

Subject	Change in the presentation of NZ Transport Agency infrastructure indexes
Circulation	Asset Managers (all Approved Organisations) Highway and Network Operations (NZ Transport Agency) Local Government New Zealand (LGNZ) Equip CCNZ ACENZ Office of the Auditor General
Circulated by	Bob Alkema – National Manager Investment
Date of Issue	1 March 2017

Purpose

This general circular advises of a change that has been made to the manner of presentation of four of the infrastructure indexes published by the NZ Transport Agency for the purposes of contract price adjustment for cost fluctuation. The four indexes affected are the Maintenance, Construction, Bridge and Professional Services indexes.

The web-based tool used to perform contract price adjustment calculations, the [Adjuster](#), has also been updated. It can now be used with either the bitumen volume-based method of contract price adjustment or with an index alone – using any one of the four indexes listed above.

The ability to use the Adjuster with these indexes will make the application of indexation simpler and help ensure more consistency practice. The changes have been tested with our transport sector partners and are seen as positive. They provide an opportunity to standardise both contract documentation and practice and to simplify the contract price adjustment process. A consistent approach to indexation, across these four indexes plus the Network outcomes index (costs excluding bitumen) and the Reseal index (costs excluding bitumen), has now been established.

Summary

The impact of the changes described in this general circular are summarised as follows:

1. The changes relate to infrastructure indexes only – public transport indexes are not affected.
2. Contracts that are price adjusted using one of the four infrastructure indexes Maintenance, Construction, Bridge or Professional Services, are impacted by these changes. The changes do not materially impact contracts that are price adjusted using the Network Outcomes index (costs excluding bitumen), the Reseals index (costs excluding bitumen) or the Revised Reseals (2001) index.
3. The Adjuster is now able to be used to calculate contract price adjustments where a contract is to be price adjusted using one of the four indexes Maintenance, Construction, Bridge or Professional Services for works or services delivered from 1 July 2016 on. Until now use of the Adjuster has been limited to

contracts which use either the Network Outcomes index (costs excluding bitumen) or the Reseals index (costs excluding bitumen) for contract price adjustment.

4. If you choose not to use the Adjuster to perform contract price adjustment calculations then a traditional Cost Adjustment Factor (CAF) value, for the December 2016 quarter on, can still be calculated for any of the four indexes Maintenance, Construction, Bridge or Professional Services by dividing the published index value for the quarter under consideration by the index value for the quarter in which tenders closed.
5. The instructions for using the Transport Agency's infrastructure indexes, including the Adjuster, have been rewritten to support the above changes.

Change in the presentation of infrastructure indexes

The presentation of four of the seven Transport Agency infrastructure indexes, used for contract price adjustment for cost fluctuation, has changed. They are now presented on the Transport Agency's website as an index series, rather than as a two-dimensional table of CAFs.

Under the previous CAF-style of presentation, a new column of CAF values was added every quarter for each of these four indexes. Under the new index series style of presentation one new index value will be added each quarter for each of the four indexes.

The four indexes, Maintenance, Construction, Bridge and Professional Services, are from what we refer to as the 'ORIGINAL 1991 series'.

A new spreadsheet presenting the above four indexes, as index series not as tables of CAF values, has been posted on the website as the [NEW presentation – latest index values for infrastructure cost indexes – ORIGINAL 1991 series](#).

If you wish to calculate a CAF value for a particular contract, for a particular quarter, then divide the index value for the quarter under consideration by the index value for the quarter in which tenders closed.

The two indexes commonly referred to as the 'NEW indexes', the Network Outcomes index (costs excluding bitumen) and the Reseals index (costs excluding bitumen), are already presented as an index series not as a table of CAF values – see [Latest values for infrastructure cost indexes – NEW series](#).

A new set of [instructions for using the Transport Agency's infrastructure indexes](#), including the Adjuster, has been developed and posted on the website.

Why make this change in presentation for these original 1991 indexes?

This change will allow use of the Adjuster with these four original 1991 indexes. It will now also be possible to review the formula used to calculate each of them. Review will help ensure that these indexes accurately track changes in the input costs for the type of works and services contracts to which each applies. Changing to an index series presentation has also corrected a technical error in the previous CAF calculation process.

The ability to use the Adjuster with the above four indexes will make the application of indexation simpler and help ensure more consistency practice. The proposed changes have been tested with the Road Efficiency Group (REG) Procurement subgroup and the Reference group for the Procurement procedures improvement project. Both groups are supportive of the changes and recognise the opportunity to standardise both contract documentation and practice. A consistent approach to indexation, across these four indexes plus the Network outcomes index (costs excluding bitumen) and the Reseal index (costs excluding bitumen), has now been established.

Contract price adjustment calculation using the Adjuster

The web-based tool, the Adjuster, has been used for some time on highways Network Outcome Contracts (NOC) and on reseals contracts. Index series values for the four original 1991 series indexes listed above, namely Maintenance, Construction, Bridge and Professional Services have, now been loaded into the Adjuster so that this web-based tool can now also be used with these four original 1991 indexes.

To use the Adjuster with these indexes you will need to refer to the [instructions for using the Transport Agency's infrastructure indexes](#). You will need to register as a user of the Adjuster if you have not already done so. You will also need to refer particularly to section 3.12 *Using the Adjuster with an index alone (C=CI)*.

Previous CAF presentation of the four original 1991 indexes

CAF values, up to and including values for the September 2016 quarter for the four original 1991 series infrastructure indexes, were published on the Transport Agency's website in December 2016. This historical information will remain on the website for the next 12 months – see [Historical CAF values for infrastructure cost indexes – ORIGINAL 1991 series](#).

New presentation of CAF values for the Revised reseal (2001) index

The above changes do not affect the Revised reseals (2001) index. It will continue to be presented as a table of CAFs. However, a new spreadsheet – [Latest CAF values for the Revised reseal \(2001\) index](#) – has been posted on the website which gives the latest CAF values plus forecast values.

This index is being phased out. Contracts let after 1 February 2013 should not be using this index – refer [general circular 12/04](#). Publication of CAFs for this index will cease after the December 2017 quarter figures are published in February or March 2018.

Do not use a new index series to calculate contract price adjustments for quarters before September 2016

In order to change the presentation of the Maintenance, Construction, Bridge and Professional Services indexes, the Transport Agency has subtly changed the quarterly calculation formula. Each row of CAF values had its own 'base date' – the date shown at the left-hand side of the row. The CAF values in one row were used to calculate contract price adjustments for contracts where tenders closed in the quarter shown at the left-hand end of the row. In future, the above four original 1991 indexes will not only be presented as index series, rather than as tables of CAFs, but will have a calculation base date of September 2016.

As a consequence of this change in the formula, you must use the index values from the new spreadsheet [NEW presentation – latest index values for infrastructure cost indexes – ORIGINAL 1991 series](#) to calculate contract price adjustments for the December 2016 quarter, and later quarters, and you must use the CAF values from the spreadsheet [Historical CAF values for infrastructure cost indexes – ORIGINAL 1991 series](#) to calculate contract price adjustments for the June 2016 quarter and any earlier quarter. You can use either approach for the September 2016 quarter.

Similarly the Adjuster may be used with the Maintenance, Construction, Bridge or Professional Services index to calculate contract price adjustments for the September 2016 quarter on, but not for any previous quarter.

Infrastructure procurement manual 'tools' on the Transport Agency website

As a consequence of the changes described above the list of links to [Procurement manual tools](#) under the sub-heading *Infrastructure* now consists of:

- *Contract price adjustment for cost fluctuation.* This link takes you to the instructions for using the Transport Agency's infrastructure indexes, and for accessing and using the Adjuster, to calculate contract price adjustments using either an index alone or the bitumen volume-based method.
- *The Adjuster.* This link takes you to the web-based Adjuster tool.
- *Latest values for infrastructure cost indexes – NEW series.* Use this link to find the latest index values for the *Reseals (costs excluding bitumen)*, and the *Network Outcomes (costs excluding bitumen)* indexes.
- *NEW presentation - latest index values for infrastructure cost indexes – ORIGINAL 1991 series.* Use this link to find the latest index values for the Maintenance, Construction, Bridge and Professional Services indexes.
- *Latest values for the bitumen cost adjustment series.* Use this link to find the latest values for the *NZ Transport Agency bitumen cost adjustment series*.
- *Historical CAF values for infrastructure cost indexes – ORIGINAL 1991 series.* This link takes you to the historical CAF values, to September 2016, for the Maintenance, Construction, Bridge and Professional Services indexes. This file of historical data will be removed from the Transport Agency's website in about 12 months.
- *Latest CAF values for the Revised reseal (2001) index.* Use this link to find both the latest CAF values and the forecast CAF values for the *Revised reseals (2001) index*. CAFs for this index will continue to be calculated and published on the Transport Agency's website for another 12 months.

An opportunity to standardise our contract price adjustment practice

This change in presentation of indexes, and upgrading of the Adjuster, gives us the opportunity to nationally standardise the way in which we as purchasers apply indexation to infrastructure contracts.

Appendix 1 to the [instructions for using infrastructure indexes](#) presents model schedules to NZS39XX, the conditions of contract for building and civil engineering construction, covering contract price adjustment for cost fluctuation. There are model schedules covering the use of an index alone and bitumen volume-based contract price adjustment. The model schedules are written so as to also be consistent with use of the Adjuster.

Approved organisations are asked to use the appropriate model schedule, without alteration, to help ensure efficient application of contract price adjustment for cost fluctuation. They are also advised to use the Adjuster to automate calculations and reduce the risk of calculation errors and disputes.

Attachments

There are no attachments to this general circular.

Enquiries

All enquiries relating to this circular should be directed to your local Transport Agency Planning and Investment Manager.



Bob Alkema
National Manager, Investment