

21.2.24 LAKE DUNSTAN WATER SUPPLY PROCUREMENT

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Public Excluded

Section under the Act	The grounds on which part of the Council or Committee may be closed to the public are listed in s48(1)(a)(i) of the <i>Local Government Act 2002</i> .
Sub-clause and Reason:	s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.

1. Purpose of Report

To consider and approve the procurement approach to securing a contractor to undertake the construction of the Lake Dunstan water treatment plant, bore, water tanks and ancillary work.

Recommendations

That the Council

- A. Receives the report and accepts the level of significance.
- B. Approves negotiation with Fulton Hogan for direct appointment for a contract to construct the Lake Dunstan water treatment plant, bore water tanks and ancillary work subject to ensuring that their price is competitive.
- C. Approves the appointment of SwitchBuild for SCADA services and Marshalls / Palls for membrane supply and installation

2. Background

Council has been investigating water supply upgrading options for Alexandra to address customer dissatisfaction with the taste, odour, and hardness of the current supply for a number of years.

Various treatment options have been investigated and in August 2020 Council approved the construction of a membrane water treatment plant to supply water treated to the New Zealand Drinking Water Standards to the Alexandra and Clyde communities. The estimated value of the remaining work is in the order of \$9.8 million dollars with construction to be completed by 30 June 2022.

The Lake Dunstan Water Treatment project covers the bore field development adjacent to Lake Dunstan, and the construction of the water treatment plant and water balance tank at Lake Dunstan.

The project also included the construction of 10.3km of 500mm diameter main pipeline between Clyde and Alexandra. Construction of the pipeline was competitively tendered in 2019, with Fulton Hogan being the successful tenderer. The pipeline was completed in March 2020.

Stantec were commissioned through an open tender process in 2017 to undertake design of the pipeline, bore field, water treatment plant, and water balance tank.

The design is now largely completed, and contract documents have been prepared for the construction phase.

3. Discussion

Council are now in a position to procure a contractor to undertake the construction of the Lake Dunstan water treatment plant, bore field and balance tank. The total estimated construction cost is \$9.2million. This excludes design costs.

This is made up of the following:

Nominated sub-contractor/suppliers	\$3.864 million
Main contractor	\$2.216 million
Predominantly subcontractor/supplier components	\$2.276 million
Contingency	\$840k
Total estimated construction cost	\$9.196 million

Procurement Policy

Council's Procurement Policy states that direct engagement of a supplier in the absence of competition should only be used in certain circumstances. Each of these circumstances is shown on the table below, as well its relevance to the Lake Dunstan water supply construction procurement.

Circumstance	Relevance
The services required are specialist technical or professional services	✓
Council is part of a joint procurement process;	X
No acceptable responses were received through open competition for the same core requirements, carried out within the last 12 months;	X
The products, services or works are an addition to, and necessary for the complete delivery of an existing supply arrangement, provided that the original supply arrangement was openly advertised, and a change of supplier cannot be made for economic, technical or practical reasons;	X
The overall rates offered are the same or lower than that received through open competition for the same core requirements, carried out within the last 12 months.	X
The goods or services are only available from a few suppliers;	✓

It is not practical or cost-effective to conduct an open tender or proposal;	X
There is limited time for the procurement process.	✓

The unique circumstances around this particular project, the time frames, and resource demands, warrant special consideration against the procurement policy.

Nominated Sun-contractor/suppliers

Council already has agreed supplier arrangements in place for two components of the work.

SCADA related services are provided by SwitchBuild who are a Dunedin based company. SCADA is the automation control and alarm system that is used to operate the water and wastewater networks.

SwitchBuild became a preferred supplier through an open tender process and currently provide SCADA related services for the entire Central Otago water and wastewater network. The company has performed very well and provided competitive pricing for process design work. SwitchBuild have also provided input into the design of the Lake Dunstan Project. The new process and control components need to interface with the existing system. The use of alternative suppliers would introduce issues regarding security and reliability of the network.

Direct appointment of Switchbuild for the SCADA related services is aligned with the procurement policy. This requires compatibility with existing equipment and services, standardisation is essential, and can only be achieved through the continued use of Switchbuild for this work.

Marshalls / Palls are the membrane supplier for water treatment systems. There are two main suppliers of membranes in New Zealand (the other being Memcor) and both suppliers were invited to tender via a selected tender process for membrane investigations and trials in an earlier phase of the Lake Dunstan project. This was a formal Request For Proposal process managed by Stantec. Marshalls / Palls were selected as the preferred supplier. They have undertaken the trials professionally and council has been satisfied with their performance. Through the trial process they have gained considerable knowledge which will be beneficial in the upcoming construction phase.

Based upon the above the recommended approach is to have both SwitchBuild (SCADA) and Marshalls / Palls (membrane supply and installation) identified as nominated suppliers within the physical works Request For Proposal. Prices will be obtained from each of these nominated suppliers for their components of the work and be reviewed to ensure they are in line with market prices and offer good value to Council. The prices will be benchmarked against other similar work from other councils.

Main Contractor and Sub-Contractors and Suppliers

The scope of the remainder of the construction contract would cover the optimisation of the design, civil construction, construction of the building to house the water treatment plant, bores and the two water tanks.

It should be noted that over 50% of the value of the work would be undertaken by specialist sub-contractors and material provision by suppliers. This includes considerable electrical work, supply of pre-constructed tanks, and construction of buildings.

The role of the main contractor will be to manage the program, site works, supply of materials, sub-contractors, and nominated suppliers, construct pipe work, undertake earthworks and installation of tanks and ancillary work.

Under a traditional tendered approach, the main contractor engages the suppliers and specialist sub-contractors as part of their submitted tender. The client has no involvement in the engagement of suppliers and sub-contractors unless they are nominated in the tender.

Council has options regarding the procurement of the main contractor and subcontractors and suppliers which are discussed below. There are a number of considerations which may influence the decision on procurement approach.

These include:

- Timing
- Cost
- Market conditions
- Risk

Timing

This is a specialist construction project with significant risks around delays to timeframes. The project has already experienced significant delay in construction of the treatment plant due to unexpected water quality issues identified during preliminary investigations.

The Alexandra bore field is nearing the end of its functional life, and this is impacting the quality of water that is drawn through the bores during high turbidity in the Clutha River. This is making the Alexandra water supply highly vulnerable to weather events and there is an increased risk of a boiled water notice.

An open tender process will take three months, and cost council approximately \$70,000. The estimated completion date if the project is tendered is June 2022. If a negotiated tender is undertaken, then the expected construction completion date is March 2022.

There are substantial materials which will need to be sourced from overseas. COVID-19 is affecting material supply and shipping from these countries. Early procurement will help to mitigate the risk of material delays causing disruption in construction. This is a risk that is currently hard to quantify however the project team will update the Project Governance Group regarding this every month.

Market Conditions

In terms of the likely tenderers for a construction project of this nature there are likely to be two viable companies which have been tendering in this region, Downer and Fulton Hogan. This has been borne out through a number of construction procurement exercises over recent years.

Downer were the contactors on the Cromwell Wastewater Treatment Plant upgrade and there are some outstanding contractual issues during the maintenance period which may need to be resolved through legal channels. These outstanding issues are likely to negatively impact on scoring of a Downer tender.

In comparison, Fulton Hogan have had significant involvement in the Lake Dunstan project over recent years via the Utilities Maintenance contract which they have held since 2013. Their knowledge on the project has provided benefit to council. They have been involved in the testing phase and have a good understanding of the site conditions and background to the

projects. In the work that Fulton Hogan have undertaken to date they have performed at a high level with a strong local base.

Based upon the above it is proposed that council negotiate with Fulton Hogan for this construction project and it be a direct appointment subject to ensuring that their price was competitive. Their submitted price would be reviewed by council staff and Stantec to ensure it was market competitive.

Risk to Delivery of Water and Wastewater Capital Project Work Programme

Council has \$32.7 million of capital water and wastewater improvement projects underway. This includes the Clyde Wastewater Project (\$12.68 million), the Lake Dunstan Water Supply Project (\$9.8 million), the Omakau Water Supply Project (\$2.1 million) and water stimulus capital work (\$8.1 million).

This work is on top of the usual annual renewals work program. The water stimulus funded work has stringent timelines associated with it, with work required to be completed by the 30 March 2022. There are high community expectations to have the remaining projects delivered as soon as possible.

This programme of work is placing extreme pressure on limited internal resources. While recruitment for additional staff is underway, recruitment of experienced staff is difficult in the current employment market and environment of reform change. Additional resources are being contracted in where possible, but there are still high internal management requirements associated with delivering this work programme.

The use of a contractor which has existing contractual relationships with Council and has an existing working relationship with the design consultant, and is familiar with Council's work practises and expectations would assist in mitigating the impacts of this ambitious work programme on internal resources.

Summary

This is a specialist construction project with significant risks around delays to timeframes. It is critical that council have contractors that have the appropriate specialist skills and relevant experience on the project. While the overall construction costs are significant, the fact that these costs will be shared amongst a number of sub-contractors means there is a spread of work amongst the contracting industry. All these factors justify the procurement approach outlined above.

If Council chose to go out to open tender it is highly likely that, based upon previous projects, that Fulton Hogan would be the preferred supplier. This process however would take approximately three months which is a further delay on a project that should have been delivered in 2020. Additional costs would also be incurred with the costs associated with a procurement process estimated to be \$50-70K. Fulton Hogan would also incur costs to tender and would generally recover these through their tendered price.

This delay is critical for the Lake Dunstan project. The Alexandra water supply is highly vulnerable to water events and there is an increased risk of a boiled water notice occurring. There are benefits in fast tracking this project and getting the construction completed as soon as possible.

4. Options

Option 1 – (Recommended)

Council negotiates with Fulton Hogan for the construction contract and it be a direct appointment subject to ensuring that their price was competitive.

In addition, that both SwitchBuild (SCADA) and Marshalls / Palls (membrane supply and installation) be identified as nominated suppliers within the construction contract.

Advantages:

- Fulton Hogan, SwitchBuild and Marshalls / Palls all have expertise, background and knowledge of the Lake Dunstan project which will reduce risks and costs.
- Fulton Hogan, SwitchBuild and Marshalls / Palls have already been through previous competitive processes and selected by council to undertake work on the project.
- The timeframes to commence construction will be reduced by three months reducing risks around timeframes being met.
- Earlier ordering of materials that need to be sourced from overseas, where COVID is impacting on delays in material supply and shipping.

Disadvantages:

- Not procured through an open tender so risks that costs will be higher. This can be mitigated by benchmarking against other projects and a review by Stantec.
- No opportunities for other contractors to tender. Mitigated by the fact that previous procurement exercises have identified a limited range of other suppliers that would realistically be appointed by council.

Option 2

Council procures the construction services via an Open Tender process.

Advantages:

- Full transparency and alignment with council’s procurement policy.

Disadvantages:

- Unlikely to alter parties selected to undertake the construction but with additional costs and a three month delay in construction, with an increased risk of boiled water notices.
- Delay to the procurement of materials which are required to be sourced from overseas, increasing the risk of construction time delays and cost increases.
- Increased workload on limited internal resources may impact on delivery of other projects.

5. Compliance

<p>Local Government Act 2002 Purpose Provisions</p>	<p>This decision enables democratic local decision making and action by, and on behalf of communities.</p> <p>This decision promotes the (social/cultural/economic/environmental) wellbeing of communities, in the present and for the future by providing a safe and resilient water supply.</p>
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Financial implications – Is this decision consistent with proposed activities and budgets in long term plan/annual plan?	Yes
Decision consistent with other Council plans and policies? Such as the District Plan, Economic Development Strategy etc.	Direct appointment is in accordance with the procurement policy, when supported by special circumstances. The rationale and reasoning is outlined in the body of the report.
Considerations as to sustainability, the environment and climate change impacts	Yes - these will be built into tender documents, or negotiations.
Risks Analysis	Identified in the body of the report.
Significance, Consultation and Engagement (internal and external)	This project has been consulted on in the 2018 Long Term Plan.

6. Next Steps

- Develop contract documents and issue to Fulton Hogan
- The project team optimise the design
- Receive and review estimates
- Commence project works
- Completion 30 March 2022

7. Attachments

Appendix 1 - Project Components.docx

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11/03/2021



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