

CONFIDENTIAL Report

TO: Council

MEETING DATE: 1 December 2021

TITLE: Award of Contract - Healthy Homes Compliance Upgrades

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)(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 contract.

RECOMMENDATION(S) TO COUNCIL

- 1. That Council awards the contract to Judd Refrigeration Limited for \$1,046,501 excluding GST (\$1,203,476 including GST) to upgrade its housing portfolio to meet the requirements of the new Healthy Homes Standards.**
- 2. That Council increases the budget of Programme 1896 (Social Housing – Healthy Homes Compliance Items Purchase) in the 2022/23 Financial year by \$196,500 for GST which was insufficiently budgeted for in the programme. This will increase the total budget from \$1,310,000 (including GST) to \$1,506,500 (including GST).**
- 3. That Council gives the Chief Executive the delegated authority to vary the contract sum by the maximum amount of 15% 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 Healthy Homes Standards became law on 1 July 2019. These standards introduce specific and minimum standards for heating, insulation, ventilation, moisture ingress and drainage, and draught stopping in rental properties.</p> <p>Council's entire portfolio must be compliant with the new standards by 1 July 2023. In addition, whenever a rental becomes vacant, these rentals must be made compliant with the new standards within 90 days of vacancy.</p> <p>Council engaged an independent external consultant to assess its portfolio. It was found that 346 dwellings do not currently comply with the new increased standards for heating, bathroom ventilation and kitchen ventilation.</p> <p>To address this, a competitive tender process has been undertaken for the supply and installation of 303-heaters, 213-bathroom ventilation and 299-kitchen ventilation units to lift its dwellings meet the Healthy Homes Standards required.</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 preferred tender and enter a contract to deliver the project.</p>
<p>Community Views</p>	<ul style="list-style-type: none"> • No community engagement is required to be undertaken in respect to this matter. However, as this is a legal compliance matter it is expected that Council will ensure its portfolio complies with the new standards. • The new standards are widely understood by the public and tenants and the standards are generally considered to be a positive step towards healthy, safer homes. • In addition, the standards will also make it easier for tenants to keep their homes warm and dry which is also considered to be a positive outcome.
<p>OPTION 1:</p>	<p>Award the Contract to Judd Refrigeration Limited for the Healthy Homes Compliance Upgrade.</p>
<p>Benefits</p>	<ul style="list-style-type: none"> • Council will meet the legislative requirements by upgrading its housing portfolio to meet the new Healthy Homes Standards by July 2023. • Council will secure enough stock of heat pumps and extraction fans along with a contractor to install them. • All social housing units will be warmer and drier homes which will improve tenant health and reduce issues with mould or mildew damage.

Risks	<ul style="list-style-type: none"> • Due to product predominately being sourced overseas and being in high demand, there is still a risk of minor delays and product price escalation. • This will be mitigated as much as possible through early contractor engagement, determining an appropriate delivery programme, and maintaining an appropriate contingency.
Financial	<ul style="list-style-type: none"> • Award the contract for \$1,046,501 excluding GST (\$1,203,476 including GST). • Increase the budget by \$196,500 including GST in the 2022/23 Financial Year.
OPTION 2:	Do Not Award the Contract for the Healthy Homes Compliance Upgrade.
Benefits	<ul style="list-style-type: none"> • None – the social housing units need to be brought up to standards to meet legislative requirements.
Risks	<ul style="list-style-type: none"> • Product supply is in high demand and delays in product would be highly likely to occur meaning Council is unable to meet the healthy Homes Standards within the required timeframe. • There is significant pressure on product pricing meaning the project will almost certainly cost Council more in the future. • Tenancy Services and/or tenants could take Council to the Tenancy Tribunal if social housing units do not meet the required healthy homes standards within the required timeframe. • Council could suffer reputational damage within the community for not meeting healthy homes standards.
Financial	<ul style="list-style-type: none"> • If Council does not meet their obligations under the Healthy Homes Standards, they will be in breach of the Residential Tenancies Act 1986 and may be liable for exemplary damages of up to \$7,200 per property. • Council will need to re-tender the project which will almost certainly see significant cost escalation.

RATIONALE FOR THE RECOMMENDATIONS

1. OVERVIEW

- 1.1 Council Officers engaged an independent external consultant to assess its portfolio. It was found that 346 dwellings do not currently comply with the new

increased standards for heating, bathroom ventilation and kitchen ventilation.

- 1.2 To address this, a competitive tender process has been undertaken for the supply and installation of 303-heaters, 213-bathroom ventilation and 299-kitchen ventilation units to lift its dwellings meet the Healthy Homes Standards required.
- 1.3 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.
- 1.4 Please note that due the project being undertaken in Council's housing portfolio all budgets are GST inclusive.

2. BACKGROUND AND PREVIOUS COUNCIL DECISIONS

Otago Medical School He Kainga Oranga Rental Housing Warrant of Fitness Standard

- 2.1 One of the measures of success within the Social Housing Chapter of the Connected Communities Plan is that Council's social housing is warm and safe, as shown by compliance with the Otago Medical School He Kainga Oranga Rental Housing Warrant of Fitness Standard.
- 2.2 The rental housing WOF Standards cover the same standards as the new Healthy Homes Standards but also include some additional criteria such as metrics around accessibility. Up until recently Council's housing portfolio has generally been compliant with these standards.
- 2.3 The Healthy Homes Standards became law on 1 July 2019. These new Healthy Homes Standards increased the minimum standards for heating, insulation, ventilation, moisture ingress and drainage, and draught stopping in rental properties.
- 2.4 The rental housing WOF standards that Council measures itself against have now also increased to match the new Healthy Homes Standards.

Assessment of Council's Housing Portfolio

- 2.5 In the 2020/21 financial year Council Officers engaged an independent external consultant to assess its portfolio against the new Healthy Homes Standards. It was found that 346 dwellings do not currently comply with the new increased standards for heating, bathroom ventilation and kitchen ventilation.
- 2.6 The consultant also assessed the new Papaioea Place units and it was confirmed that they are 100% compliant with the new standards.
- 2.7 For clarity, the Papaioea Place units are also considered accessible dwellings and have achieved the Lifemark 4 Star Design Standard accreditation.

Scope of Contract

- 2.8 The scope of the contract works involves the supply and installation of 303-heaters, 213-bathroom ventilation and 299-kitchen ventilation units to lift its dwellings meet the Healthy Homes Standards required.
- 2.9 In addition to the supply and installation the Contractor is required to remove all aged, non-compliant stock and undertake make good repairs as required to ensure the best outcomes are achieved.
- 2.10 All product that is deemed to have no residual value or alternative was to be stripped with components recycled, repurposed or reused where possible. It is only when these avenues are exhausted that the product components will be disposed of at a landfill. Any products deemed to have any residual value is be negotiated between PNCC and the tenderer for a rebate.
- 2.11 Council Officers confirm the use of the NZS3915 (2005) construction contract for the work. Given the type of work, the quantum of contractors in the marketplace, and price competitiveness an open tender approach was deemed appropriate to secure the best outcome.

3. PROCUREMENT OVERVIEW

- 3.1 A requested for tender (RFT) was advised through GETS on 1 October 2021 and the tender closed on 22 October 2021. The evaluation panel met on 27 October 2021 to evaluate the tenders.

Evaluation Methodology

- 3.2 There are several factors that were considered when determining the weighting of the non-priced and priced criteria prior to tending. These include, but are not limited to:
- Project outcomes and requirements;
 - Project risks, consequences and impacts;
 - Fit for purpose product supply;
 - Methodology, including the duration of the project;
 - Tenant management and communication;
 - Skills and experience required to complete the project; and
 - Cost of the works to be undertaken and project budgets.
- 3.3 Most of the project cost is directly relating being the supply of product. There are significant pressures of both availability and pricing of these products at present and it is anticipated that there will be product cost increases throughout the programme due to freight and ever-changing product costs.
- 3.4 It is also a highly competitive contractor marketplace in this area with a high number of contractors and the need to be price competitive to win business.

With this in mind, the project team defined a 60% of the overall consideration be given to price to ensure the most cost-effective solution is achieved.

3.5 In addition to pricing there was also a strong weighting put on:

- Fit for purpose Product – including energy efficiency and star ratings, whole of life maintenance costs, warranties, and simplicity of use.
- Methodology – including tenancy management, programme to complete works by July 2023, allowing for product delays, and agility of programme to allow for homes which become vacant to be addressed within the 90-day period.

3.6 A tender review panel was created to evaluate the tender submissions using the weighted attributes method in a two envelope process. This process involves a full evaluation of the quality of the suppliers' submissions, before opening the prices, so as not to influence perceptions of quality.

3.7 The criterion and weightings used were:

Criterion	Weighting
Non-Price Criterion	40%
<i>Fit for purpose product</i>	15%
<i>Methodology</i>	15%
<i>Experience of staff</i>	5%
<i>Local Impact</i>	5%
Price Evaluation	60%
Total	100%

3.8 This procurement along with the evaluation of the tenders received is in accordance with the current Council procurement policy. Council's procurement policy provides consideration towards using local contractors where appropriate. Core Principle 5 of the policy states:

“Local suppliers should be given a fair opportunity to compete for Council business. Where there are valid Council requirements for a supplier to have a local presence, this should be identified in the planning stage and weighted accordingly. Having given local suppliers a fair opportunity and assessed any commercial or practical advantages associated with local supply, staff are required to make purchasing decisions based on best value for money.”

As such a 'Local Impact' criterion was included in the non-price criterion. The tenderers were required to provide commentary on whether they were locally based and the skills of the key team members who will be involved in

the project and whether these staff were local or not. Extra consideration was also given to their contribution to the local community, economy and growing the local workforce.

4. PROCUREMENT EVALUATION

Evaluation Results

4.1 There was a great response to the tender process with seven (7) high-quality and compliant tenders being received from:

- s7(2)(i) Negotiations
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- s7(2)(i) Negotiations
- s7(2)(i) Negotiations
- Judd Refrigeration
- s7(2)(i) Negotiations

4.2 Below is a summary of the attribute scores:

s7(2)(i) Negotiations

4.3 Judd Refrigeration and s7(2)(i) Negotiations were standouts in the non-price criterion and scored considerably higher than the other tenderers.

4.4 Both Judd and s7(2)(i) Negotiations demonstrated excellent product options which were energy efficient, provide good warranties, and had lower whole of life costs. The product being supplied from Judd Refrigeration scored particularly high in this criterion.

4.5 Equally both Judd and s7(2)(i) Negotiations demonstrated strong methodologies which addressed the tenancy management required and an agile programme to complete works by July 2023. In addition to this Judd Refrigeration also demonstrated an unbeatable level of relevant experience and skills of the staff to be used for the project. These two factors provided the evaluation team with a high level of confidence in Judd Refrigeration's ability to deliver.

4.6 In respect to Local Impact, all tenderers had a Palmerston North based office and a degree of permanent local staff. However, **s7(2)(i) Negotiations** and Judd Refrigeration demonstrated significant contributions to the local economy and community through local sponsorship, apprenticeship schemes, and reinvestment into the community, and were scored considerably higher to reflect this.

4.7 Below is a summary of the tender prices and associated scoring:

s7(2)(i) Negotiations

4.8 There were several 'tender tags' and clarifications associated with these tenders (which is expected from tenderers in these situations). Most of these tags were focused on exclusions from scope for things like asbestos removal.

4.9 There were also some price validity tags reflecting some of the tenderers being unable to hold their pricing through until this report could be presented. This was also factored in when accessing a preferred contractor as it created uncertainty and risk for Council.

4.10 Below is the combined summary of the scoring:

s7(2)(i) Negotiations

4.11 Judd Refrigeration and **s7(2)(i) Negotiations** were clearly the highest scoring tenderers once the non-price and price scoring were combined, however for different reasons. Judd provided considerably more confidence through the non-price criterion and were middle of the tender price band. **s7(2)(i) Negotiations**

4.12 Whilst the pricing was assessed as an important factor **(s7(2)(i) Negotiations** **s7(2)(i) Negotiations** Council Officers also had to have confidence in delivery

and look at the overall best outcomes on balance when delivering the project.

- 4.13 After considering this Judd Refrigeration was confirmed as the preferred tenderer based on the weighted attributes method.

5. FINANCIAL CONSIDERATIONS

Healthy Homes Budget

- 5.1 The Healthy Homes compliance upgrades are being delivered over two (2) financial years through Programme 1896. Below is a budget summary over these two (2) years for the project:

Programme 1896	2020/21	2021/22	Total
Social Housing – Health Homes Compliance	\$900,000	\$410,000	\$1,310,000 incl. GST

- 5.2 The Programme budget above was determined by Council Officers using the data obtained from the independent assessment against the new increased standards.
- 5.3 Note as the budgets above are related to social housing they are GST inclusive amounts.
- 5.4 The required project budget is summarised below:

Budget Item	Budget (\$ incl. GST)
Project Management	\$ [REDACTED]
Direct Sourced – Product Supply and Install (excluded from tender scope)	\$ [REDACTED]
Product Supply and Install	\$ [REDACTED]
Contingency (15%)	\$ [REDACTED]
Total	\$ [REDACTED]
Budget Shortfall	\$196,500

- 5.5 Note: Due to some properties becoming vacant prior to the tender process they had to be addressed within the 90-day period specified by the healthy Homes Standards. As such some product supply and install was direct sourced prior to the tender and was excluded from the tender.

Cause of Budget Shortfall

- 5.6 When the budget was determined in the 2021-31 Long-Term Plan this was insufficiently budgeted for in the Programme. It was intended by Council Officers for the \$1,310,000 budget sum to be a GST exclusive sum, not inclusive of GST as was reflected in the LTP.
- 5.7 The result of this is that there is now a budget shortfall of \$196,500 which is equal to the GST portion of the project. The budget will need to be increased by this sum to ensure there is enough budget.

6. CONCLUSION

- 6.1 The tender from Judd Refrigeration Limited scored higher in all four areas of the non-score weighting criterion.
- 6.2 The products being supplied were R32 rated which uses 20% less refrigerant, making them more efficient, cost less to operate and they have an ozone depletion potential of 0. The R32 products are also considered easier to recycle at the end of their life than comparable products.
- 6.3 In addition, the products have good overall energy ratings (star ratings) between 3.98 – 4.6 stars. The higher the COP the more efficient the system is and less power it uses.
- 6.4 Judd Refrigeration added value by considering the product packaging waste and how they dispose of this through recycling and an internally owned polystyrene compactor which is then sold for offshore plastic production. All products also come with 5-year warranties and 5-year labour guarantees.
- 6.5 The methodology and works programme showed a clear understanding into tenancy management and working on properties with on-site tenants. There was an obvious understanding of possible risks and how they would mitigate those risks for example all installers are C-19 vaccinated, pre-scope and priority product ordering, product stocking and excellent Health & Safety processes including all staff having asbestos detection and working with asbestos training.
- 6.6 Judd Refrigeration showed that they had a high level of relevant experience working on similar projects and exceptional staffing capabilities to make sure the project was completed within their specific quality standards and expected timeframes.

6.7 **s7(2)(i) Negotiations**

- 6.8 On balance Judd Refrigeration have provided Council Officers with confidence in their ability to deliver and will provide the overall best

outcomes for the project. The significantly higher assessed scores in the non-price criterion are considered to outweigh the small difference in pricing.

7. RECOMMENDATION

7.1 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 Judd Refrigeration Limited for \$1,046,501 excluding GST (\$1,203,476 including GST) to upgrade its housing portfolio to meet the requirements of the new Healthy Homes Standards.
2. That Council increases the budget of Programme 1896 (Social Housing – Healthy Homes Compliance Items Purchase) in the 2022/23 Financial year by \$196,500 for GST which was insufficiently budgeted for in the programme. This will increase the total budget from \$1,310,000 (including GST) to \$1,506,500 (including GST).
3. That Council gives the Chief Executive the delegated authority to vary the contract sum by the maximum amount of 15% 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.

8. OUTLINE OF COMMUNITY ENGAGEMENT PROCESS

- 8.1 No community engagement is required to be undertaken in respect to this matter. However, as this is a legal compliance matter it is expected that Council will ensure its portfolio complies with the new standards.
- 8.2 The new standards are widely understood by the public and tenants and the standards are generally considered to be a positive step towards healthy, safer homes.
- 8.3 In addition, the standards will also make it easier for tenants to keep their homes warm and dry which is also considered to be a positive outcome.
- 8.4 The tenants will be individually engaged with around timeframes and the matters relating to their specific dwellings once the contract is awarded and the works programme is able to be locked in.

COMPLIANCE AND ADMINISTRATION

Does the Committee have delegated authority to decide? If Yes quote relevant clause(s) from Delegations Manual	Yes
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: Provide warm and safe housing for older people, people with disabilities and other people on low incomes who experience barriers to renting in the private market.	
Contribution to strategic direction and to social, economic, environmental and cultural well-being	Ensuring Council's social housing meets the healthy homes standards and provides warm and safe housing for older people, people with disabilities and other people on low incomes who experience barriers to renting in the private market.

ATTACHMENTS

Nil