

10.1 ADOPTION OF CHANGES TO LAND TRANSPORT PROCUREMENT PLAN**File Number:** COU1-1400**Author:** Josh Lloyd, Group Manager - Community Infrastructure and Development**Authoriser:** Monique Davidson, Chief Executive**Attachments:** 1. Land Transport Procurement Plan

The Council is satisfied that, pursuant to s48(1)(a)(i) of the *Local Government Act 2002*, the information to be received, discussed or considered in relation to this agenda item is:

- s7(2)(h) the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities
- s7(2)(j) the withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.

PURPOSE

The matter for consideration by the Council is the adoption of changes to the Land Transport Procurement Plan adopted by Council on 29th August 2019.

RECOMMENDATION FOR CONSIDERATION

That having considered all matters raised in the report:

- a) The approved Land Transport Procurement Plan be revised to change the weightings on Price Quality to 30% Price / 70% Quality.**
- b) The Footpath Contract is removed from the Land Transport Procurement Plan.**
- c) That Council officers are mandated to continue with procurement for the listed contracts as set out in the plan.**
- d) The report relating to this item be released as publicly available information following the release of the tender documents.**

BACKGROUND

Council manages and maintains some 1200km of road network and various associated roading assets within the District. To maintain levels of service and to meet new and existing demands placed on the infrastructure, Council manages various contracts for physical works to be carried out on the network.

A number of contracts currently exist with generally large and well-known suppliers in the region to carry out the physical works on the roading infrastructure. These contracts expire on 30 June 2020 and are therefore being tendered to find future partners.

With several contracts coming to an end at the same time, Council has taken the opportunity to reconsider how contracts are packaged in terms of scope and duration. A Procurement Plan was developed and approved by Council on 29th August 2019 to go to market with a combined offering for work currently contained under several contracts.

The approach was based on the outcomes of a piece of work that considered:

- Contract scope (what works should be in what contract)
- Contract duration
- Contract procurement process

The procurement plan adopted in 2019 structure, duration and procurement approach are summarised in the table below:

Contract	Contract Duration	Procurement Method
Road and Structures Routine Maintenance and Reseal Contract	5 years – performance based	Price : Quality 50:50
AWT Contract	2 years	Price : Quality 60:40
Footpath Contract	2 years	
Structures Repairs	2 years	

Following the adoption of the procurement plan, Officers began to work through pulling together key contract information, schedules of work, evaluation methodology and frameworks and began to engage early with the market. Through this work, Officers have become concerned that the approved procurement plan exposes Council to the risk of a low quality contractor 'buying' one or more large contracts. Accordingly, a revised procurement plan has been prepared and is attached to this report.

DISCUSSION

Officers have considered the mechanics of a large price:quality based procurement and have modelled various scenarios for different contractors price and quality offerings through the tender and evaluation process. Officers have also sought further advice from procurement specialists and from NZTA and accordingly have concern that the existing price:quality ratios expose Council to risk and are too price-focussed.

Recent advice from NZTA as well as procurement specialists has highlighted that price weightings of 40% or greater create a risk to Council of contracts being bought or a race to the bottom. The tables below provide examples of the calculated outcomes for price weightings of 50 and 30% based on an arbitrary (but probable) quality spread of contractors.

		Assumed contract value of \$4.2M		
		Contractor A	Contractor B	Contractor C
P:Q 50:50	Price Submitted	\$4,000,000	\$4,300,000	\$4,800,000
	Quality 'score'	70	75	80
	Calculated Quality Premium	\$0	\$210,000	\$420,000
	Quality adjusted price	\$4,000,000	\$4,090,000	\$4,380,000
		Assumed contract value of \$4.2M		
		Contractor A	Contractor B	Contractor C
P:Q 30:70	Price Submitted	\$4,000,000	\$4,300,000	\$4,800,000
	Quality 'score'	70	75	80
	Calculated Quality Premium	\$0	\$490,000	\$980,000
	Quality adjusted price	\$4,000,000	\$3,810,000	\$3,820,000

Officers have reconsidered the inclusion of the Footpath contract into this procurement and for the following reasons recommend that it be removed and tendered at a later date under its own procurement plan.

Concerns

1. Will not be important in a larger contract and will likely be subcontracted in which case the costs will increase as we will be paying profit on profit
2. Will not get the attention it deserves as it would be a small part of the contractor's income.

Opportunities

1. To increase opportunity for local industry to participate in Council work
2. Secure lower prices as smaller firms have lower overheads
3. Only paying one set of overheads and profit
4. To add value as local firms tend to take more pride in the work
5. To increase local employment.

RISK ASSESSMENT AND MITIGATION

As the changes being recommended are minor and are part of the mechanics of the procurement there are no new risks identified with the recommended option of altering the procurement plan. Officers consider that the recommended option in this report specifically reduces the risk to Council of a sub-optimal procurement outcome and will increase the likelihood of success through the procurement. Specifically the risk of a contract being 'bought' is being reduced through the recommended option.

FOUR WELLBEINGS

The proposed changes allow Council to enhance the emphasis placed on an incoming contractor to ensure we meet the social, economic and environmental wellbeings. The proposed changes reduce the effect that price has on the procurement outcome and in effect goes some way towards balancing the wellbeings more equally rather than limited aspects of the economic wellbeing having a determining role in decision making.

DELEGATIONS OR AUTHORITY

Officers were delegated to carry out a procurement for the listed Land Transport works in August 2019 as per the adopted procurement plan. Officers are seeking to make changes to that procurement plan and need Council endorsement now in accordance with Council's delegations and procurement policies and manuals.

SIGNIFICANCE AND ENGAGEMENT

In accordance with the Council's Significance and Engagement Policy, this matter has been assessed as of some importance

OPTIONS ANALYSIS

Two options are detailed below with one being the status quo in persisting with the procurement as per the currently approved procurement plan and the alternative being to change the procurement plan to have a 30:70 price:quality ratio and remove the footpath contract from the grouped procurement.

	<u>Option 1</u>	<u>Option 2</u>
	<p>a) That Council change the price quality ratios for all of the contracts from what was approved in the August 2019 procurement plan to 30% Price and 70% Quality</p> <p>b) That Council removes the footpath contract from this procurement and tender under a separate procurement plan later in the current fiscal year.</p>	That Council does not change the procurement plan adopted in August 2019.
Financial and Operational Implications	This option reduces the price weighting through the procurement process. This will not ultimately affect the final budget of the contracted works as these budgets are set within the LTP and NZTA 3-year work programme.	NIL – status quo.
Long Term Plan and Annual Plan Implications	This option does not have any direct impact on the long term or annual plan. The budgets set for contracts in the long term plan and annual plans will be used through the procurement as maximum budgets for each of the contracts.	NIL – status quo.
Promotion or Achievement of Community Outcomes	This option is considered to more directly support the achievement of community outcomes by reducing the weighting on price in the tender evaluation stage. This will intentionally result in the appointment of a contractor with greater quality attributes more aligned to Council and community values.	This option is considered to place Council at risk of not achieving community outcomes as price is prioritised above quality.
Statutory Requirements	This option is in line with relevant statutory requirements including the LGA.	This option is in line with relevant statutory requirements including the LGA.
Consistency with Policies and Plans	Consistent with procurement strategy.	Consistent with procurement strategy.

Recommended Option

This report recommends option 1 for addressing the matter.

NEXT STEPS

Should Option 1 be adopted, Officers will continue with the procurement which is already underway and send a Notice to Participants (NTP) to the market signalling the changes that have been made.

RECOMMENDATION FOR CONSIDERATION

That having considered all matters raised in the report:

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4. **The report relating to this item be released as publicly available information following the release of the tender documents.**