

Network Outcomes Contract Governance & Management Group Clarification

Reference Number:	NOCC No.36
Subject Title:	Renewal Quantity Management Reward
Issue Date:	July 2020
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

The Network Outcomes Contract encourages the Contractor to responsibly seek opportunities to manage the Network with fewer renewals (Rehabilitation and Asphaltic Concrete Surfacing) than those stated in the Principals baseline plans.

If the Contractor has used fewer pavement rehabilitations and asphalt renewals than are stated in the Baseline Plans by the end of the initial contract period and have achieved the full Contract term, then the Principal will consider a financial reward to the Contractor.

The financial reward is paid at the end of the Contract (includes any extensions granted).

BACKGROUND

Reference to Renewal Quantity Management Reward are included in;

- Maintenance Specification Section 2.4
- Appendix 2.4 Process Maps, and
- Basis of Payment Preamble
- Addendum B MMP Minimum Scope Content for Tender Phase

Maintenance Specification Section 2.4 states “The Principal reserves the right for the actual granting of a reward. Before the settlement of any base renewal preservation quantity management reward, the Principal will assess the following elements to determine the appropriateness of a reward:

- The future integrity of the Contractor’s final submitted ten-year forward works programme
- The Network condition and the Contractor’s consistent achievement of the pavement and surfacing-related OPMs
- The Contractor must have earned the full number of available contract years for the term of the contract.

IFT MMP Scope Description states;

“How the Contractor will proactively seek renewal investment levels below the stated base renewal preservation quantities within the contract and manage shared-risk elements of the services.

The objective is to put a focus on the importance of minimising the renewal investment levels and understand the initiatives that the supplier will pursue to achieve this. The intent is that the base preservation quantities will not be exceeded and where possible reduced.

The strategy should provide an indication of what will change (what can be stretched and by how much) and the interventions that might be used to achieve this, for example,

- An increased emphasis on preventive maintenance (with examples),
- Reviewing the appropriateness of treatment lengths to address the genuine area of need”.

To this end the network condition should not deteriorate in response to doing less renewals because those alternative strategies should have resulted in the same condition outcome.”

MS Section 2.4 requires a reward to be paid at the end of the Contract Period. The mechanism requires a comparison between the Principals cumulative Baseline Plan at time of tender (Pavement Rehabilitation and Asphaltic Surfacing) and the Contractors Cumulative Achievement of that plan. These plans were set at the time of tender and covered the initial contract period, they did not allow for any contract extensions.

In the context of the end of Contract reward calculation, ‘Do Something’ treatments that do not involve pavement rehabilitation or AC surfacing are not included in the accumulated length, even when fully funded by Waka Kotahi. Where a ‘Do Something’ treatment involves a combination of AC/Rehab and other inputs (e.g. extensive drainage), then the Rehabilitation and/or AC lane length component used shall be included in the annual renewal achievement reporting figures.

CONTRACT EXTENSIONS

NZS3910 allows for contract extensions to be granted by the Principal. The granting of extensions in the NOC is based on the Contractors achievement measured in accordance with KRA framework. The Contractor accepts that any extensions will be covered by the existing contract terms and conditions and that lump sums and rates are adjusted in accordance with the contracts cost fluctuations for granted contract extensions.

The base preservation quantities did not account for contract extensions. It is imperative that the Contractor has maintained the 10-year FWP over the term of the Contract and have copied these to the Principal so that the 10-year FWP submitted a year prior to the contract extension can be assessed for stability and integrity in comparison to previous submitted FWP’s.

For the contract extension period there is no set renewal investment level, however the Contractor is expected to have signalled these quantities with the FWP, Annual Plan and Network Statement submissions. The Principal will endeavour to fund what is best for the network (justified) and can afford to financially. Failure to invest above or below the quantities in the most recent 10-year FWP will not result in either a reduction or increase to the Contractors pavement maintenance lump sum.

The Principal will carefully consider how the Contractor has maintained the network for the period of the contract extension, prior to granting any reward

PROCESS FOR ASSESSING ACHIEVEMENT

Any Contract Reward is paid at the end of the Contract Period (includes any extensions granted). The Principal's tender cumulative base preservation lane lengths is the reference point to compare what the Contractor has achieved. The reference point and Contractors achievement does not include any quantities delivered as part of contract extensions.

If an end of Contract reward is foreseen (at least 12 months out is ideal), the Contractor should signal their assessment of the reward due and the Maintenance Contract Manager should engage the Technical Advice Team (Asset Integrator) to step back from the reward calculation and determine if the under-use of pavement rehabilitation or Thin AC renewals has been achieved responsibly.

The questions that the Contractor needs to satisfy for the Principal include:

1. That Principal initiated improvement works (e.g. capital projects, risk exclusions) resulting in sites being removed from the program have not been an influence on reduced investment levels
2. Assessment of the level of renewal quantity transference between renewal preservation types such that the quantities of another renewal preservation type have not been significantly impacted. Such that the preservation quantities will not be exceeded (IFT)
3. The future integrity of the Contractor's final submitted ten-year forward works programme

The intent is that the FWP for future years beyond the scheduled Contract Period (excludes any extensions) is and has been stable and appears to present no issues to the Transport Agency. This will be assessed by:

- Outputs from the annual modelling demonstrating the preservation quantities are optimally distributed across the network (refer MS 5.2.2). So that observed deterioration rates match those predicted with ongoing refinements over the contract period. Programme integrity is confirmed when the average annual projected quantities are within an acceptable tolerance (10%) of annual average
 - Confirmation that the Network maintenance FWP has been maintained and annually updated (refer MS 5.2.2)
 - Reviewing the comments from RAPT over the period of the contract, particularly the feedback from the last year of the Contract period
 - The alignment of the program and what the projected quantities are in the FWP for the extensions and new contract period
 - RAPT review requires more sites to come into the program than was promoted. RAPT alignment scores greater than 85% for future years assessed
4. The Network condition and the Contractor's consistent achievement of the pavement and surfacing-related OPMs

The intent is that the investment levels determined for the contract were enough to ensure the network condition remained stable along with the Contractors preventive and reactive maintenance strategies. This will be assessed by:

- Implementation of the Contractors MMP. The Contractors effectiveness measures and any Waka Kotahi reviews, including RAPT comments would be good indicators of achievement

- Assessing whether the specific MMP management approaches taken to reduce the need for renewal works have been implemented
- National Pavement Condition Report. Review outputs over the period of the Contract considering deterioration
- Compare the actual condition at the end of the contract term with that forecast in the modelling carried out at the time of tender for rutting and roughness
- Results of the Post Construction Design assessments are in line with the quality outcomes expected of the treatments provided

5. The Contractor must have earned the full number of available contract years for the term of the contract

The recommendation of any Renewal Quantity Management reward will be via the Contract Board, to the Principal.

WORKED CALCULATION EXAMPLE

Initial Contract Period = 5 years, plus 2 years contract extension, achieved

Principal Cumulative Tendered Rehabilitation Baseline Plan = 50 lane.km (5years)

Contractors Cumulative Rehabilitation Achievement = 40 lane.km (5years)

Contractors tendered rate Base Pavement Rehabilitation No.1 rate (Schedule of Prices, Section 4, Schedule Item 6.2.1.1) = \$20m²

MS Section 2.4, For the purposes of the reward calculation, the average sealed-lane width has been assessed as 3.5m

*Calculation = 0.15 x 20 x ((50-40) x 1000) x 3.5 = **\$105,000.00 Reward***