

Network Outcomes Contract Governance & Management Group Clarification

Reference Number:	NOCC No. 16
Subject Title:	Renewals Payment Process
Issue Date:	26 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

This clarification is in regard to implementing the annualised lump sum payments for rehabilitations, reseals and TAC's, and when adjustments and final payments were being made.

The payments of these lump sums need to be made in a manner that is not contravening to the contract documents, therefore the basis for how these payments is made is set out in the NOC basis of Payment Preamble, section iv;

'In July of each year, the agreed pavement rehabilitation and resurfacing programme for the upcoming financial year shall be forecast-valued, using the tendered rates from the schedule of prices, schedules 2, 4 and 5 to develop a renewal lump sum. This renewal lump sum will be prorated in equal monthly instalments for the upcoming financial year. The June claim each year will include a reconciliation of the final principal-approved treatments in relation to the original July forecast value.'

Therefore we must set a base lump sum payment in July and the final payment should not be made until June, this is to ensure we maintain consistency and are in accordance with the contract document. This is generally what the industry group wanted, and what your contractor agreed to when bidding the contract. However it does not preclude the ability to make adjustments at certain times in the year as more accurate information becomes available.

RESPONSE

In July; based on the approved program provided by the RAPT team and approved via the annual plan process with your Senior Network Manager (SNM), a generalised proposed treatment for each site is used to develop an overall forecast value, which is then divided by twelve to get the initial lump sum payment due to the contractor each month for the renewal items.

Generally in November each year, or once all designs have been approved (this is to encourage prompt delivery of renewal designs), compare the total design forecast values to the original forecast values, if there is a significant difference, divide the remaining amount due by the payments left to get a new per month LS payment.

In April/May each year, all construction should be complete, and the final amount due at end of year known. Calculate the final amount due, deduct the amount already paid and divide the remaining amount due by the two payments left to get a new per month LS payment. This is done from May, at the MCM's discretion, to reduce workload and spread any financial correction over the remaining financial year

It is important to note that, if at any time you receive a design or further information which would greatly alter the costs of one site relative to the price originally forecast for the site, you need to let your SNM know how much, and why (is the design provided appropriate etc.). Your SNM will then ascertain if it is appropriate or necessary to complete a Request for Annual Plan Adjustment (RAPA), which will then go to your Asset Integrator for approval. This check is required before approval is given to go ahead with construction, to ensure the funds are available for the works.

Renewal sites that are brought into the programme, through the RAPA process, are to be:

- Included and paid by adjustment to the lump sum, if commenced before 31st December.
- paid upon completion and receipt of completion report including agreement to the reconciliation of quantities and cost, if commenced after 1st January.

Simple Worked Example

July:

Overall approved program is ~100,000m²
Base rate is \$4.50 = \$450,000.00 for the year,
\$450,000.00 / 12 payments
Lump sum of \$37,500.00 per month paid

In November;

Overall approved program is still ~100,000m²
Design rate is \$5.00 = \$500,000.00 for the year.
Deduct already paid 4 x \$37,500.00
Remaining due = \$500,000 - \$150,000
\$350,000.00 / 8 payments remaining
Lump sum of \$43,750.00 per month paid going forward

In May:

Overall program completed is 98,000m²
Constructed rate is \$5.00 = \$490,000.00 for the year.
Deduct already paid 4 x \$37,500.00 + 6 x \$43,750.00
Remaining due = \$490,000 - \$412,500
\$77,500.00 / 2 payments remaining
Lump sum of \$38.750 per month paid going forward