

**WORKS AND SERVICES COMMITTEE MEETING HELD ON MONDAY
29 JUNE 2015 AT MEMORIAL HALL SUPPER ROOM, ESPLANADE,
KAIKOURA.**

AGENDA

1. Apologies

2. Matters of Importance to be raised as Urgent Business.

3. Reports:

- Operations and Maintenance Manager's Report *page 1*
- Roading Contract *page 6*
- Budget Report *page 15*

4. Urgent Business

5. Works & Services Public Excluded Session

Moved, seconded that the public be excluded from the following parts of the proceedings of this meeting, namely

a. Confirmation of Minutes 20/05/2015

The general subject matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) and 7(2)(i) of the Local Government Information and Meetings Act 1987 for the passing of this resolution are as follows:

| General subject of each to be considered | Reason for passing this resolution in relation to each matter | Grounds of the Act under which this resolution is made |
|---|--|---|
| Roading Contract | The exclusion of the public from the whole or the relevant part of the proceedings of the meeting is necessary to enable the Local Authority to protect information where the making available of that information would likely unreasonably to prejudice the commercial position of the person who supplied the information or who is the subject of the information. | Section 48(1)(a) and 7(2)(b)(ii) |

Operations and Maintenance Manager's Report

1.0 WATER SUPPLY

1.1 Urban Water

Operations – Kaikoura Urban Supply

This facility operated satisfactorily during the reporting month.

Expenditure for operations and maintenance is still running above budget levels.

Significant Work planned for 2015 includes:

- South Bay pipe replacement (this project is reliant of an archaeological consent and a cultural impact report and approval). This project will be delayed and have to be completed in 2015/16.

Water Demand

Table 1 below shows the water demand for the reporting month measured from the Mackle's bore while Figure 1 shows the yearly cumulative water demand since 2009.

| Water Demand (m³/day) | | | | |
|---|------------|------------|------------|---------------------|
| | Min | Avg | Max | Total Demand |
| January 2014 | 1928 | 3002 | 3667 | 93,052 |
| February 2014 | 2712 | 3339 | 3968 | 93,494 |
| March 2014 | 1534 | 2510 | 3671 | 77,796 |
| April 2014 | 1436 | 2609 | 3723 | 78,257 |
| May 2014 | 1316 | 2639 | 3874 | 81,834 |
| June 2014 | 2072 | 2710 | 3403 | 81,305 |
| July 2014 | 1629 | 2166 | 2681 | 67,158 |
| August 2014 | 1791 | 2271 | 2989 | 70,415 |
| September 2014 | 1686 | 2546 | 3374 | 76,395 |
| October 2014 | 1686 | 2252 | 3582 | 88,708 |
| November 2014 | 2246 | 3259 | 4670 | 97,780 |
| December 2014 | 2403 | 3444 | 4556 | 106,765 |
| January 2015 | 3169 | 4327 | 5296 | 134,124 |
| February 2015 | 3325 | 4353 | 5185 | 121,886 |
| March 2015 | 2808 | 3500 | 4493 | 108,502 |
| April 2015 | 2398 | 3119 | 4321 | 93,557 |
| May 2015 | 1691 | 2519 | 3088 | 78,095 |

Table 1: Water Demand for reporting period

There was a reduction in water use compared to the same time last year however this appears to be the month that the increases began. The overall usage is still the highest since 2010/11.

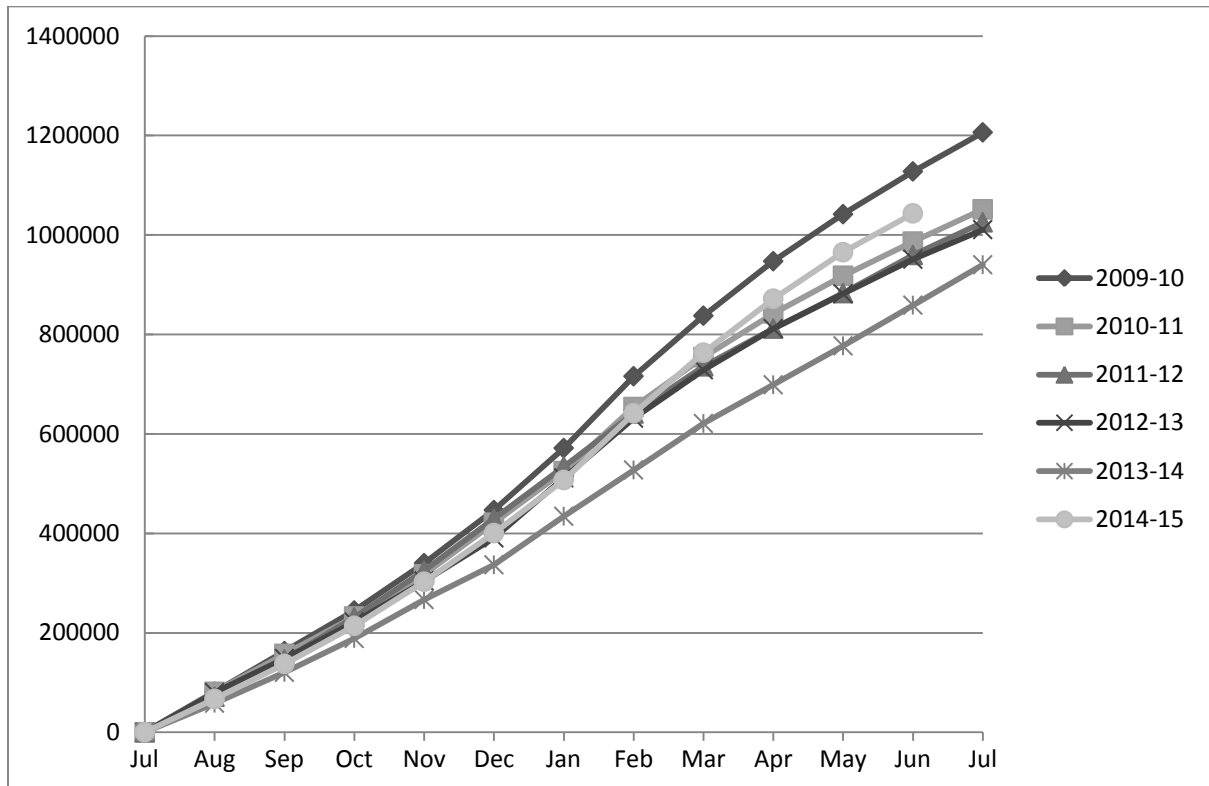


Figure 2: Cumulative Water Demand in cubic metres

Operations – Suburban Supply

There were no issues with this system during the reporting month.

1.2 Kincaid Water Supply

There were no issues with this system during the reporting month.

1.3 Oaro Water Supply

There were no issues with this system during the reporting month. The new main water meter has been installed.

1.4 Fernleigh Water Supply

There were no issues with this system during the reporting month. The new main water meter is being installed.

1.5 Ocean Ridge Water Supply

There were no issues with this system during the reporting month.

1.6 Peketa Water Supply

There were no issues with this system during the reporting month. The new main water meter has been installed.

1.7 East Coast Water Supply

The system exceeded its limits for e-coli. This supply is predominantly for stockwater and is not chlorinated. There were no other issues with this system during the reporting month.

2.0 SEWER SYSTEM

| <i>Sewage flows (m3/day)</i> | | | |
|------------------------------|------------|-------------|---------------------|
| | <i>avg</i> | <i>Max*</i> | <i>Total Flow**</i> |
| <i>January 2014</i> | 868 | 1839 | 32,823 |
| <i>February 2014</i> | 957 | 1139 | 26,802 |
| <i>March 2014</i> | 1095 | 2357 | 33,938 |
| <i>April 2014</i> | 1642 | 2516 | 49,247 |
| <i>May 2014</i> | 1004 | 1927 | 31,141 |
| <i>June 2014</i> | 1028 | 2500 | 30,830 |
| <i>July 2014</i> | 857 | 2500 | 26,571 |
| <i>August 2014</i> | 677 | 860 | 20,975 |
| <i>September 2014</i> | 668 | 1233 | 20,052 |
| <i>October 2014</i> | 775 | 1321 | 24,025 |
| <i>November 2014</i> | 888 | 1537 | 26,641 |
| <i>December 2014</i> | 986 | 1266 | 30,557 |
| <i>January 2015</i> | 1029 | 1318 | 31,901 |
| <i>February 2015</i> | 981 | 1183 | 27,478 |
| <i>March 2015</i> | 892 | 1025 | 27,662 |
| <i>April 2015</i> | 945 | 1284 | 28,361 |
| <i>May 2015</i> | 776 | 909 | 24,046 |

Table 3 : Sewage generated for reporting period

*The asterisk figure represents daily flows during heavy rainfall events.

**The double asterisk figure has not been adjusted to reflect inflows from storm-water.

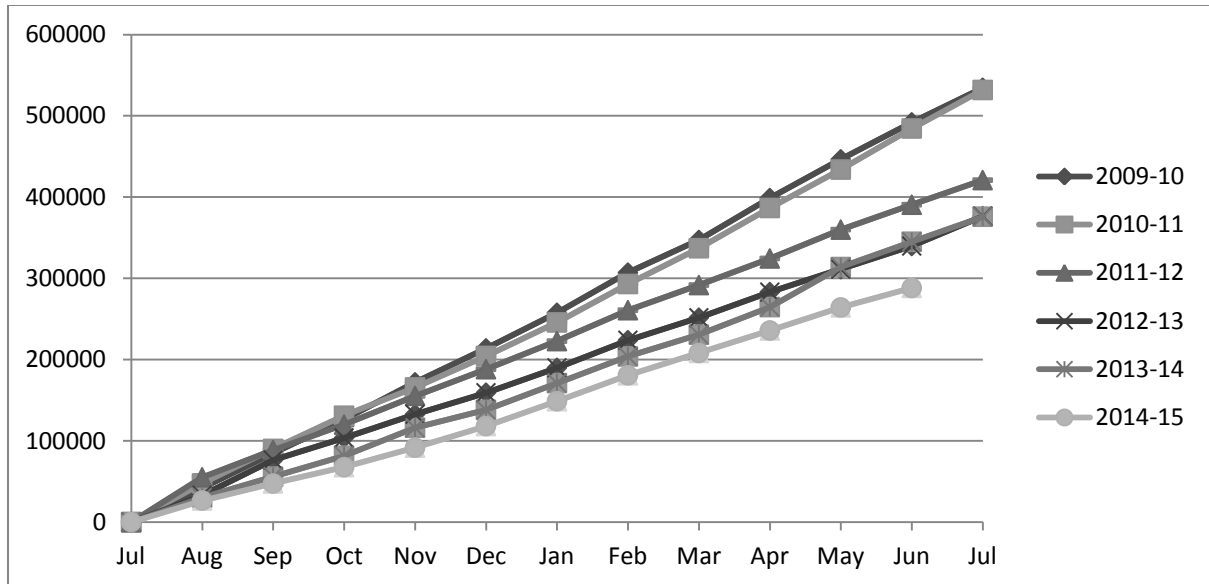


Figure 2: Cumulative Sewerage Discharge from Oxidation Ponds in cubic metres

The fans at Gillings Lane and Hawthorne Road are being replaced. This may address the odour issues at these sites.

3.0 STORMWATER

The consent for the Kaikoura Urban Area is still being processed by Environment Canterbury.

4.0 PARKS AND RESERVES

The parks and reserves were satisfactorily maintained during the reporting month. A further section of retaining wall is being constructed on Tom's Track. The reserves maintenance contract has been extended for a further year to June 2016. This is the last renewal however further renewals could take place by agreement.

5.0 BUILDINGS

The disabled access to the hall has been completed apart from the final painting. Significant Work planned for 2015 include:

- Replacement of existing light bulbs and miscellaneous fittings.

6.0 AIRPORT

Levelling has taken place at the northern end. This area will be grassed in the spring. There have been issues with stock on the runway.

7.0 SWIMMING POOL

The swimming pool is now closed for the winter with minor works to occur.

8.0 PUBLIC TOILETS

From inspections carried out, the toilets were found to be in very good condition.

There has been no progress on the proposed East Coast Toilets.

9.0 ROADING

Significant work planned for 2015:

- Replacement of two old concrete arches on Mt Fyffe Road.
- Replacement of mercury vapour lights likely to be purchased subject to identification of most appropriate light to minimise bird strike.

The contract for 818 metres of kerb and channel on Torquay, Ramsgate and Margate Street, the entrance to the Top 10 Holiday Park and in front of the cemetery has been let to Downers. Delays due to additional consent requirements for the historical and cultural approvals have occurred to the Torquay, Ramsgate and Margate Street sections.

Heavy seas have eroded further towards the road on the Esplanade and Kaka Road frontages. Damage has also occurred in front on the Boat Club slipway on Kaka Road. The Council will endeavour to obtain a temporary consent that enables it to undertake maintenance repairs using rock.

10.0 FOOTPATHS

No additional work has been undertaken.

Significant work planned for 2015:

- New footpath along Beach Road north of New World.

Recommendation: That this report be received.

Author: Operations and Maintenance Manager
Endorsed by the Chief Executive Officer

ROADING CONTRACT

1.0 BACKGROUND

At present the contract for delivery of physical works, with the associated management and reporting, is held by Downer and is worth approximately a million dollars per annum.

This contract terminates on 30 June 2015.

The Council has had offers of service that cover all the requirements for the period July to August 2015. These offers can remain in place until a new Roading Maintenance Contract is established.

Delivery of roading maintenance and renewals can occur through a Council Controlled Organisation, another local authority or another person or agency with an advertised contract such as presently exists with Downer subject to procurement procedures that comply with NZTA requirements.

Section 17A of the Local Government Act makes it mandatory for Councils to periodically review the 'cost effectiveness of current arrangements' for service delivery including 'the governance, funding and delivery of any infrastructure, service or regulatory function'.

A review must be undertaken

- (a) in conjunction with consideration of any significant change to relevant service levels; and
- (b) within 2 years before the expiry of any contract or other binding agreement relating to the delivery of that infrastructure, service, or regulatory function; and
- (c) at such other times as the local authority considers desirable, but not later than 6 years following the last review under subsection (1).

The current Road Maintenance Contract expires on 30 June 2015 and so the road maintenance service must now be reviewed under Section 17A of the Local Government Act.

An option for a future contract is a tender as a separate part of the State Highway maintenance contract from 1 April 2017. Therefore an interim contract would be required for a period of 19 months. The period could have an extension, to a maximum total of 5 years added, if it was determined that the existing contract was successful and likely to be better than a combined tender. This decision would have to be made at least 6 months prior to the expiry of the contract.

2.0 SCOPE

This review is of the delivery of the road maintenance physical works service as covered by the current road maintenance contract and this includes all routine road maintenance and renewal activities as well as some minor capital works. It does not include streetlight maintenance and renewal.

The option of increasing the scope of works to include non roading activities would risk diverting the attention of the provider from their core work. However this needs to be balanced with the requirement that the contractor can viably deliver the work at a good price in the long term.

All routine road maintenance and renewal activities are included with responsibility for managing the network from 'boundary to boundary'.

- Includes some minor new works where it is cost effective to include this in the contract or where the new work is integral with a maintenance or renewal activity.
- Includes design and build for reseals, rehabilitation and other minor structures and minor works.
- Includes investigating service requests

This review also covers professional services to manage the road maintenance physical works service delivery.

3.0 FUNDING

Local authority roading is funded from a combination of rates and from central government through the National Land Transport Fund (NLTF). The Land Transport Management Act (LTMA) sets out the framework on how the funds from the NLTF are allocated. In particular the NZ Transport Agency is responsible for allocating the NLTF.

The Councils funding for roading is provided for and approved through the Council's Long Term Plan. The value of work covered by the current road maintenance and renewal contract is approximately one million dollars per annum and with NZTA funding of 50% of this.

Other funding sources such as tolling, public-private partnerships and regional fuel taxes are either not permitted by law or are not appropriate for funding the road maintenance and renewal activity.

Development contributions and financial contributions are collected by the Council and are used to fund new capital works to manage growth in the district. These contributions cannot be used to fund maintenance and renewal activities on existing roads.

The roading rates fund the cost of managing the district's roading network including road and bridge repairs and maintenance, resealing and new sealing, road signs, road safety, planning and design, street lighting, footpaths, kerb and channel.

The Council considers that the roading network is a district-wide activity. The roading network is managed as one asset, and the maintenance and renewal benefits the wider community and properties in the District.

While the Council is eligible for subsidies from the NZTA that contribute to the maintenance and renewal of the roading network, the balance of the costs must be recovered by way of rates.

When determining the appropriate mechanism to recover the cost, the Council considers that both individuals and properties benefit from the roading activity. The Council discounted the option of creating separate rating areas within the District as it felt any separation would be artificial given the open access of the roading network, where any person can drive on any public road.

Under a system of capital value rating, the Council considers that the roading infrastructure in relation to a property (including roadways, bridges & culverts, footpaths, lighting etc) is reflected within the capital value of the property across the district.

The Council considers that the rate requirement be recovered by a rate in the dollar based on the capital value of a property. The Council considers that capital value better reflects the supporting infrastructure; and the impact that access has on the value of a property. Also the higher the capital value the property has, the greater the likelihood of increased use of the roading network or damage caused to the network, particularly in respect of large rural, commercial or industrial properties.

The Council considered, but decided against, creating a differential category for high use properties, as to some extent they already contribute through road user charges, which are collected and partially returned via the NZTA subsidy.

4.0 GOVERNANCE

The provision of roads is a core function of the Council and so it is currently governed by the Council. The Council sets levels of service, approves Activity Management Plans and approves funding through Annual and Long Term Plans.

Possible options for governing the road maintenance and renewal function are through a Council Controlled Organisation (CCO), an in-house business unit, jointly with a neighbouring authority or through a regional transport authority.

At the Canterbury regional level there have been suggestions of a Christchurch or Canterbury 'transport authority' however at this stage no decisions have been made or contemplated. Should a decision be made to form a Canterbury 'transport authority' then this is unlikely to be in place within five years and in any case the road maintenance contract could be taken over by a new organisation.

5.0 ROADING MAINTENANCE AND RENEWAL SUPPLIERS

There are a number of potential contractors and subcontractors both in Kaikoura and in adjacent districts.

An in house business unit could not be formed to deliver the physical road maintenance and renewal work as this is not permitted under the LTMA.

Forming a Council Controlled Organisation (CCO) to deliver the road maintenance and renewal services would not guarantee the CCO would actually get the work as the physical work is required to be contracted out under the LTMA through a procurement process that at the first stage must be an open process. The work cannot be 'allocated' to the CCO. In any case there are a range of contractors with good experience in delivering road maintenance services based in Kaikoura and the surrounding area that are available to carry out the work. There would be no advantage in the Council forming a CCO to deliver road maintenance and renewal services as it would be very difficult for it to compete with the existing providers. The existing CCO, Innovative Waste, is able to tender and may also be used as a subcontractor.

Delivering the road maintenance and renewal function jointly with a neighbouring authority is unlikely to provide any benefits to the Kaikoura district because the Kaikoura district is remote from other districts and the majority of its plant would need to be locally based . Because of the small size of Kaikoura there is a requirement that resources used for this contract are able to be used elsewhere to optimise levels of use. This can either occur by the resources being utilised on

the State Highway, other service providers such as telecommunication, railways or power, other Council work such as parks and reserves and community facilities or on private work. The Council's Procurement Policy emphasises the need to consider the community's social, economic, environmental and cultural well being.

6.0 PROCUREMENT

The Kaikoura District Council is an approved organisation under the LTMA and approved organisations must comply with the LTMA in order to receive funding from NZTA through the NLTF.

The LTMA sets out the requirements for the NZTA to approve activities for funding (s20) by the NZTA from the NLTF. Approved organisations must account for the funds they receive through a land transport disbursement account (s24) operated by the approved organisation. All expenditure from the land transport disbursement account must be made with an approved procurement procedure (s25), unless exempt (by or under s26). Exempt expenditure includes expenditure on administration activity, in-house professional services, and emergency reinstatement

Section 25 requires that procurement procedures used by approved organisations be designed to obtain best value for money spent. The following provisions influence procurement from a value for money perspective:

- Procurement procedures must be designed to obtain best value for money spent, having regard for the purpose of the LTMA, which stresses that the land transport system must be affordable, integrated, safe, responsive and sustainable.
- The NZTA must approve procurement procedures designed to obtain the best value for money spent.
- When approving a procurement procedure, the NZTA must also consider the desirability of enabling fair competition and encouraging competitive and efficient markets for the supply of outputs required for funded activities.
- Procurement procedures approved by the NZTA must specify how the procurement is to be carried out.
- Outputs must be purchased from external providers, except for minor and ancillary works, which may be purchased from an internal business unit under certain conditions.
- To reinforce the point that the lowest price proposal received for the provision of any outputs does not always equate to the best value for money spent, s25 ends with a specific provision stating that an approved organisation is not compelled to accept the lowest price proposal. This has important implications when it comes to determining value for money.

The Council's Procurement Policy was approved by Council in April 2015.

The following extract is from the policy and relates to road maintenance and renewal service delivery.

1. Procurement practices will make positive contributions to social and environmental systems and will therefore align with KDC's obligations to sustainability as demonstrated through its on-going commitment to EarthCheck.

2. Procurement practices of KDC will contribute to moving Kaikoura toward the Sustainability Objectives of The Natural Step framework which are as follows:
Eliminating Kaikoura's contribution to:
1. Progressive build-up in concentrations of waste derived from the Earth's crust.
 2. Progressive build-up in concentrations of materials produced by society.
 3. On-going physical degradation of nature.
 4. Undermining other people's ability to meet their needs.
3. Procurement practices will be transparent and accountable to the community.
4. Procurement practices will achieve best value for money by seeking supply arrangements that provide the optimum combination of quality, suitability, sustainability, and delivery.
5. Procurement practises undertaken by KDC staff will be made having sought the appropriate authority, will be within budget, and will comply with all applicable KDC bylaws, policies, procedures, and guides, as well as all relevant legislation.

The Council has placed strong emphasis on sustainable practice both for the environment and the community while also recognising that value for money is a factor and that funds used for an activity if saved could be used elsewhere.

The Procurement Policy gives delegation levels of \$1,000,000 to the Chief Executive Officer. The value of the contract is approximately one million dollars per annum and additional authority will be required to accept a contract with a likely value of more than this.

7.0 MANAGEMENT

Currently the road maintenance and renewal functions including managing the contract are managed directly by the Council. This is undertaken along with other professional services for other engineering and services activities such as 3 waters, solid waste, parks and reserves and buildings. The local roading activity is not managed in isolation and there is interaction with the State Highway and other services.

This activity could be managed by an in house business unit or a Council Controlled Organisation (CCO). Because of the small size of Kaikoura this would not be a full time position and the extra administration would counter any benefits from the reorganisation.

This activity could also be contracted to a third party. This would also increase administration and would have to be resourced from outside the district.

8.0 RATIONALE AND METHODOLOGY

Aggregation, bundling and contract term

- As noted above all road maintenance and renewal work is included in a single district wide contract.
- This approach does impact on the supply market as Kaikoura is isolated from other districts. This isolation is inherent under all contract arrangements.

- The local contractors are incentivised to be a significant part of the contract delivery by the Council's Procurement Policy. They have also indicated their willingness to participate by completing expressions of interest.
- A contract with a significant subcontractor involvement benefits the local economy and the local work force satisfying the Procurement Policy social requirements.
- A contract tendered every five years with an initial term plus extensions subject to performance meeting the required level gives the Council the flexibility to work in with a future State Highway contract or to remain separate.

Delivery Model and Supplier Selection Method

- Contract uses NZS 3917:2013 Conditions of Contract for building and civil engineering-fixed term.
- The Contract Type shall be measure and value.
- The Contract shall encourage the use of local contractors where appropriate.
- Supplier selection method involves an Expressions of Interest phase to develop a list of potential Tenderers. This gave early identification of Contractors having an interest in being either the main contractor or a subcontractor.
- Short listed contractors provide input into final contract document.
- The tender evaluation stage uses the standard price quality method using 70% weighting on relevant experience/track record, technical/management skills and methodology and resource. The price makes up the remaining 30% of the score. With the non-price attributes making up 70% this emphasizes the districts focus on social and environmental outcomes as well as highlighting to the tenderers that how well they undertake the work has a significant effect on the overall long term of the District.
- Tenderers must nominate the key person who will be managing the contract and their list of proposed subcontractors.
- The Contract must demonstrate value for money, fair competition, and competitive and efficient markets.
- The expressions of interest phase is advertised openly and widely so it ensures all contractors have an opportunity to be involved.
- Kaikoura District is isolated and so this model as well as demonstrating competitiveness and efficiency of the market must be sustainable and resilient.

Risk Identification and Management

- The contract will require a risks, defects and deficiencies register.

Contract Management Approach

- A collaborative working approach is to be used focussing on delivering the required levels of service in a cost effective way and by encouraging improvement.

9.0 ENVIRONMENT

Recent changes in the road maintenance management environment that impact on the delivery of road maintenance services include the following.

- In 2011 the government established the Road Maintenance Task Force to identify opportunities to increase the effectiveness of road maintenance. The Task Force identified four general areas for improvement:
 - Adapting the business models used to deliver maintenance, renewals and operations.
 - Improved procurement practices, also in support of new business models.
 - Improved prioritisation and optimisation through level of service differentiation.
 - Consistent introduction of enhanced asset management practices.
- The Road Efficiency Group (REG) was formed in 2012 to carry out the recommendations of the Road Maintenance Task Force. REG focuses on three key areas:
 - A One Network Road Classification (ONRC) to standardise data and create a classification system which identifies the level of service, function and use of road networks and state highways
 - Best Practice Asset Management to share best practice planning and advice with road controlling authorities
 - Collaboration with the industry and between road controlling authorities to share information, staff and management practises.
- Collaboration on roading and transportation matters between Hurunui District Council, Selwyn District Council, Kaikoura District Council and Waimakariri District Council was formalised in a MOU in 2014. This MOU agreement between the parties was put together to seek opportunities to work together in specific aspects of roading asset management and network operations. In particular the parties aim to improve management and operation of their road networks by working together. In doing this they want to:
 - Improve asset management processes, outcomes and consistency in respect of their respective road networks.
 - Establish a consistent regional response to land-use and demand changes.
 - Improve investment decision-making, while recognising and accepting appropriate risk.
 - Develop consistent levels of service standards, in line with the One Network Road Classifications and customer outcomes.
 - Enhance customer satisfaction and promote a 'One Network' approach.
 - Further embed Road Safety in the cultures of the respective organisation.

Service Delivery and Contract Options

Under the MOU on collaboration with other North Canterbury Councils this contract model has been confirmed. Feedback from the contracting industry also supports this contract model.

In 2014 a workshop was held with the contracting sector and Selwyn, Waimakariri, Hurunui and Kaikoura District Council staff to discuss opportunities to work together to gain efficiencies with road maintenance service delivery. Options such as combining work across the districts were discussed and considered. It was concluded that Selwyn District, Hurunui District and Waimakariri District roading networks are of a size where economies of scale can be realised and they are fairly optimal in terms of efficiently managing them as individual contracts. There were no benefits identified in combining either all or part of the work with the other Councils or with NZTA. The exception was Kaikoura District Council and it was recognised that combining road maintenance work with the NZTA road maintenance contract was possible. It is recognised that there are significant resources available within the District and that these can be complemented by out of district resources for those not available.

It has been identified but not yet confirmed that the State Highway contract may extend from the Rangitata to Kekerengu. If this occurred then there may be a disadvantage in Kaikoura being the only additional separate part in such a large contract.

It is noted that no detailed analysis has been undertaken to assess benefits and costs of combining other works and contracts as it was considered that the costs and effort to do so could not be justified at present.

The road maintenance contract retender timing has been coordinated and agreed with Waimakariri District, Selwyn District and Hurunui District and the contracting industry to ensure the contracting sector can tender for each contract efficiently with the result of better tenders. The timing has been planned so the result of one process is known before the next process starts. The timing was as follows

Hurunui District Council – 1 July 2015 contract start date

Waimakariri District Council – 1 November 2015 start date

Selwyn District Council – 1 June 2016 start date.

Because of the small size of the Council roading maintenance package the tendering of this contract should not be an undue imposition on the contracting industry.

Minor works and Professional Services up to the value of \$50,000 as allowed by NZTA and the existing Procurement Policy will be undertaken outside the contract by allocation where advantageous to the Council.

Significant projects may also be undertaken outside the contract by public tendering where advantageous to the Council.

Recommendation:

That this report be adopted.

Recommendation:

That no changes be made to the funding, governance or management of roading maintenance and renewals.

Recommendation:

That the Roothing Maintenance and Renewal contract be a publically advertised contract for a period of approximately one and a half years with extensions up to a maximum total of five years.

Recommendation:

That the delegated authority to accept the Roothing Maintenance and Renewals contract be given to the Chief Executive Officer.

Recommendation:

That this report be an addendum to the Kaikoura District Council Procurement Policy for Roothing Maintenance and Renewals

Author: Operations and Maintenance Manager
Endorsed by the Chief Executive Officer

Works and Services Budget Report

