

CONFIDENTIAL Report

TO: Council

MEETING DATE: 1 December 2021

TITLE: Award of Contract - Papaioea Place Stage 3

PRESENTED BY: Bryce Hosking, Manager - Property

APPROVED BY: Sarah Sinclair, Chief Infrastructure Officer

It is recommended that this report be considered with the public excluded, as permitted by the Local Government Official Information and Meetings Act 1987 under clause:

s7(2)(h) Commercial Activities - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities

s7(2)(i) Negotiations - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)

RECOMMENDATION FOR PUBLIC RELEASE

Upon execution of the construction contract.

RECOMMENDATION(S) TO COUNCIL

- 1. That Council awards the contract to G & K Construction Limited (t/a Latitude Homes) for \$2,897,323 excluding GST (\$3,331,922 including GST) for the construction of Papaioea Place – Stage 3.**
- 2. That Council increases the budget of Programme 1743 (Social Housing – Papaioea Place Redevelopment – Stage 3) in the 2022/23 Financial year by \$465,446 including GST. This will increase the total budget from \$3,739,000 (including GST) to \$4,204,446 (including GST).**
- 3. That Council gives the Chief Executive the delegated authority to vary the contract sum by the maximum amount of 10% of the GST inclusive contract sum within the Programme Budget, to be used as a contingency should it be required for the successful delivery of Contract.**

SUMMARY OF OPTIONS ANALYSIS FOR

<p>Problem or Opportunity</p>	<p>The scope for Stage 3 of the Papaioea Place housing redevelopment was confirmed by the Finance and Audit Committee on 24 March 2021 via the report titled 'Papaioea Place – Stage 3 Options'.</p> <p>The 3rd and final stage of the development will be delivered and funded through Programme 1743 – Social Housing – Papaioea Place Redevelopment – Stage 3 and will see an additional 7 units be built along with a tenant lounge within the site. In addition, Stage 3 will include the resealing of the internal roads and carparks to complete the complex.</p> <p>A comprehensive open tender process was undertaken for the project ahead of Stage 1, and a contract was subsequently entered into with Latitude Homes (G & K Construction Limited) for Stage 1, with a right to be direct awarded Stage 2 based on throughput.</p> <p>Latitude Homes successfully delivered both Stages 1 and 2 both to programme and budget.</p> <p>Given their familiarity with the site and project, excellent contractor throughput and performance, the decision was made to enter direct contract negotiations rather than undertake an open tender process for Stage 3. This allowed for the contractor, subcontractors and materials to be secured, and brought cost and time efficiencies of the existing contractor being able to remain on site and continue through the multiple stages of the project rather than a new contractor having to familiarise themselves with the site.</p> <p>As the contract value to undertake this work is above the Chief Executive's delegated authority, this report seeks approval to accept the negotiated tender and enter a contract to deliver the project.</p>
<p>Community Views</p>	<ul style="list-style-type: none"> • Any development of additional social housing is widely viewed as a positive outcome. • Council actively building social housing to help address the growing need is also viewed positively. • The Papaioea Place Redevelopment is widely considered a success by the public. • The demand for social housing is consistently increasing. • The construction of a tenant lounge within the complex through Stage 3 was widely supported by the existing residents within the Papaioea Place.

OPTION 1:	Award the contract to G & K Construction Limited for Papaioea Place – Stage 3
Benefits	<ul style="list-style-type: none"> • Secures the existing contractor, subcontractors and materials to ensure delivery. • Cost and time efficiencies will be realised as the existing contractor is able to remain on site and continue through the multiple stages of the project rather than a new contractor having to familiarise themselves with the site. • The project construction can commence as planned in January 2022 and be completed by June 2023. • The existing contractor has a proven record through Stages 1 and 2 of delivering the project on time and to budget. • The existing contractor has provided all initial costings which informed the existing budgets and has coordinated the design which has been lodged for consent in good faith.
Risks	<ul style="list-style-type: none"> • As direct negotiations were undertaken rather than an open market tender there is a risk that Stage 3 could have been delivered at a lesser cost. • The existing contractor is based in New Plymouth not Palmerston North so there is a risk that Council may be criticised for not using a local contractor. <p>This is deemed a minimal risk as the contractor has already successfully delivered the first two stages and is using subcontractors and many suppliers that are local to Palmerston North and the Manawatu.</p>
Financial	<ul style="list-style-type: none"> • Award the contract for \$2,897,323 excluding GST (\$3,331,922 including GST). • Increase the budget by \$465,446 including GST in the 2022/23 Financial Year.
OPTION 2:	Do not award the contract to G & K Construction Limited for Papaioea Place – Stage 3
Benefits	<ul style="list-style-type: none"> • An open market tender would need to be undertaken. A competitive tender process would allow for competition in the market, which would potentially offer the best possible cost of delivery. <p>This benefit is viewed as minimal as the pricing supplied from the existing contractor did not require costs for site establishment and was confirmed by a QS to be in line</p>

	with market pricing expectations.
Risks	<ul style="list-style-type: none"> The existing contractor has provided all initial costings which informed the existing budgets and has coordinated the design which has been lodged for consent in good faith. If the construction contract was not awarded Council would be criticised for not returning this good faith. In addition, entering a competitive bidding process in the current market may not increase value, and may instead increase costs due to supplier uncertainty. The existing programme may not be met if an open tender process is followed.
Financial	<ul style="list-style-type: none"> Council will need to tender the project which will almost certainly see further significant cost escalation over time.

RATIONALE FOR THE RECOMMENDATIONS

1. OVERVIEW

- 1.1 The scope for Stage 3 of the Papaioea Place housing redevelopment was confirmed by the Finance and Audit Committee on 24 March 2021 via the report titled 'Papaioea Place – Stage 3 Options'.
- 1.2 The 3rd and final stage of the development will be delivered and funded through Programme 1743 – Social Housing – Papaioea Place Redevelopment – Stage 3 and will see an additional 7 units be built along with a tenant lounge within the site. In addition, Stage 3 will also include the resealing of the internal roads and carparks to complete the complex.
- 1.3 A comprehensive open tender process was undertaken for the project ahead of Stage 1, and a contract was subsequently entered into with Latitude Homes (G & K Construction Limited) for Stage 1, with a right to be direct awarded Stage 2 based on throughput.
- 1.4 Latitude Homes (G & K Construction Limited) have successfully delivered both Stages 1 and 2 both to programme and budget.
- 1.5 Given their familiarity with the site and project, excellent contractor throughput and performance, the decision was made to enter direct contract negotiations rather than undertake an open tender process for Stage 3.
- 1.6 Undertaking direct negotiations with the existing contractor allowed for the contractor, subcontractors and materials to be secured along with achieving the cost and time efficiencies of the existing contractor being able to remain on site and continue through the multiple stages of the project rather than a new contractor having to familiarise themselves with the site.

- 1.7 Council Officers are confident that whilst the contractor market was not approached from a pricing perspective, it would be unlikely the project would be delivered cheaper than the contract award sum, and that the direct negotiation approach has still driven the best outcomes for the project and value for money.
- 1.8 As the contract value to undertake this work is above the Chief Executive's delegated authority, this report seeks approval to accept the preferred tender and enter a contract to deliver the project.

2. BACKGROUND AND PREVIOUS COUNCIL DECISIONS

- 2.1 The Papaioea Place housing redevelopment project was split into three (3) stages of delivery. Each stage has had its own independent Programme and budget.
- 2.2 Stages 1 and 2 have been successfully delivered through design and build contracts between Palmerston North City Council and G & K Construction Limited (trading as Latitude Homes) of New Plymouth.
- 2.3 Papaioea Place Stage 1 was delivered through Programme 357. This saw the demolition of the 32 existing units and the construction of 50 new units in their place. Stage 1 was completed as planned in February 2020 and within budget.
- 2.4 Papaioea Place Stage 2 saw the demolition of the remaining 16 existing units on site and the old hall and the construction of an additional 28 new units. This has taken the total number of new units on the site to 78. Stage 2 was completed as planned in October 2021 and within budget.
- 2.5 The 3rd and final stage will be delivered and funded through Programme 1743 – Social Housing – Papaioea Stage 3. This will see an additional 7 units be built along with a tenant lounge within the site. In addition, Stage 3 will also include the resealing of the internal roads and carparks to complete the complex.
- 2.6 The scope for Stage 3 was confirmed by the Finance and Audit Committee on 24 March 2021 via the report titled 'Papaioea Place – Stage 3 Options'. As such detailed design has been underway for this stage and will be completed and lodged for consent in November 2021. Construction and earthworks will then commence on-site from January 2022.
- 2.7 Please refer to Attachment 1 to see the final layout plan.

3. PROCUREMENT OVERVIEW AND METHODOLOGY

- 3.1 As stated in Section 1 of this report, the decision was made to enter direct contract negotiations rather than undertake an open tender process for Stage 3. The decision was deemed appropriate given their familiarity with the site and project, as well as excellent contractor throughput and performance.

- 3.2 Standard practice and policy for a contract sum of this size would be to conduct an open market tender, however the benefits of securing a contractor and materials to ensure delivery, the direct negotiation approach with the existing contractor was more appropriate in this instance.
- 3.3 Council Officers are confident that whilst the contractor market was not approached from a pricing perspective, it would be unlikely the project would be delivered cheaper than the contract award sum, and the direct negotiation approach has still driven the best outcomes for the project and value for money.
- 3.4 In addition, the pricing provided by Latitude Homes has been assessed and quantified by a Quantity Surveyor at WT Partnership to ensure it is in line with market rates and expectations.

4. FINANCIAL CONSIDERATIONS

- 4.1 Papaioea Place Stage 3 is being delivered over two (2) financial years through Programme 1743. Below is the current budget summary over these two (2) years for the project:

Programme 1743	2021/22	2022/23	Total
Social Housing – Papaioea Place Redevelopment – Stage 3	\$1,689,000 incl. GST	\$2,050,000 incl. GST	\$3,739,000 incl. GST

- 4.2 Note as the budgets above are related to social housing they are GST inclusive amounts.
- 4.3 The above budget was determined in February 2021 to inform the 2021-31 Long-Term Plan. This budget was built using a bottom up approach based upon the contractor supplied information. Figures were confirmed by a Quantity Surveyor to help ensure they are as accurate as possible at that time.
- 4.4 The construction marketplace has seen continued and significant cost increases since this time. Given this, there is a heightened risk of price escalation across all elements of construction projects. Unfortunately, despite the efforts from the existing contractor to keep pricing stable, this risk has now been realised and the total project cost has subsequently increased.
- 4.5 The revised project budget required is summarised below:

Description	Cost
Project Management	\$(7)(2)(b)(i) Third Party
Authority Fees	\$(7)(2)(b)(i) Third Party

Design and Build Contract	\$ (b)(3)(c) Third Party Com
Council Procured Items	\$ (b)(3)(c) Third Party
Contingency (10%)	\$ (b)(3)(c) Third Party
Total	\$3,656,040
GST	\$548,406
Total Project Budget	\$4,204,446

- 4.6 As in February 2021 the above figures have been provided from Latitude Homes and WT Partnership and have been confirmed by a Quantity Surveyor to help ensure they are as accurate as possible.
- 4.7 The result of the price escalation is there now a budget shortfall of \$465,446 including GST. The budget will need to be increased by this sum to ensure there is enough budget to deliver the work. The cost is still seen as providing value to Council for this project.
- 4.8 In addition, there is already a provision made from the 2022/23 year onwards to increase the annual social housing maintenance budgets by \$62,830 to allow for the ongoing maintenance and upkeep of the additional 7 units and the tenant lounge. This increase to the annual maintenance budget is still sufficient.

5. CONCLUSION

- 5.1 The decision was made to enter direct contract negotiations rather than undertake an open tender process for Stage 3. The decision was deemed appropriate given the contractor's familiarity with the site and project, as well as excellent contractor throughput and performance.
- 5.2 Standard practice and policy for a contract sum of this size would be to conduct an open market tender, however the benefits of securing a contractor and materials to ensure delivery, the direct negotiation approach with the existing contractor was more appropriate in this instance.
- 5.3 The Programme budget was set in the 2021-31 LTP at \$3,739,000 including GST. This was based on budget figures obtained in February 2021.
- 5.4 The construction marketplace has seen continued and significant cost increases since this time. Given this, there is a heightened risk of price escalation across all elements of construction projects. Unfortunately, despite the efforts from the existing contractor to keep pricing stable, this risk has now been realised and the total project cost has subsequently increased.

5.5 After reassessment of the budget required for the project a budget shortfall of \$465,446 including GST has been identified. The budget will need to be increased by this sum to ensure there is enough budget.

6. RECOMMENDATION

6.1 As the contract value and associated contingency will be above the Chief Executive's delegated authority, Council Officers recommend:

1. That Council awards the contract to G & K Construction Limited (t/a Latitude Homes) for \$2,897,323 excluding GST (\$3,331,922 including GST) for the construction of Papaioea Place – Stage 3.
2. That Council increases the budget of Programme 1743 (Social Housing – Papaioea Place Redevelopment – Stage 3) in the 2022/23 Financial year by \$465,446 including GST. This will increase the total budget from \$3,739,000 (including GST) to \$4,204,446 (including GST).
3. That Council gives the Chief Executive the delegated authority to vary the contract sum by the maximum amount of 10% of the GST inclusive contract sum within the Programme Budget, to be used as a contingency should it be required for the successful delivery of Contract.

7. NEXT ACTIONS

7.1 Enter a construction contract with G & K Construction Limited for the delivery of Papaioea Place Stage 3.

7.2 Construction to commence on site for Stage 3 from January 2022.

8. OUTLINE OF COMMUNITY ENGAGEMENT PROCESS

8.1 No specific public consultation has been undertaken in relation to proceeding with Stage 3 of the Papaioea Place Redevelopment, however, the programme is included within the 2021-31 LTP which was consulted on.

8.2 The initial resource consent for Stage 1 involved a comprehensive engagement with neighbours and affected parties prior to commencement of any works on the site.

8.3 A tenant survey was carried out in early December 2020 with the existing Papaioea Place residents which was considered by Elected Members when determining the preferred scope of Stage 3.

COMPLIANCE AND ADMINISTRATION

<p>Does the Committee have delegated authority to decide? If Yes quote relevant clause(s) from Delegations Manual <Enter text></p>	<p>Yes</p>
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Are the decisions significant?	No
If they are significant do, they affect land or a body of water?	No
Can this decision only be made through a 10 Year Plan?	No
Does this decision require consultation through the Special Consultative procedure?	No
Is there funding in the current Annual Plan for these actions?	Yes
Are the recommendations inconsistent with any of Council's policies or plans?	No
The recommendations contribute to Goal 3: A Connected and Safe Community	
The recommendations contribute to the achievement of action/actions in Connected Communities	
The action is: Upgrade the Papaioea housing complex.	
Contribution to strategic direction and to social, economic, environmental and cultural well-being	<p>The Papaioea Place Redevelopment will:</p> <ul style="list-style-type: none"> • Increase Council's social housing to help meet the demand for this type of housing and reduce the housing waiting list; • Improve the housing condition of the complex by replacing the old units; and • Provide a complex that delivers on the Social Housing Plan.

ATTACHMENTS

1. Papaioea Place Redevelopment - Stage 3 Layout



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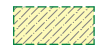


Landscape Finishes Key

Soft Landscape



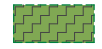
Plant Mix A
Ar'Pa' - Arthropodium 'Pamell'
Asba - Astelia banksii
Pran - Pratia angulata
He'Ww' - Hebe 'Wiri Mist'



Plant Mix B
Pran - Pratia angulata
Ligr - Libertaria grandiflora
Heal - Hebe ablicans
Ar'Pa' - Arthropodium 'Pamell'
Co'Yw' - Corokia 'Yellow Wonder'



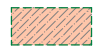
Plant Mix C
Co'Ma - Corokia 'Mangatangi'
Pran - Pratia angulata
Ligr - Libertaria grandiflora
He'Ww' - Hebe 'Wiri Mist'



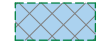
Plant Mix D
Ar'Te - Arthropodium 'Te puna'
Lix - Libertaria ixoides
Pran - Pratia angulata
Asch - Astelia chathamica



Plant Mix E
He'Ww' - Hebe 'Wiri Mist'
Thpo - Thymus polytrichus
Ligr - Libertaria grandiflora
Ar'Pa' - Arthropodium 'Pamell'



Plant Mix F
Fu'pr - Fuchsia procumbens
Ligr - Libertaria grandiflora
Heod - Hebe odora
Tesp - Tocomanthe speciosa



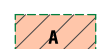
Rain Garden
Pran - Pratia angulata
Dini - Dianella nigra
Ph'Gr' - Phormium 'Green Dwarf'
Apsi - Apodasmia similis



Mixed Citrus Hedge



Communal Garden Bed (400mm high)



Accessible Garden (750mm high with cantilever)



Unit Garden Plant



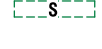
Selliera Radicans Strip Garden



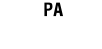
Millennium Picnic Table - lonisstreetscapes.co.nz



Rainwater Storage Tank (for irrigation)



Storage Shed (Garden/other)



Timber framed pergola structure to match roof pitch of community building. Transparent roof to covered portion with foliage climber to portion that extends across path.

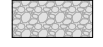
Hard Landscape



Broom finished concrete



Exposed Concrete



Gravel Path



Firth - Piazza Mix
Blacksand
Glacier
Volcanic Ash

Please refer to Plant Schedule for all Plant Mix numbers

Key



Exterior Fence or gate

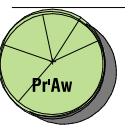


Timber Screen



Bench Seat - Hardwood timber

Tree Key



Prunus Awanui
Flowering Cherry (Pr'Aw)



Somi - Sophora microphylla



Pkre - Plagianthus regius



Mifi - Michelia figo



Ma'JK - Malus 'Jelly King' (crab apple)



Cisi - Citrus sinensis (orange)



Ciau - Citrus aurantifolia (lime)



Cili - Citrus x limon (lemon)

Pscrx - Pseudopanax crassifolius

PAPAIOEA PLACE

RC-3-06



LATITUDE HOMES
Affordable Quality - Easy Build.

1 Stage 3 - Detailed Landscape Plan

Scale 1 : 200 (A3)

Drawing Title
Stage 3 - Detailed Landscape Plan

Description
Papaioea Place Palmerston North

Rev Date Description

ORIGINAL SIZE: A3 0 30mm

Job No. Scale [A3] Drawing No. Rev Issued for:
6700 As indicated L1.01 Resource Consent

Print Date
10/26/2021 6:32:41 PM

Description

BOON

design thinkers

A/131 Courtenay St, New Plymouth 4310, New Zealand
P/06 757 3200 E/office@boon.co.nz W/boon.co.nz

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1 3D VIEW
Scale (A3)



Rev Date Description

ORIGINAL SIZE: A3 0 30mm

Drawing Title
3D View

Job No. Scale [A3]
6700

Drawing No. Rev
RC-3-08

Issued for:
Resource Consent

Papaioea Place Palmerston North

Description

PNCC Social Housing Development - Stage 3

Address

Print Date
11/26/2021 9:11:28 PM



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