Operations and Maintenance Contract Specification

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<td>Sub group of the Delivery Model Working Group</td>
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<tr>
<td>Subject</td>
<td>Philosophy Summary Statement, for the new Operations and Maintenance Outcome Contract Specification</td>
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**Purpose**

1. To highlight the philosophical principles incorporated into the new Operations and Maintenance Outcome Contract (OMOC) Delivery Model, and to summarise some of the key concepts underpinning the specification.

**Action**

2. The NZTA is now seeking your input and views on the draft Operations and Maintenance Outcome Contract specification.

**Points of Clarification**

3. The contract specification is considered to be 75% complete. This has been staged so that the reader can influence and input into the final contract specification thus supporting a consultative approach.

4. Two areas still requiring significant review and input are:
   a. Agreement on the Key Result Areas and the development of an industry friendly Performance Management Guideline,
   b. The Contract Standard for each Operational Performance Measures for physical works still needs to be broken down into their new state highway classifications and the contract standard for defect non-compliance.

**Background**

5. The State Highway M&O review has been running for over 12 months. The review was established in response to the funding signals included in the 2012/15 Government Policy Statement.

6. Five service delivery proposals were discussed during a country wide consultation process in August and September 2012, seeking views from the supply chain and Local Authorities.

7. One of the five proposals was for the development of a new M & O contract delivery model. The consultation resulted in predominant support for a new contract delivery model.

8. A further proposal was for the inclusion of contract incentives. The consultation resulted in wide support for better contract incentives.

9. Based on the analysis and research completed by the M & O work group and the principles arising from the Root Cause Analysis, the new contract delivery model has taken cognizance of the outputs arising from the detailed analysis.
New Model Philosophy

10. NZTA has chosen to develop a primary supplier contract model, which combines management and maintenance activities into a single contract between the Principal and a Primary supplier (consultant or contractor).

11. Features, lessons learnt and developments from the NZTA’s current suite of Hybrid, Traditional, PSMC and Alliance models have been considered in developing the new model.

12. The **Primary Supplier** will be supported by;
   
a. Sub-contractors who will provide a minimum value of 20% of the primary supplier’s annual lump sum. Note, achievement of the minimum **20% must be by sub-contractors** who have no affiliation to the primary supplier and this also excludes consultants.
   
b. Consultants who will provide engineering inputs and technical services.

13. The **Principal** will be supported by a **Principal’s Advisor(s)** to;
   
c. Provide specialist services and advice,
   
d. Complement and assist the Principal where additional skills and or capabilities are required,

14. The **Principal** will still have and manage a number of other contracts outside the primary suppliers contract agreement; examples of these other contracts include but are not limited to, bridge management, capital projects, traffic counting and traffic operations centres.

15. The open book style performance framework required to be developed and implemented by the Contractor will be the mechanism for evidence based performance reporting and the basis for financial penalties for under performance, tenure penalties for under performance, and conversely financial reward and tenure reward for excellent performance.

16. The specification has been developed to encourage and facilitate competent contractors to move into a more active and effective asset management role. The **Principal** has developed a network management and maintenance specification that has reconfigured and developed roles and activities to streamline and improve asset management and maintenance performance, leading to improved operational and financial performance.

17. The specification has encouraged the **Principal** and Contractor to adopt a proactive and consultative approach to achieve a high degree of customer satisfaction, which will be measured.

18. The contract has been structured to obtain alignment of values between the contractors need to be profitable and innovative as well as the **Principal’s** desire for value for money outcomes, closer customer relations and delivering on the Government’s and the **Agency’s** strategic objectives.

19. The specification has been designed to ensure strong leadership, greater visibility of performance and accountability of all parties, through formal annual reporting across 3 tiers of responsibility (Operational, Contract Management Board and National VAC)

20. The contract pricing is approximately 80% lump sum to encourage Contractor ownership, innovation, and allow freedom to achieve the **Principal’s** defined performance criteria and measures.

21. Flexibility has been introduced to allow for changes in service delivery, funding constraints and changes to the contracts risk profile. The inclusion of some measure and value items allows the parties to value alternative strategies and treatments through more transparent costs as well as redefining the risk profile.

22. The contract has incorporated a performance framework to allow benchmarking within the contract period and between networks and contractors. It is proposed that the results of
benchmarking will be published annually to emphasise reward and enforcement fairness and transparency within industry.

23. The contract has been structured to align with the Agency’s funding categories.

24. The model will incorporate the NZTA’s new National SH Classifications, with the performance framework measures reflecting the different levels of service commitments.

**Contract Structure**

25. The new operations and maintenance specification is divided into seven key sections, these being:

   a. Contract Works,
   b. Value management Proposition,
   c. Preliminary and General,
   d. Contract Plan,
   e. Network Management,
   f. Physical Works, and
   g. Network Specific Information and Requirements.

26. The following sections provide a brief summary of the key points included in each of the seven key sections.

**Contract Works**

27. Describes the contractors’ and other parties’ obligation to the contract and the contract risk profile.

28. It introduces the eight key outcomes that underpin the contract and are also referred to as the key result areas. The eight key result areas are:

   a. Connectivity – Ensure the carriageway is in serviceable condition and routes or alternatives are available, or connectivity restored.
   b. Travel Time Reliability and Safety – Provide as safe, short and reliable travel as circumstances allow.
   c. Quality and Aesthetics – Ensure that the physical indicators of service quality have been provided and drive for continuous improvement.
   d. Customer Relations – Ensure customer access needs are understood, respond to customer requests and manage expectations.
   e. Health, Safety and Environment – Ensure safety is front of mind on the journey to zero harm and as far as possible avoid, remedy or mitigate, the adverse effects of highway maintenance and construction activities on the environment.
   f. Culture – Embed a culture of collaboration, honesty and trust with aligned values, willingness to innovate and strong leadership.
   g. Sustainability – Ensure that the network and workforce continuously benefits throughout and beyond the contract term.
   h. Assurance – Demonstrate effective and efficient delivery of contract services.

**Value Management Proposition**

29. Introduces the design and implementation of the Performance Framework to influence and drive the Contractor’s quality, performance and relationship strategies.

30. The purpose of the performance framework is to;
a. Define the mechanisms that will be used to measure the Contractors and in some cases, the Principal’s influence and ability in delivering the contract works,

b. Set out the method by which the Key Result Areas (KRA) and Operational Performance Measures (OPM) are measured and evaluated. These results will be used for the allocation and calculation of the financial and tenure opportunities,

c. Provide an approach across a one network system to ensure transparency and consistency through benchmarking.

d. Become the national system for evidenced based reporting of the NZTA’s ability to achieve its new National SH Classification level of service commitments to its customers.

31. There are three tiers at which the performance framework operates and this is summarised in the following table.

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<tr>
<th>Table 1: Tiers of Performance</th>
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<td>Level</td>
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<tr>
<td>Operational</td>
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<tr>
<td>Contract Management Board</td>
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<tr>
<td>Value Assurance Committee</td>
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32. The purpose of the three levels is to keep the right people focused in the right area. This way each level can have the maximum impact on the areas where they have greatest influence and therefore greatest accountability.

33. A draft suite of KRAs with supporting Key Performance Indicators (KPIs) have been proposed by the Principal for implementation within the contract, however these still require further development through a more comprehensive performance framework guide which details the measure, responsibility, process and expectation.

34. NZTA’s new National SH Classifications and associated levels of service will be directly supported by the KRA, KPI and OPM framework.

35. The KRAs have been divided into two categories, one category has a contract tenure impact and the other category has a financial impact.

36. A KRA financial pool will be created annually through the deduction of a set percentage of the Contractor’s annual base lump sum price for that given year and increases annually to a maximum of 5%. The Contractor has the opportunity to attain 100% of the KRA financial pool based on their annual performance.

37. The specification has structured the contract in such a way that the contract tenure is the Contractor’s to lose in the event of poor performance as reported by the KRA Tenure performance framework.
38. Operational Performance Measures have been included and are the performance criteria that reflect the Contractor's ability to successfully manage the physical works contract and complete routine maintenance activities.

39. The Contractor will operate a monthly operational compliance system based on the operational performance measures specified throughout the contract specification.

40. The Principal has set a maximum monthly value financial penalty called the “at risk payment” at 5% of the Contractor's tendered base monthly lump sum and is separate to the Financial KRA pool. The amount that is potentially deducted is dependent on the level of non-compliance reported for any given month and is non-recoverable.

41. Contract flexibility is the opportunity to allow for changes to the original contract to be identified, openly discussed and fairly valued using ‘at tender’ base rates. The process requires further development but draft concepts include risk sharing or changes to the agreed risk profile, an asset reconciliation process and innovation opportunities to be valued.

Preliminary and General

42. This section relates to the significant items required by the specification and the particular circumstances under which the contract work is to be carried out, and those works concerned with the whole of the works rather than just the individual work sections.

Contract Plan

43. The Contractor shall prepare an all-encompassing Contract Plan (CP) to meet all statutory and participant requirements. The Contract Plan shall clearly demonstrate an integrated working system and strategic level framework for the management, planning and execution of the contract.

44. The Contract Plan is divided into a series of management plan subsections, being the;
   a. Health and Safety Management Plan (HSMP)
   b. Contract Quality and Systems Management Plan (CQSMP)
   c. Traffic Management Plan (TMP)
   d. Social and Environmental Management Plan (SEMP)
   e. Stakeholder and Communication Management Plan (CSCMP)
   f. Risk Management Plan (RMP)
   g. Emergency Procedures and Contingency Plan (EPCP)
   h. Maintenance Management Plan (MMP)

Network Management

45. This Section sets out the requirements for all the standard components of managing the network for the Principal.

46. The section has been rationalised from previous network management contracts to reflect the Principal's desire for greater ownership and accountability in specific network management areas.

47. In particular there is a greater desire for the Principal and Contractor to adopt a proactive and consultative approach in the asset management arena to achieve a robust forward works programme and a high degree of customer satisfaction.

48. Areas where the Principal will have greater control and accountability are network planning, safety management and tendering and procuring other contracts. However the contractor will still have responsibility for the day-to-day management of network controls which impact on the efficiency, effectiveness, and safety of the state highway network.
49. In regards to Capital works the specification has identified the need for the contractor to be more involved in providing input into the various stages of capital projects, such as identifying future maintenance issues and costs, consistency in asset components and gate keeper of data quality.

**Physical Works**

50. This Section sets out the requirements for completing maintenance and renewal activities within the network for the Principal.

51. This section has been structured to reflect the Principal’s funding categories as defined by the Programme and Funding Manual.

52. The delivery of the physical works by the contractor is assessed by a series of operational performance measures.

53. The operational performance measures still require further work in all areas. The specification has broken the OPMs down into the following areas;
   a. Contract standard - means the minimum standard the Contractor is required to comply and report compliance with at all times,
   b. Reporting Interval - the maximum period within which the Contractor is required to report compliance with a Contract Standard,
   c. Response Time - means the time in which the Contractor must rectify any particular instance of a defect that constitutes a potential safety hazard or is identified by a customer or third party.

54. It should be noted that some operational performance measures have been identified as more significant than others and non-compliance with these will have greater impact on the contractor’s performance delivery.

55. Developing a compliance monitoring system is the contractor’s responsibility. The specification does not stipulate the contractor to engage an independent auditor. The Principal will carry out reviews of the Contractor’s compliance system and may engage a third party to assess or audit the contractor’s on road performance and or management systems.

56. Currently the physical works section has broken down the operational performance measures in to their discrete new road classes and what the contract standard for that road class will be with an indicative LoS for each included. The LoS is still a NZTA work in progress, with industry feedback and cost implication’s being number one priority.

**Network Specific Information and Requirements**

57. This Section sets out the requirements which are specific to the regions network.

58. The specification provides only examples of what regionally specific variations may include. It is not deemed to be exhaustive and should only be used as guidance.

59. Approval will be required for regions to adopt regionally specific variations which may be incorporated into future amendments to the specification as the variations become more main stream or are no longer relevant.

**Consultation and Feedback**

60. As we have indicated throughout the M & O review the development of a new contract delivery model would be a consultative and interactive process.

61. The NZTA is now seeking your input and views on the draft Operations and Maintenance Outcome Contract specification.