Applying the NEC3 Contract Model to a Maintenance Contract
Introduction

- Why NEC3 was chosen
- Key concepts & clauses of CT09-001
- Payment mechanism detail
- Affects on Budgeting
- Performance Measurement Framework
- Utilisation of RAMM
- Case study
- Team Work
Why NEC 3?

QLDC Maintenance Contract (CT09-001) up for renewal in autumn 2009.

Requirement for:

- Excellence in customer service
- Knowledge of 804km network
- Performance management
- Cost transparency/certainty
- Versatile and flexible
- Reduction in total cost of ownership
Main Contract Clauses.

NEC₃

- Term service contract
- Option C - Target contract with price list
- Z(W1) Dispute resolution
- X₁ Price adjustment for inflation
- X₂ Changes in the law
- X₁₉ Task orders
- X₂₀ Key performance indicators
Payment Mechanism

- Cost plus & schedule with TCEs
  - QLDC see savings.
  - QLDC pay for poor performance
  - Apparent low risk.
  - Fixed margin (agreed fees)- removing ability to increase profit per $.
- Pain/Gain concept – 50% Gain, 100% Pain
- TCE’s are renegotiated on an annual basis.
Example TCE Adjustments

- **Stabilisation patches - Wakatipu**
  - TCE: $30 /m²
  - $41k gain
  - New TCE: $25/m²

- **Traffic Services Maintenance. - Wakatipu**
  - TCE: $5,800/month
  - $27k gain
  - New TCE: $3,000

- **AC Levelling –All wards**
  - TCE: $18/ m²
  - $13.5k pain
  - New TCE: $22/ m²
The Budget Control Challenge

- True reflection of cost puts pressure on some budgets
- Level of service can conflict budget
- Demands on a service/item impact the client as well as the contractor
- QLDC want individual general ledger control.
- Flexibility with budgets is key

2010/2011 Monthly Spend

![Monthly Spend Chart](chart.png)
RAMM Contractor

- All achievements logged and linked to matrix account using “The Report Tool”

- All faults & programming
  - Used for fault logging & job generation (dispatches)
  - Programme is controlled in RAMM

- Programmed work pulled into an expenditure spreadsheet

- Allows budget to be tracked and updated monthly
Performance Management Framework

- 4 Key result areas (KRA’s)
  - People Management
  - Stakeholder Management
  - Network Management
  - Value Management
• Each KRA split into 4 key performance indicators (KPI’s).
• Total of 16 KPI’s – each weighted differently
• Weightings are changed each year for desired focus.
• KPIs can be modified year to year
• Drive desired behavior's.
<table>
<thead>
<tr>
<th>Area</th>
<th>Yr 1</th>
<th>Yr 2</th>
<th>Yr 3</th>
<th>Key Performance Indicator (KPI)</th>
<th>Method of Measure</th>
<th>Frequency</th>
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<tbody>
<tr>
<td>Working Together / People Management</td>
<td>35%</td>
<td>30%</td>
<td>25%</td>
<td>Team Safety</td>
<td>Safety Behaviours Observation CoPTTM formal audit process</td>
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<td>Working Together / People Management</td>
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<td>Zero Harm - Environment</td>
<td>Toolbox discussions</td>
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<td>Programme delivery - timeliness</td>
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<td>Reduce customer condition indicator</td>
<td>All faults programme</td>
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<td>Minimise Operational impacts</td>
<td>Customer complaints from RFS system</td>
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<td>Effective Communication</td>
<td>RFS Resolved from RFS system</td>
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<td>15%</td>
<td>Reduce asset condition indicator - sealed roads</td>
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<td>Reduce asset condition indicator - urban and rural drainage</td>
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<td>Unplanned event response</td>
<td>Response within timeframes agreed by Project Team</td>
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<td>Value Management</td>
<td>15%</td>
<td>25%</td>
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<td>Generate gain</td>
<td>TCE vs. actual cost</td>
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<td>Manage contract within approved budget</td>
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<td>Asset condition vs. cost</td>
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KPI Samples

Network Condition Indicator - Sealed

Team Safety

Planned vs Actual
The Team

- Team work important
- Removes contractor vs client environment
- Personalities - Play off strengths
- Ability to give/receive constructive criticism
- Focus on “best for contract” decisions & actions
- Share success and failure
The Von Flood Protection Works Case study

- Construction of bank protection and groins in March 2011
- TCE: $75,540 + contract fees
- Actual – $111,033 - QLDC pay this amount.
- Reasons:
  - Poor planning from the offset by whole project team
  - Stockpiles over estimated
  - Remote location
  - Time restrictions

Von flood Protection during construction
The keys to success

- Demonstrating “value for money” to stakeholders
- Maintaining the network
- Flat lining budgets
- No budget over spend
- Early warnings
- Team work
- Not all warm & fluffy
- Robust discussion

Grader on The Crown Range Road
Conclusion

- So far so good. The network is being maintained.
- Budget control challenging if there is no flexibility
- Risks can be weighted as desired
- KPIs utilised to drive behaviours
- Shows true cost of maintaining the work
- Demonstrating value for money tricky
- Promotes a positive and proactive work environment and contract, and drives improvement, not cost saving by hiding costs and cutting corners.