

**A ROAD EFFICIENCY GROUP CASE STUDY**

# Mid-South Canterbury Roding Collaboration

## Resurfacing contract, and road network operations and maintenance contracts

**December 2016**

## **Why the RCAs Chose to Collaborate**

The contiguous cluster of the districts of Ashburton, Mackenzie, Timaru, and Waimate have many things in common. This ranges from geography and geology, low population densities spread over predominately rural areas, and with largely rural based economies. There is a common thinking and approach to life in general.

As the local landscape of transport, communications and community has evolved, TLAs have begun working closer together but without compromising the independence and unique features of the culture of each district. This would be typical of provincial New Zealand.

Within South Canterbury there is a shared approach to building consent services, liquor licensing, environmental health, rural fire, and road safety education. This occurs within an environment of positive interaction amongst management and technical staff, creating the trust needed to foster wider collaboration.

Timaru and Mackenzie participated in a joint road resurfacing contract in 2013-15.

Discussions amongst the South Canterbury and Waitaki mayors, the arrival of REG, and an eye to the future led to a Memorandum of Understanding (MoU) in June 2014 for closer collaboration on roading between the Mackenzie, Timaru and Waimate Districts. The MoU was founded on a document prepared for Queenstown Lakes and Central Otago District Councils.

The timing coincided with the need of three TLAs to tender their road resurfacing and their road maintenance contracts.

The MoU was extended in October 2014 to become a four-way collaboration. The Ashburton District, located mid-way between the participating South Canterbury cluster of three and a northern cluster – Christchurch and adjoining districts, elected to join the southern collaboration on the basis the District had a greater commonality with the south rather than the more highly urban environment to the north.

Because one of the MoU's specific objectives was 'Sharing resources and skills' and 'Joint procurement of physical works contracts', the initial focus was to put contracts in place for road resurfacing for three of the TLAs, and Road Network Operations and Maintenance for all four. Ashburton had an existing commitment for their road resurfacing.

## **Road Resurfacing Contract**

The contract largely duplicates existing arrangements, with Waimate simply joining Mackenzie and Timaru.

It is a single contract, NZS3910 format. Timaru District Council (TDC) is the Principal and there is one schedule consisting of the combined quantities for all Councils. The supplier selection process was lowest price conforming. There is a single Engineer to Contract from TDC and Engineer's Representatives for each Districts' portion of the work. A Multi Party Funding Agreement covers the financial aspects.

The quantities of works for each district are identified separately, but are amalgamated into item totals within the Schedule of Prices to achieve a single tendered rate for each item across the three districts – effectively an averaging of rates. This creates the possibility that the winning tender may not provide the best price to all Councils. Two of the three districts have only very small to nil quantities of the likes of asphaltic concrete, which may lead to the skewing of tender rates. The thinking on this scenario continues to evolve and may well end up with the option of 'Transfer Payments', as is in place for the Road Maintenance contracts. This needs to be balanced against the increased scale of the contract and the economies of scale effects on pricing. The small quantities and remote nature of sites are costly, but when combined with greater quantities closer to contractors' bases the pricing may have reduced for those smaller Councils.

Further thinking needs to go into the best (fairest) way to handle bitumen cost fluctuations. Which council should get the advantage or disadvantage of the escalation payment if their work is completed when the indices happen to be at either a high or a low point within the sealing season?

Cost saving and other benefits have been obtained by the councils. Although difficult to assess the quantum of any direct cost savings, it is felt that larger quantities of scheduled works have resulted in lower pricing (more likely for the smaller councils) based on economies of scale and being more keenly contested due to the contract value.

The contract document, tender process and core contract administration, previously done three times, is now done once.

The smaller councils have been able to use the scale of the combined quantities to ensure they receive a level of service from their contractor not always provided with their smaller quantity contracts.

There is greater flexibility of programming for the contractor, with one district or another usually further ahead with its pre-seal repairs. This can allow the

contractor early possession of sufficient sites to get the sealing season underway. There is discussion as to whether the AC resurfacing should be included in future contracts as it used in only the larger of the three districts. Its inclusion may affect tenderers' averaging of rates and spread of overheads.

### **Maintenance Contracts**

#### **Organisational Engagement (Political, Management, Technical)**

The decision to run with collaboration as a project came about in April 2014 after a REG presentation to the Mayors and CEs. Previous presentations had not engendered enthusiasm for action. Possibly the seeds previously sown had taken time to germinate.

The collaboration objectives covered both asset management and procurement. There was however no firm directive as to whether the mindset of collaboration was to be implemented by revolution or by evolution - the expectation was simply to make things work. Scheduled re-tendering of maintenance contracts provided an ideal opportunity to begin the process.

Strong interest and drive throughout the management chain, through the MoU's CE Leadership Team, confirmed and supported the direction recommended by the Technical Team.

The Technical Team comprised the Roding Managers and some of their operations staff. A Local Govt Act Sec 17A review contributed to the thinking. An independent Project Manager from Opus was appointed to liaise with the MoU Leadership Team, coordinate the inputs of the Technical Team to get consensus, write the document, and manage the procurement process. Buy-in at all levels was one of the key factors for success. Long standing working relationships amongst the participants and the project manager was of benefit. The environment of respect and trust created during the process reinforced unity and the common goal. The independence of the project manager created momentum and the project was highly prioritised within the day jobs and other demands on council officers.

### **How Tender Documentation was Aligned**

The contract options ranged from four totally independent contracts, to one contract with four Separable Portions, to one or two contracts based on district or geographic boundaries.

Having considered the options in relation to size of the total network (about 6430km - 3362km sealed and 3068km unsealed - along with 740 bridges) and the degree of change from the status quo, our final recommendation was for four

individual contracts run concurrently, with a common specification and schedule. Anything other than that was seen politically as 'a step too far' at this time. There was also the intention to be consistent in contract interpretation and requirements for delivery – seen to be essential for a 'One Network' approach and the way to the future. The scheduled work is a mix of lump sum performance based and unit rate items.

The most significant challenge was to align the management and technical specifications. The devil, as always, was in the detail. A massive amount of time and effort was spent in getting alignment due to some participants initially being reluctant to significantly dismantle their specifications which have been nurtured and fine-tuned over many years to suit their way of thinking. At times the regular and frequent sessions seemed all consuming but the contract award expectation date gave no option but to press on. In parallel with this process the CE Leadership Team took on the aspects of ensuring compliance with legislative requirements and equity amongst Councils.

Each district also had to compile data for appendices which defined and allowed for both the general and unique aspects of their network.

### **The Procurement Process - including method developed for evaluating tenders**

The benefit in aligning the specification and timing of contracts was the opportunity for tenderers to reflect elements of similarity and scale in their tenders. Tenders were evaluated using the Price Quality Method. Tenderers were able to bid for combinations of contracts via 'Conditional Tenders'. The individual districts were able to accept Conditional Tenders where there was advantage to all Councils as a whole, i.e. only if the aggregated Conditional Tender prices (after supplier quality premium deductions) were less than the sum of individual prices. This created potential for the lowest price offered (after supplier quality premium deduction) for an individual contract not necessarily being accepted.

This required a commitment to transfer payments between Councils, formalised into an agreement and approved by the Transport Agency to ensure no Council paid more than they could have achieved through a stand-alone (unconditional) lowest 'tender evaluation price' tender. There were no known precedents. The resolution of this and attempting to get alignment with agencies and legislation proved frustrating and time consuming.

There was no 'one stop' shop and various government agencies advised the Councils to seek legal advice from those with expertise in the 'competition' law area. Agencies included NZTA, OAG and MBIE. It was found the competition law test that applies under the Commerce Act 1986 is different to the factors set

out in section 25 of the Land Transport Management Act 2003. There was also the need to confirm whether transfer payments between RCAs were within each Council's powers. Approval from the Transport Agency was received only just prior to Councils accepting the contracts which had been conditional on having that approval.

The potential number of combinations with Conditional Tenders is large. The Transport Agency's Principal Procurement and Evaluation Advisor developed a spreadsheet to assist. (Refer to Further Information for details).

The tender and the evaluation process was in itself a significant project: four contracts, 25 tenders (including 10 Conditional Tenders) received from seven contractors.

The tender process was run concurrently but documented separately for the four contracts. A single briefing with compulsory attendance by tenderers was held. This briefing was chaired by a representative of one of the Principals and included Principal expectations as explained by representatives of each Principal and the Tender Evaluation Team (TET) chairperson. The TET comprised an independent chairperson plus four members - one from each Council. The TET members were the same for each contract except where there were potential conflicts in interest and advisors particular to each contract.

The NZS3917 (Fixed Term Contracts) Conditions of Tendering was used with amendments to allow for Conditional Tenders. Tenderer presentations were structured to enable contractors to address their submissions at the one time for any multiple bids.

## **Outcomes, Lessons Learned and Advice for Others**

### **Tenderers will always have their own drivers when pricing tenders**

Two of the four contracts were won with unconditional/stand-alone tenders. Potential economies of scale with combinations of contracts appeared to be irrelevant in these tenders. They were price driven and reflected a very competitive marketplace and a desire to preserve market share. The State Highway NOC had been awarded a few months earlier and had 'locked up' a significant amount of the local road maintenance and construction market. Also, the conditional tenders had an influence on the outcome of the other two contracts where discounted prices were offered to reflect a reduction in contractor administration and technical overheads due to scale. Acceptance of the Conditional Tenders triggered the need for transfer payments between Councils. These will be made as the contracts progress.

### **Key ingredients for success**

For such a project to be successful, 'buy-in' was required at all levels of the Councils. Direction and leadership came - and continues to come - from the Mayors and CEs. To an observer, the four districts appear to have a strong culture of 'us' rather than 'them and us', and an inherent willingness to work together to address issues.

Without an atmosphere of respect and trust, the necessary compromises made at the Technical Team level would not have been possible. Many would have given up, or not even started the journey, saying 'too hard'.

If change is going to be brought about via evolution rather than revolution don't underestimate the time required for the process. A realistic timeline, but not without delivery tension, is essential. As is not unusual, the start and end points of the journey were known but the bits in the middle (the detail) evolved only as we progressed.

### **Transport Agency flexibility has enabled concurrent tendering and awarding of multiple contracts which can be linked via conditions**

The Transport Agency's co-investment system does allow for different, if not innovative, approaches to procurement to be developed. Again it is a matter of getting buy-in from all the participants to make things work.

### **Getting on with the job**

Awarding the four maintenance contracts was the culmination of a large effort from what are relatively small TLAs and all done in conjunction with 'the day jobs'. There was real cost in time and money, more than might have been incurred had the previous contract documentation been simply re-used. The scene is now set for greater consistency of contract management and technical standards and their interpretation and implementation. Mid-South Canterbury is well placed for inevitable future changes, and the aligning and procurement of the road maintenance contracts was a large first bite of the collaboration elephant.

Real cost savings were gained with competitive prices, in some cases less than previous contracts. The tendering of the four road maintenance contracts concurrently definitely contributed to this with contractors driven by their own need to preserve or gain significant local market share.

### **Contractors' perspective**

It was a challenge for contractors to formulate their strategies and tender concurrently for four contracts within a four week period. The combined value of the five year term contracts is in the order of \$61M. Feedback indicates a six week tender period would have been welcomed. There were however benefits in that the four contract documents were identical in most respects – scope, contract requirements, management and technical specifications, standard drawings, and scheduled items.

Contractors have subsequently commented that the similarity of work scope, and specification interpretation and basis of payment is making it easier to work across district boundaries - a One Network approach.

### **Consistency of interpretation of specifications, basis of payment**

There are now monthly sessions where a Maintenance Contracts Consistency Coordinator, a role within the Collaboration MoU, has a responsibility to ensure the interpretation and consistency aspects of the four contracts are kept to the fore. This collaboration will allow benchmarking on a sound basis plus a one network approach and improve asset management and operations.

### **Added benefits, peer support**

The process of producing a combined four-district generic contract document developed a real understanding of each other's needs and issues. There was a great deal of knowledge sharing and robust discussion justifying contract requirements. This produced a better document and had the flow-on effect of improving the asset management focus, which is a key component of road maintenance. Ideas were shared and improvements made not just in physical works but importantly data management. The benefits are long term and have flowed into other areas of Council businesses. For example, standard drawings are consistent for the four districts and RAMM is also consistent.

An off-shoot and benefit to the smaller Councils of having laboured through the maintenance contract re-write is the further development of active peer support. The overall increased skills level within the group helps to attract and retain high quality staff in road asset management and operations. Staff can temporarily or permanently work across boundaries without having to learn a new contract or philosophy.

Staff can specialise according to individual strengths, resulting in a group effort across the districts which is greater than the sum of its parts.

**Further information**

Contact the Mid-South Canterbury Roading Collaboration Project Manager Peter Hall at Opus Timaru - <http://www.opus.co.nz/>

**Tools developed by the New Zealand Transport Agency to support group tender evaluation are found on the Transport Agency website:**

<http://www.nzta.govt.nz/assets/resources/procurement-manual/docs/assessing-combinations-of-tenders-for-a-group-of-independent-contracts.pdf>

<http://www.nzta.govt.nz/assets/resources/procurement-manual/docs/evaluation-template-for-combinations-of-tenders.xlsx>