

CONFIDENTIAL MEMORANDUM

TO: Infrastructure Committee

MEETING DATE: 5 August 2020

TITLE: Procurement of Road Maintenance, Renewal and Capital Improvement Services

PRESENTED BY: Robert van Bentum, Manager - Transport and Infrastructure

APPROVED BY: Tom Williams, 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)(b)(ii) Third Party Commercial

s7(2)(h) Commercial Activities

REASON FOR CONFIDENTIALITY

The reason for this report to be confidential is
The report details the joint regional procurement strategy agreed by neighbouring TAs and outlines the tender and procurement approach proposed by PNCC for transport maintenance, renewal and capital new services. If this information is made public it may result in unfair commercial advantage.

RECOMMENDATION FOR PUBLIC RELEASE

That the report not be released until Council has confirmed its procurement approach for the retendering of road maintenance, renewal and capital new services later in 2020.

RECOMMENDATION(S) TO COUNCIL

1. That Council approves the adoption of the Joint Rooding Network Procurement Strategy dated July 2020, (attachment 1) for formal submission to NZTA and to inform the procurement of Transport Services under proposed Contract 3938 – Rooding Maintenance, Renewal and Capital Improvement Services.
2. The Council approve the proposed procurement approach and timeline outlined in the Report entitled “Procurement of Road Maintenance, Renewal and Capital Improvement Services” dated 5 August, subject to final endorsement of the Request for Tender at the September 2020, Infrastructure Committee meeting.

1. PURPOSE OF REPORT

- 1.1 As reported to Council (PNCC) in August 2019, Council's existing contract with **s7(2)(b)(ii) Third Party Commercial** for the maintenance, resurfacing and rehabilitation of Council's roading network will come to an end in June 2021. Officers have previously reported to this Committee on the process of engaging with neighbouring Territorial Authorities to develop a shared approach to procurement among the participating Councils and determine the best approach for PNCC procurement of roading maintenance and renewal services following expiry of Contract 3458 on 30 June 2021.
- 1.2 Previous reports to the Infrastructure Committee providing updates to Council on progress with the above have included:
- Council Meeting - 26 August 2019 - Contract 3458 – Road Maintenance, Resurfacing and Rehabilitation 2017-21 – Progress Update
 - Infrastructure Committee Meeting – April 2020 - Contract 3458 – Road Maintenance, Resurfacing and Rehabilitation 2017-21 – Progress Update 2 (as this Committee was cancelled due to the Covid-19 lockdown the report was sent out separately to elected members)
- 1.3 The four Councils, in line with the MOU signed between the parties in December 2019, have continued to advance work on a joint procurement strategy to the point where an agreed document has been finalised and submitted to Waka Kotahi (NZTA) for review. In parallel with this, Council Officers have continued to progress development of PNCC's specific procurement approach, the scope and structure of the contract and timetable for the tender process.
- 1.4 The purpose of this report is three-fold namely:
- To provide Council with an update on progress with finalising the Joint Procurement Strategy and the scope and approach proposed for the tendering of Council's road maintenance and renewal programme of work
 - To seek Council approval for the adoption of the final version of the Joint Roding Network Procurement Strategy following its endorsement by NZTA
 - To seek Council approval of the procurement approach and timetable for tendering of road maintenance and renewal services to enable Officers to begin implementation of the programme of engagement and request for tender.

2. REGIONAL COLLABORATION

2.1 Officer representatives from the four Councils or Teritorial Authorities (TAs) comprising Manawatu, Rangitikei, Horowhenua Districts and Palmerston North City have continued to meet and engage virtually during the Covid-19 lockdown period, facilitated by external consultants from Resolve Group. During this period the following actions were completed:

- The collaboratively funded Joint Roding Procurement Strategy (JRPS) was finalised following review by Officers from the four Councils
- A detailed Regional Supply Markey Analysis (RSMA) was completed as required by NZTA and to inform PNCC's procurement process
- The final version of the Joint Roding Procurement Strategy, along with the Regional Supply Market Analysis, was submitted to NZTA for endorsement
- Officers have continued to collaborate on identifying immediate shared services opportunities leading to several initiatives being advanced:
 - MDC/PNCC collaboration on design and construction of two right turn bay safety improvement projects for Ashhurst Road
 - PNCC are compiling their bridge inspection programme with a view to providing to NZTA for inclusion as a scope variation to the bridge inspection programme on the State Highway (Network Outcome) NOC Contract

2.2 This JRPS has been developed in order to comply with the requirements of NZTA and to inform PNCC's own procurement approach to the engagement of external contractor services for Transport Services. NZTA will be asked to endorse that this procurement strategy:

- is a customised procurement procedure that meets their requirements as defined by the NZ Transport Agency's Procurement Manual?
- applies an acceptable approach to the use of in-house professional services, where relevant.

2.3 The procurement strategy, attachment 1 to this report, includes information summarising the key features of the four Council transport networks, boundaries and key features of their respective transport programmes including budgets and organisational structure. The strategy includes the following sections:

- Section 1 – Introduction to the strategy and its purpose
- Section 2 – Description of the broader policy and regulatory environment
- Section 3 - Background to the networks and organisations
- Section 4 - A review of the possible contract models and their key features

- Section 5 - An evaluation of the contract model fit
 - Section 6 - A description of the proposed procurement approach
 - Section 7 - A description of the procurement environment
 - Section 8 - An explanation of the implementation of the strategy for the various work categories including internal and external professional services and small to medium roading work and
 - Section 9 - Details of the contract and procurement approach for the general road maintenance activities
 - Appendices including Regional Healthy Market Analysis, Supply Market Sounding and Roding Team Organisation Charts
- 2.4 NZTA have confirmed their support for the Joint Roding Procurement Strategy and advised as of 16 July 2020, that letters of endorsement were awaiting approval within NZTA. Given NZTA's imminent approval, Officers are seeking Council approval and adoption of the procurement strategy.

3. PROCUREMENT APPROACH AND TIMELINE FOR PNCC ROAD MAINTENANCE AND RENEWAL CONTRACT

3.1 Introduction

- 3.1.1 As reported previously to Council, Officers supported by external consultants, have advanced work to identify the most appropriate contract model fit for the next generation of the PNCC's Roding Maintenance and Renewal Contract. In line with the other three Councils in the region, the assessment concluded that the option of a hybrid contract built around a traditional model with enhanced performance measures and a focus on outcomes is considered the best fit with Council's goals and aims.
- 3.1.2 The regional collaboration identified that the traditional contract model with enhanced performance measures was the preferred model of contract for all the TAs. As previously advised, Manawatu and Rangitikei District Councils have decided to exercise their contract roll-overs of a further 3 years from 1 July 2021.
- 3.1.3 Discussions in early 2020, indicated that Horowhenua District Council were open to the option of a single shared contract with Palmerston North. Following Covid-19 and faced with pressures to reduce capital budgets and delivery of additional work through the Provincial Growth Fund, Horowhenua DC have elected to exercise the option of the 3-year roll-over on their existing contract. HDC remain open to the option of including some elements of their renewal and capital new programmes, which currently fall outside their existing contract, as additional elements in a new PNCC contract.

3.1.4 PNCC Officers have since June 2020, been advancing work on the scope, structure and specifications for a new PNCC Roading Maintenance, Renewal and Capital Improvement Contract. The contract is being developed based on the following key requirements and over-arching principles:

- The new contract will commence on 1 July 2021 and have a duration of 9 years comprising 3 terms of 3 years. This is to leave open the option of alignment and merger with the collaborating councils.
- That a Registration of Interest and interactive tender process will be used to ensure good engagement with the market and to maintain a healthy and competitive tension in the bids.
- That the contract will be reduced in complexity, with improved specification of work, use of simple and measurable KPIs, and improved scheduling of cyclic work and routine work items.
- That the contract documentation is updated to incorporate the latest legislative requirements and NZTA's recent requirements in respect of the One Network Road Classification (ONRC).

3.2 Proposed Scope of New Contract

3.2.1 The current Contract 3458 is largely restricted to core road maintenance and renewal services including pavement repairs, drainage cleaning, litter and detritus removal, traffic signs and services, some structures repair work and vegetation control, as well as drainage renewal, pavement renewal and re-sealing works. Other works such as bridge maintenance and minor capital improvement works are engaged by agreement by variation to the core contract. The current scope of work comprises a value of approximately \$4 to \$5m per annum.

3.2.2 Council has more than 10 separate annual or multi-year contract engagement for other roading services including streetlight maintenance and renewal, traffic signals maintenance and renewal, footpath maintenance and renewal, line-marking, traffic data services and bridge maintenance works. These contracts account for spending of approximately \$2m per annum.

3.2.3 Council currently tenders capital improvement work through discrete tender engagements. While some major capital projects exceeding \$1 to \$2 million are required by NZTA to be engaged through an open tender process, a significant portion of the capital programme represents physical works of <\$100,000 and can be procured through direct engagement provided Council can demonstrate market competitiveness in the rates.

3.2.4 All the existing contracts have been varied or extended to ensure that they all terminate on 30 June 2021 and all providers have been advised that there is no

certainty that any of the contracts will be extended in the current form. This decision was made to ensure that Council had the option to consider the inclusion of the full scope of work undertaken in the transport area within

- 3.2.5 The procurement strategy has highlighted the need for the scope of the Roding Maintenance and Renewal Contact to be extended to ensure the value of work is attractive to any potential tenderer both to support investment in the resources and capability required to deliver on the contract outcomes, but also to support investment in innovation, data sharing and asset management by the contractor.
- 3.2.6 The overall objective is to attract a second provider to the local market to create more healthy market tension. The procurement strategy identifies the need for a critical value of work to enable that to occur. There is also an opportunity to achieve improved value for Council by simplifying the procurement of minor capital improvement works by leveraging competitive rates achieved through a multi-year contract.
- 3.3 Officers have reviewed the range of supplier arrangements and consider the following items should be included in the contract scope. Some of the capital works components would require agreement on pricing and be subject to confirmation that pricing is market competitive.
- General pavement maintenance
 - Routine maintenance including pothole repair, drain clearing, litter and detritus removal, vegetation control, traffic signs and services
 - Pavement marking
 - Pre-reseal repairs and reseals
 - Street lighting
 - Footpath maintenance and renewals
 - Bridge maintenance and minor repair works
 - Emergency works (first response)
 - Minor capital improvement works involving simple civil works such as footpath extensions, road safety and pedestrian improvements
 - Capital improvement projects with significant sealing and line marking components e.g. Urban Cycle Network projects
 - Inspections of third-party utility works prior to sealing and subdivision roading assets prior to vesting

3.3.1 Work components likely to be excluded from the contract and managed through separate contracts include structural bridge repairs, bridge inspections and professional services.

3.3.2 To align with Council's priority to ensure local businesses are supported and to ensure that some of the existing contractors undertaking work outside the contract have an opportunity to secure work, the requirement for 20% by value of the work to be undertaken by local sub-contractors will be included in the contract. Any successful supplier will be required to have a local base and will inevitably employ local staff.

3.4 Contract Evaluation Focus

3.4.1 The existing contract is a largely transactional one which specifies the frequency and nature of each element of work in detail resulting in a complex 600page document. The previous tender processes have had a very strong focus on price, which has resulted in low rates for several routine schedule items. The low prices for items such as pothole repairs and vegetation control has driven a very reactive approach to network maintenance, contributing to a significant mismatch between user expectations and network performance.

3.4.2 Council is looking to change the drivers and incentives in the new contract to develop a collaborative approach to prioritise and optimise where the maintenance budget is spent for the best outcome for all road users. The aim is to work with the Contractor to allocate resource, effort and funding to drive what is best for network. To achieve this will require a contractor with a strong understanding of good asset management, smart data capture tools and the ability to transform data into intelligence to drive pro-active programmes of work.

3.4.3 Reflecting the step change towards an outcome rather than an output driven contract, the contract envisages the following emphasis for the typical attributes:

- Relevant experience – low weighting given all suppliers will have existing expertise
- Relevant skills – similar low weighting
- Methodology – majority of the focus given this heavily influences the outcomes. Proposed sub-attributes include:
 - Application of Asset Management- Demonstrated application to deliver best for asset
 - Intelligent programming - Smart data capture and analysis tools informing intelligent and prioritised programme investment
 - Innovation – More value for same or less investment

- Track Record – medium weighting to enable realistic scoring of incumbent performance
 - Resources – low weighting as all suppliers will claim resources. Proposed sub-attributes include:
 - Skills development and training
 - Management to promote collaboration and innovation
 - Price to be limited to 20 to 30% overall and include a price quality premium. Essential that price is sufficiently low to encourage innovation but not threaten affordability.
 - Financial viability – low weighting given low risk for all current suppliers
 - Health and Safety – compliance only
- 3.4.4 To avoid the risk particularly of the incumbent submitting a very low price to win, the contract will include sustainable market evaluation criteria to ensure the rates and prices provided can deliver the services sustainably.
- 3.5 Contract Performance Measures and Incentives
- 3.5.1 As already outlined, the change from an output to an outcome focussed contract is intended to incentivise the contractor to identify the best optimised allocation of spending across the network. The contract will as currently set some very specific response times for urgent and critical response outcomes e.g.
- Safety related asset maintenance items e.g. traffic signal operation, responding to incidents where assets are damaged and cause safety issues for road users e.g. vehicle crashes or vandalism
 - Emergency event response e.g. traffic management during storms or floods and rapid response in respect of clearing debris. A new approach to managing storm event Requests for Service will be sought focussed on post-event problem solving
- 3.5.2 As part of the focus on outcomes the contract will include new and more specific requirements in the following areas:
- Specific level of service KPIs for the condition of footpaths in high pedestrian area and cycle lanes on the urban and off-road cycle networks to incentivise timely and appropriate sweeping, litter removal and maintenance
 - Specific levels of service KPIs for pro-active and seasonal programming of maintenance based on risk and outcome e.g. sump cleaning, drain cleaning, leaf pick-up, tree and vegetation control
 - Specific requirements for annual condition surveys of key asset groups to inform and populate renewal programmes for such assets as roundabouts, pedestrian crossings, streetlights, traffic signals, signs, traffic markings to ensure work is completed cost effectively

3.5.3 The contract will include payment for deliverables such as:

- provision of graphic rich analysis of the network condition to inform programme development
- monthly dashboard activity reporting facilitating audits and claims verification
- client and contractor shared views of forward work programmes and budgets
- monthly contract meetings focussed on improvements and issues resolution
- quarterly governance meetings to drive culture and innovation

3.5.4 Other changes to the contract to help deliver improved outcomes will include:

- Provision for alternative design solutions for re-sealing where the road includes a priority cycling route to deliver a better service for cyclists
- Commitment that minor capital works are offered to the contractor for pricing and delivery and only externally tendered if the submission does not meet client expectations
- Explicit expectation of continuous improvement and the commitment that any savings due to changes to contract scope or level of service are re-allocated to a higher priority area within the contract
- Annual programming and scheduling early in the year of major elements of work with meaningful financial penalties for non-delivery or non-performance where this is within contractor control
- Minimum standards of Health and Safety and Traffic Management which delivers for all road users

3.6 Contract Tender Timeline

3.6.1 To provide enough time for suppliers to mobilise resources and establish themselves ahead of a 1 July 2021 start date for a new contract, it is preferable that the successful tenderer is confirmed by early 2021 to provide a minimum of 4 months for establishment. Council have been working to the following programme timeline.

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| • Initial Supplier Engagement | Jun 2020 ✓ |
| • Joint Procurement Strategy Endorsed by NZTA | Jul 2020 ✓ |
| • Joint Procurement Strategy Endorsed by PNCC | Early Aug 2020 |
| • Expression of Interest | Early Aug 2020 |
| • Procurement and Tender Approach Endorsed by PNCC | Sep 2020 |
| • RFT Developed and Finalised | Sep 2020 |
| • Tender Period | Sep to Nov 2020 |
| • Interactive Contractor Engagement | Oct 2020 |

- Tender Evaluation Dec 2020
- Contract Approvals Dec 2020
- Contract Award Jan 2021
- Contract Mobilisation Feb to Jun 2021

3.6.2 While good progress has been made to finalise the procurement strategy, there is significant work still required to develop the new tender and contract documents, which it is expected will take until late September to be completed. The tender period is scheduled to run until the end of November, with tender evaluation occurring in December just prior to the end of year close. Given the end of year shut-down, Contract Approvals by Council are unlikely to occur until February 2021, delaying the award of the contract until March 2021.

4. IMPROVEMENTS TO CURRENT CONTRACT ENGAGEMENT

4.1 Since the earlier review undertaken of the current network maintenance contract in June 2019, we have had the Covid-19 lockdown period when contract activities were severely curtailed. This was followed by the start-up phase with a significant focus on completing a significant delayed maintenance and renewal works prior to the end of June 2020. During the lockdown period, Council's Activity Manager- Transport joined the team.

4.2 These activities have diverted the focus and prevented progress on most of the improvement actions identified during the review completed more than 1 year ago. Council has however implemented a few initiatives with the Contractor to address concerns raised during the review. These include:

- Early finalisation of the re-seal programme for 2020-21 and confirmation of the scope of pre-seal repairs to be undertaken enabling re-seal to start from November 2020.
- Completion of an external review of the network condition to inform maintenance and renewal priorities for the next few years, which confirmed and endorsed the proposed re-focus of funding priorities toward targeted pavement maintenance and an expanded programme of re-sealing.

5. PNCC has ALSO started working with s7(2)(b)(i) Third Party on the quality of the RAMM data capture and work order submissions using information provided by a third-party diagnostic reporting tool. The improvements to data capture will improve prioritisation of work and capture of data for asset management planning.

5.1 Further initiatives planned include:

- A resumption of governance level meetings to identify further improvement initiatives and ensure the key contract delivery timetables are met
- Re-startING work on improved monthly dashboard reporting as well as setting up links for PNCC staff to s7(2)(b)(ii) Third Par in-house cloud-based GIS and financial data monitoring system

6. NEXT STEPS

6.1 Following endorsement of the Joint Rooding Procurement Strategy by NZTA and Council, Officers will continue to advance the specific scope and details of PNCC's contract for roading services. Key next steps will include:

- Issuing an Expression of Interest invitation to all prospective contractors
- Completing the contract and tender documents
- Obtaining Council approval for procurement and tender approach

7. COMPLIANCE AND ADMINISTRATION

Does the Committee have delegated authority to decide?	No
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 1: An Innovative and Growing City	
The recommendations contribute to the outcomes of the City Development Strategy	
The recommendations contribute to the achievement of action/actions in the Strategic Transport Plan	
The action is: Deliver roading and parking maintenance and renewal in a cost-effective way according to the Rooding Efficiency Group's One Network Road Classification and Customer Levels of Service.	
Contribution to strategic direction and to social,	The procurement of roading and ancillary maintenance and renewal services in a cost effective, efficient and pro-active manner which delivers innovation and value is central to delivering on the Strategic

economic, environmental and cultural well-being	Transport Plan. Securing a long-term sustainable contract for services is critical to realising the plan purpose and priority 2 of the City Development Strategy of “providing infrastructure to enable growth and a transport system that links people and opportunities, and provides amenity, safety, interconnectivity, accessibility, resilience and reliability.
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ATTACHMENTS

1. Appendix 1 Joint Roading Procurement Strategy June 2020
(withheld LGOIMA 7(2)(h) commercial activities)