

Meeting: FNDC Council

Name of item: Contract Escalation and Level of Service (LoS) impacts

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1 Purpose

The purpose of this paper is to provide Council with an update of the NTA Road Maintenance & Renewal Contract Escalation for the Separable Portion 2 – commencing 1st July 2022 and the impact thereof.

2 Background

Each of the NTA Road Maintenance & Renewal Contracts have provision for Cost Fluctuation Adjustments under their Basis of Payments¹. All calculated adjustments are applied to the rates in the Schedule of Prices on 1st July each year and shall be valid for the following 12 months.

The maintenance works are structured around:

- Routine work – work that the contract provides clear authorisation for the Contractor to get on and do,
- Ordered work – Work that must specifically receive authorisation by the Engineer prior to work being commenced, and
- Cyclic work – a type of routine work where work is initiated by a time frequency and usually confirmed with the Engineer in the approval of the annual work programme.

The renewals works are defined from Engineer prepared forward work programmes.

The routine and cyclic works are paid as Lump Sums per month.

The ordered maintenance works, and renewal works are actions raised as dispatches through the contract mechanisms and are measured and paid based upon the Schedule of Rates.

Both the Lump Sums rates and the measured item rates are eligible for cost adjustment / escalation. As the total cost of the Contract remains the same as the prior years², this will therefore impact on the quantities of measure works that can be achieved.

In brief the average contract escalation / cost fluctuation adjustment for 2022-23 is 12.4% on the rates.

$$\begin{aligned}
 & \$100 = 100\% \text{ work quantity (2021-22)} \\
 & \text{Escalation of 12.4\% for 2022-23} \\
 & \$112 = 100\% \text{ work quantity (2022-23)} \\
 & \text{or} \\
 & \$100 = 89\% \text{ work quantity (2022-23)}
 \end{aligned}$$

Figure 1 - Escalation vs Work quantity

¹ Part 4 – Basis of Payment, NTA Road Maintenance & Renewal Contracts

² Cost escalation of approx. 2% is included in all budgets and forecasts.

3 Discussion

The breakdown of the Payment schedules into Lump Sums and Measures items (by average percentage) has been depicted in Figure 2 – Proportion of works paid by Lump Sum and measure items for the three Districts, for 2021-22.

Whangarei 2021-22		Kaipara 2021-22		Far North 2021-22	
Contract Sum \$\$	Work quantity	Contract Sum \$\$	Work quantity	Contract Sum \$\$	Work quantity
Percentage of Measured items in Contract Sum \$\$ (86%)	Proportion of ordered work quantities (86%)	Percentage of Measured items in Contract Sum \$\$ (76%)	Proportion of ordered work quantities (76%)	Percentage of Measured items in Contract Sum \$\$ (66%)	Proportion of ordered work quantities (66%)
Percentage of Lump Sums items in Contract Sum \$\$ (14%)	Proportion of routine & cyclic work quantities (14%)	Percentage of Lump Sum items in Contract Sum \$\$ (24%)	Proportion of routine & cyclic work quantities (24%)	Percentage of Lump Sums items in Contract Sum \$\$ (34%)	Proportion of routine & cyclic work quantities (34%)

Figure 2 - Proportion of works paid by Lump Sum and Measure Items for the three Districts

When the total contract cost does not change from the previous year³ and escalation @ 12.4% is applied to all the rates there are two major issues:

- The Lump Sum item costs are increased by 12.4%, which reduces the sum available for the measured items of work.
- The 'buying power' or work quantity achievable for the measured items sum is only 89% of the previous year, due to escalated rates.

The overall impact is then compared with the percentage of measured works achievable in 2021-22 against the percentage of measured works achievable in 2022-23. For each District Council this figure is slightly different, and a representation has been depicted for each of the three.

³ Forecast inflation of approx. 2% is ignored for this example.

3.1 Far North District Council

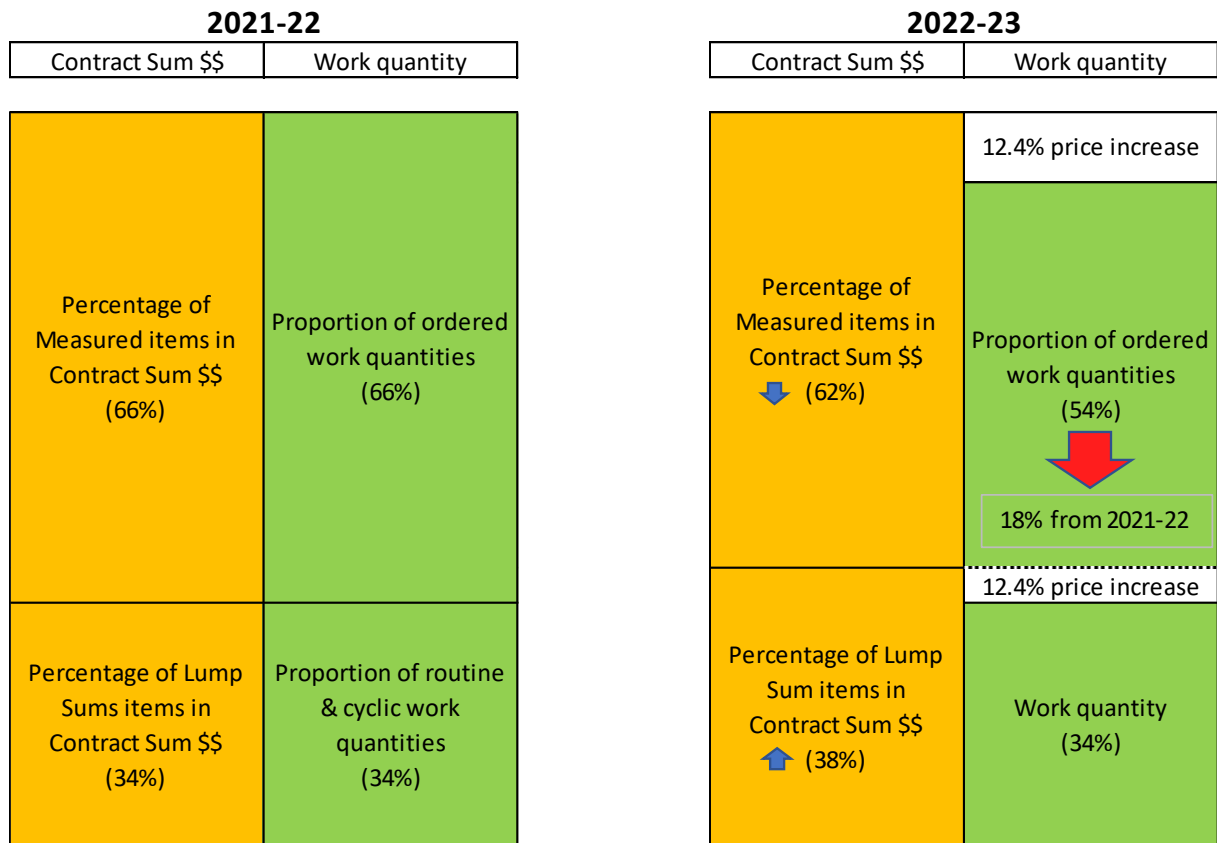


Figure 3 - Percentage of costs vs work quantity for 2021-22 and 2022-23 in Far North

Both maintenance and renewal contracts have very similar percentages of Lum Sum rates – 34% against the measured work rates – 66%.

In 2021-22 each contract was able to achieve 100% of the work quantity for 100% of the Contract sum (in essence – some actual quantities varied slightly).

When 12.4% escalation is applied to the Lum Sum rates of 2021-22, the percentage of the total value of the contract cost becomes 38%.

The result of this increase in cost is that the funds remaining for the measured works reduces from 66% to 62% of the Contract sum.

Furthermore, the quantity of work that can be achieved for this 62% of the Contract Sum is only 54% (89% x 62%)

The real impact is the reduction from 66% to 54% of work quantity achievable – a 18% reduction in achievable ordered and measured works.

3.2 Whangarei District Council

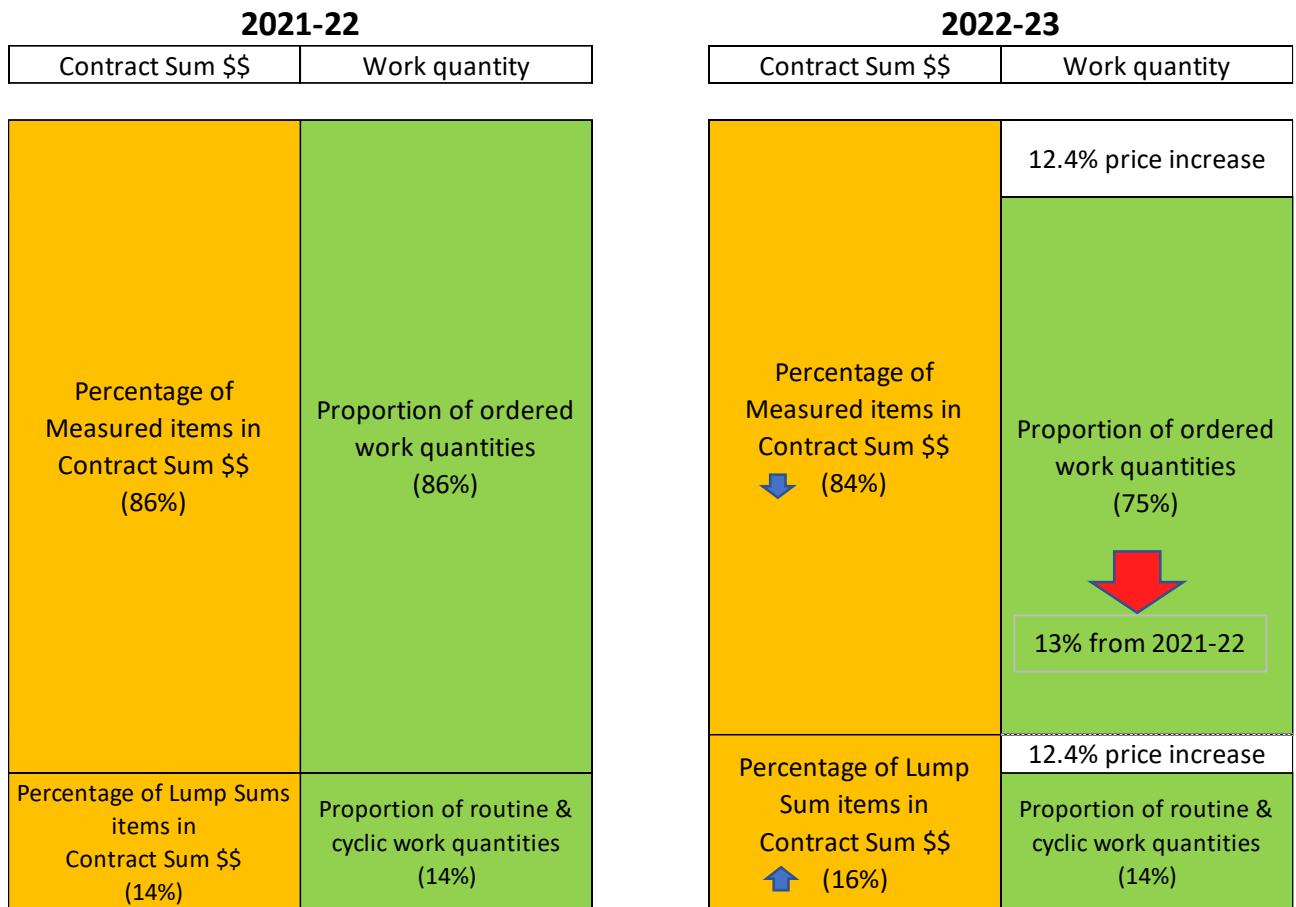


Figure 4 - Percentage of costs vs work quantity for 2021-22 and 2022-23 for Whangarei

Both maintenance and renewal contracts have very similar percentages of Lump Sum rates – 14% against the measured work rates – 86%.

In 2021-22 each contract was able to achieve 100% of the work quantity for 100% of the Contract sum (in essence – some actual quantities varied slightly).

When 12.4% escalation is applied to the Lump Sum rates of 2021-22, the percentage of the total value of the contract cost becomes 16%

The result of this increase in cost is that the funds remaining for the measured works reduces from 86% to 84% of the Contract sum.

Furthermore, the quantity of work that can be achieved for this 84% of the Contract Sum is only 75% (89% x 84%)

The real impact is the reduction from 86% to 75% of work quantity achievable – a 13% reduction in achievable ordered and measured works.

3.3 Kaipara District Council

2021-22		2022-23	
Contract Sum \$\$	Work quantity	Contract Sum \$\$	Work quantity
Percentage of Measured items in Contract Sum \$\$ (76%)	Proportion of ordered work quantities (76%)	Percentage of Measured items in Contract Sum \$\$ (73%) ↓	12.4% price increase Proportion of ordered work quantities (65%) ↓ 14% from 2021-22
Percentage of Lump Sum items in Contract Sum \$\$ (24%)	Proportion of routine & cyclic work quantities (24%)	Percentage of Lump Sum items in Contract Sum \$\$ (27%) ↑	12.4% price increase Proportion of routine & cyclic work quantities (24%)

Figure 5 - Percentage of costs vs work quantity for 2021-22 and 2022-23 in Kaipara

The maintenance and renewal contracts have percentages of Lump Sum rates of 24% against the measured work rates – 76%.

In 2021-22 the contract was able to achieve 100% of the work quantity for 100% of the Contract sum (in essence – some actual quantities varied slightly).

When 12.4% escalation is applied to the Lump Sum rates of 2021-22, the percentage of the total value of the contract cost becomes 27%.

The result of this increase in cost is that the funds remaining for the measured works reduces from 76% to 73% of the Contract sum.

Furthermore, the quantity of work that can be achieved for this 73% of the Contract Sum is only 65% (89% x 73%)

The real impact is the reduction from 76% to 65% of work quantity achievable – a 14% reduction in achievable ordered and measured works.

4 Summary

Cost Escalation of 12.4% has been applied to all rates of the five NTA managed Road Maintenance and Renewal Contracts. With the increase to the Lump Sum routine and cyclic works but no corresponding increase for the total contract Sum, there is less funds available for the ordered measured works. Furthermore, the quantity of works achievable with the funds is reduced as the rates have been escalated.

Overall, an 12.4% escalation applied to all the rates reduces the amount of ordered and measured works that can be achieved by 15% (range of 13% to 18%) for the same spend as last year which will negatively impact the Level of Service that the contracts can achieve.

The NTA is continuing with moderating and risk assessing all its planned forward work programmes (ordered works) to achieve the best outcome for the funds available.

5 Report Approval

Approved by:



Calvin Thomas
General Manager - NTA
26th July 2022