



Will be considered to be released in full

MIN-4061 Maintenance and NOC Review

16 February 2023

Provide an update on the Maintenance and (Network Outcomes Contract) NOC review.

Waka Kotahi NZ Transport Agency's response:

Why undertake the NOC Review and change the existing model?

- Significant change in the external environment (economic, market and climate) prompted a review to determine fit for purpose into the future. The review has confirmed there are both challenges and opportunities ahead. Internationally, most asset owners are facing similar issues and Waka Kotahi has an opportunity to take a lead here.
- Some of the NOC's are performing very well and the model has substantially achieved the intended outcomes by stretching asset life within a constrained Maintenance and Operations (M&O) budget (through a contract model which transfers more asset management risk to suppliers). However, the resulting reduction in asset resilience, exacerbated by increasing heavy traffic and more extreme weather is resulting in increased concern and scrutiny over the state highway network condition.
- The industry geared itself to the reduction in M&O spend 10 years ago. Within a hot 2023 market, suppliers are now seeking certainty of forward workloads to justify and sustain investment needed to delivery ongoing historically high programmes of work.
- The contracting model itself cannot solve this issue. Instead, strategic asset management with prioritised funding will be required.
- The next evolution of the contracting model is however still a key enabler. There is an opportunity ahead of Waka Kotahi to develop a more agile, integrated approach to delivery- improving our maintenance approach and further enhancing our world class emergency response.

What will change?

- Waka Kotahi will set suppliers deliberate network condition targets through the asset management strategy (prioritised nationally, nuanced by regional need).
- Waka Kotahi will be more closely involved with a broader supply chain (including Tier 2's and specialist sub-contractors) actively developing regionally integrated 3-year corridor delivery programmes.
- Clarity on focused outcomes with a commercial construct aligned to incentivising supplier performance (risk allocation included) with sufficient potential for profit will ensure ongoing investment in the sector.
- An open book approach with visibility of cost and profit to better demonstrate value for money and how much of our investment is spent on physical assets.
- Fewer, more targeted performance measures with independent assurance of the quality of work delivered.
- Joint production of annual work programmes in corridors (a production approach to delivery using standardised designs suited to local conditions).
- More flexibility in the contract to react to necessary change year to year with clear understanding of work that can be achieved within available budget.



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How will we achieve this?

- Recognising the challenges we face, managing reactive climate events and delivering the historically high renewal and maintenance programmes in the seasons ahead, a 3-year transitional procurement strategy is being adopted (with the first contract transitioning in mid-2023, and tendering from 2026).
- This will bring some calm and certainty in the current environment, avoiding a complex and expensive procurement round when we can least afford it.
- It will allow the whole team to pull together, collaborating with industry, to innovate for the best outcome from the proposed changes.
- Waka Kotahi has begun to increase in-house commercial capability. We will continue to strengthen this function to support the transition and delivery of the new model.
- The new contracting model will also require enhanced Waka Kotahi capability to play a greater role in asset management (providing national direction and prioritisation), and to be more actively involved in regional integrated and empowered teams in the planning and delivery of corridor works. The capability gap assessment is already underway.
- We will use the next 3 years to build this enhanced internal capability to be more to actively involved with a wider group of suppliers, delivering the future asset management strategy for the maintenance and operations of the Aotearoa State Highway network.