted consistently. The clarification does not remove or supersede the Network Outcomes Contract documentation.

## SUBJECT

A question has been raised about the ongoing need for contractors to maintain and annually review a Maintenance Activity Cost Model (as detailed in clause 5.2.3 of the Maintenance Specification).

There is a view that this may no longer be needed given the Agencies current NPV process now incorporates a model for predicting future maintenance costs.

## RESPONSE

For context, clause 5.2.3 of the MS is reproduced below:

### 5.2.3 Maintenance Activity Cost Model

The Contractor shall develop, maintain and report on a model relevant to the Network that records historical maintenance activity at treatment-length level and predicts future maintenance needs. This model is to be used in renewal economic assessment and performance predictions. The Contractor shall maintain this model based on actual maintenance activity incurred within the Network. The model will be formally reviewed annually at a workshop with the Principal.

There are a number of reasons why the Maintenance Activity Cost Model is important:

1. The Agencies NPV model is not perfect and there are a number of situations where the outputs are not robustly predicting sensible results.  
A typical example of this would be where there has been a large repair investment 3 or 4 years ago, with very little activity in the following couple of years. These types of unusual “peaks” can lead to a downward (or upward) trend which does not reflect reality.

In these situations, it is important to be able to fall back on a network specific Maintenance Activity Cost model to provide a sensibility check and a more realistic forecast, especially for the “Do minimum” option.

2. The Agency NPV model does not predict future maintenance costs post-construction. An important element of the Contractors’ Maintenance Activity Cost Model is that historical activity is utilised to provide realistic cost predictions after construction for each of the proposed renewal options on offer.
3. Contractors should find that a predictive model is an important tool in assessing the likely timing of renewal treatment decisions before carrying out full NPV analysis. The model should also be useful to help inform decisions on non-renewal sites (e.g. in the consideration of preventative maintenance options)

To conclude, this clarification is to confirm that a Maintenance Activity Cost Model (and its annual review) shall remain a requirement of the NOC contracts.