

**TO: EXTRAORDINARY INFRASTRUCTURAL SERVICES COMMITTEE**

**FROM: PROJECT MANAGEMENT OFFICE**

**AUTHORISED BY: ERIN MOOGAN, GROUP MANAGER – INFRASTRUCTURE**

**MEETING DATE: TUESDAY 27 JULY 2021**

## **IN COMMITTEE**

Reason for Exclusion:

Local Government Information and Meetings Act 1987 –

(7) Other reasons for withholding official information:

(2) (i) Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)

### **CITY STREETS UPGRADE STAGE 1 – DETAILED COST INFORMATION**

#### **SUMMARY**

This report provides detailed information of a commercial nature to support the contract award recommendation for the City Streets Upgrade.

The detailed costings have been prepared by an independent quantity surveyor, WTP NZ Infrastructure Limited.

#### **RECOMMENDATIONS**

**That the Infrastructural Services Committee**

- 1. Receives the report “City Streets Upgrade Stage 1 – Detailed Cost Information”.**
- 2. Approves the project budget for Stage 1 City Streets Upgrade at a total cost of \$18,347,800 which includes:**
  - a) The construction contract for Stage 1, at a total outturn cost of \$13,710,174 with Downer NZ Limited as the contractor.**
  - b) Preliminary works, professional fees and contingency at a cost of \$4,647,626.**
  - c) The renewal of the sewer and stormwater pipes in Esk Street with Downer NZ Limited as contractor at a cost not exceeding \$600,000.**
- 3. Notes that this contract is a cost reimbursement approach to delivery.**
- 4. Endorses the change to street shape and the use of natural stone pavers and notes the anticipated programme with road closures planned for Esk Street to November 2022.**
- 5. Delegates to the Chief Executive the power to enter into a Letter of Intent (LOI) up to a value of \$3.5 million with the contractor, Downer to allow works to be**

established and ordered whilst contract documentation is completed, noting this LOI sum is included in the recommendation above.

6. Provides direction on engineering options offered below. Officers recommendation if additional budget was to be allocated would be prioritised as follows:

- |    |  |           |
|----|--|-----------|
| 1. | Shelter Allocation for seating areas   | \$500,000 |
| 2. | Exploration and Discovery (additional) | \$100,000 |
| 3. | Heated seating                         | \$150,000 |

## IMPLICATIONS

1.	<i>Has this been provided for in the Long Term Plan/Annual Plan?</i> Yes.
2.	<i>Is a budget amendment required?</i> Not for Stage 1.
3.	<i>Is this matter significant in terms of Council's Policy on Significance?</i> No.
4.	<i>Implications in terms of other Council Strategic Documents or Council Policy?</i> Yes. The planned works align with the approved Master Plan for the City Centre.
5.	<i>Have the views of affected or interested persons been obtained and is any further public consultation required?</i> A report is presented in the public section of the agenda which details the approach.

## FINANCIAL IMPLICATIONS

This report commits Council to the construction costs of City Streets Upgrade Stage 1 – Don and Esk. Costs are within the approved LTP budget, noting that a budget amendment will be required for Stage 2.

## BACKGROUND

This report contains the detailed costings for the project and expands on the report "City Streets Upgrade – Design Completion" included in the public agenda. This report looks to provide the financial details of the project and options which Council may wish to consider and give direction on.

It contains information which is of a commercially sensitive nature including the agreed margins for the contractor, and consequently needs to be received in a public excluded environment.

The detailed cost analysis and risk approach is included and has a degree of complexity which would be expected for a project of the significant size planned. Attached in **Appendix 1** is the report from Project Quantity Surveyor WT Partners.

The contract approach is a cost reimbursement model with Downer NZ Limited.

This has been selected to ensure that the time element, which is critical to this work, can be best managed and additionally is seen as a suitable model for these significant projects where relationships with the contractor are even more important to completing work successfully.

This approach was considered and agreed in the Procurement Plan, has been workshopped with Councillors, and is noted and discussed in the Infrastructural Services Committee report of 11 May 2021.

The pricing for this model has been developed in a collaborative approach and includes significant discussion on how this will be built, if the approach drawn is buildable, and if smarter ways to do things would be considered. These inputs are not often included in a budget and to some degree are of a sensitive nature to the contractor. The project baseline budget (Total Outturn Cost (TOC)) looks to establish the whole cost of the works, and working with the design team and contractor, the best outcomes are established, agreed and delivered.

A number of risk and contingency issues are also considered to test how robust the TOC price is and where additional consideration should be given. These are included in the WT Report.

## **BUDGET OF WORKS**

The approach with the contract form selected is to develop and agree a TOC which the team is working to not exceed. This cost has a range of contingencies included in it which would be utilised if required (such as removal of contaminated ground if found) with the TOC price being the upper value. During the build process there may be decisions which need to balance price and quality should unknowns be encountered.

The TOC developed by WTP for the project is \$17.7 million for Stage 1 works. This includes a contingency of \$1.52 million. Variations will be reported through the Project Control Group to the Strategic Projects Steering Group (as part of the Project Management Office) which reports to the Risk and Assurance Committee. The Chair of the Infrastructural Services Committee will be able to further report if any significant changes in the scope or budgets are required.

The construction industry is seeing significant cost movements across most sectors with all goods costing more. Recent flooding events in New Zealand will also put more pressure on an already constrained labour market and will draw any moveable labour to the West Coast area. Covid and shipping are causing and resulting in time delays. Where shipping of goods can be secured there are significant cost increases in freight movements. Some of the product needed in the works is sourced from China and is likely to be impacted. Some cost escalations in the product are therefore likely over the next 15 months.

One of the major costs is in the supply of stone for paving, particularly in Esk Street. This is sourced offshore and has seen reasonably significant cost increases in the last month. This is again influenced by the shipping availability and cost. It will be the first element to be purchased and the delivery started.

Upgrading City Streets usually includes renewal of underground services (as is the case in this project) and often much of the project budget is consumed in getting these “foundations” right.

The delivery approach established in the Procurement and Delivery Plan looks to establish a NZS 3910 2013 contract with cost reimbursement payment model. The contract has been developed by external legal advisors who specialise in this work area.

## **PROGRAMME REVIEW AND VALUE ENGINEERING**

During the development of design there have been several considerations of what should or could be included in the package of works. Each design element impacts on the time required to undertake the project but also creates benefits of making that design choice.

### **Programme Review**

The project team has explored each key design element both from a cost and time implication, particularly in relation to the 14 month closure of Esk Street. Key considerations given to reducing the Esk Street programme were:

- **Street shape**

The shape of Esk Street has had much consideration given to it. The street needs to be a people space, and the proposed layout is not a traditional “urban street” with stepped kerbing and a shaped high point in the middle. It has instead been planned as a high quality public plaza space where there are open, flat plane surfaces which are more inviting for people to be. To achieve the transition from the current layout to that proposed requires the road to be dug out and rebuilt. The time required to complete this is a significant portion of the overall programme of works.

The project team has considered that the plaza approach to Esk Street is key to achieving the Master Plan vision. Retaining the current street shape would not achieve the key success criteria defined for the project.

- **Fixed Stone Paving as primary surface on Esk Street**

High quality natural stone paving has been selected throughout the planning process as the primary surfacing material on Esk Street. Natural stone products have a quality and longevity that greatly enhances the attractiveness and aesthetic appeal of public spaces over a prolonged period. They are particularly appropriate for areas of shared spaces with public vehicle access and pedestrian mall surfaces.

While there is up-front cost, the operational cost is low, the risk of pavement failure is also low and they are a preferred paving choice in areas where drawing people to the streetscape is a priority. Considered a premium paving choice they have been used extensively in Christchurch’s Avon River Precinct, Auckland’s Wynyard Quarter, and the current Queenstown Town Centre upgrades among others. The drawback to stone is that it must be imported and is slow to lay. It also costs more. These factors contribute directly to the programme length which has been developed. The whole of life cost was considered in the development of the design including how these are kept clean and what happens operationally to the surfaces over time. Natural stone has a proven record.

Concrete unit pavers were considered as an alternative. Whilst practical and easy to lay, it is considered they would not perform to the same standard as stone over a longer time period, particularly in a streetscape context where public vehicle traffic is still present. Whilst the potential time savings were considered to be approximately two months, the time lost in redesign at the front end of the project would put at risk the achievability of the key project milestone – completion to the Farmers entrance by May 2022.

Accordingly, the use of the natural stone was confirmed by the team as a key and vital element of meeting the design brief, as well as the critical May 2022 project milestone.

## VALUE ENGINEERING

The budget has considered a range of other financial versus quality issues for inclusion in the final design. Appendix B of the WTP report highlights the area where additional discussion has occurred to look at the value of a range of elements or products to ensure they have strong design or materiality value and should be retained in the design. Changes have been made to the design to bring the total project cost down. Where these reductions have a noticeable impact on the look and feel of the street, they have been brought forward for Council to consider if additional budget should be provided to retain these items.

## COST OPTIONS

To achieve the TOC value, the following budget areas have been reduced. If additional money was made available staff recommend the following order of priority:

### 1. Shelter removed – cost reduction of \$500,000

Some feedback on the preliminary design reflected a desire for additional shelter for people sitting in the streets. A range of options were developed in response to this (refer to **Appendix 2**) which would have cost impacts which have not been included in the current project cost. There is still some design work to complete this but should seating be required then a budget allocation is required of \$500,000 (may have to extend to integrate with ICL development, cost risk).

### 2. Reduction in Exploration and Discovery (playful element) – from \$250,000 to \$150,000

The impact of this reduction was seen by the Design Team as an appropriate option for further consideration. The design brief for this element is provided as **Appendix 3**.

The above change has brought the TOC in line with the \$17.7 million estimated budget previously advised to Council.

### 3. Heated seating removed – cost reduction of \$150,000

As part of exploring shelter, the concept of heating some selected concrete seats was also considered. This would have some advantages but would need careful management (refer to **Appendix 4**). A budget of \$150,000 would need to be set aside for this (final scope to be defined).

## ESK STREET PIPE RENEWALS

As part of the City Streets contract, Downer NZ Limited is also required to undertake and coordinate the pipe renewals work within Esk Street. This is to ensure that the work will flow and not be disrupted by two contractors. This work is funded from the drainage LTP budgets.

Appendix 1 (WTP report, page 5) outlines the budget allocation. Costs for this work are being finalised and will be included in the contract value awarded to Downer NZ Limited and extend

the streetscape project TOC. The work will be undertaken by a Downer subcontractor, will be competitively procured and will meet the drainage team’s specification.

**LETTER OF INTENT**

The project programme has many demands and ordering of some of the large cost key elements is vital to having those materials available when needed for meeting completion dates. The time from when Council gives approval until a formal contract is signed does not allow for ordering of long lead time materials. Accordingly, our legal team has developed a letter of intent which will give Downer NZ Limited the ability to progress these early contract works up to a value of \$3.5 million and have contractual surety during this period. The draft letter is included in **Appendix 5**. A recommendation is included to give authority for the Chief Executive to action this.

**Overall Budget**

The following is a summary of the project budget:

	\$	
Construction Costs Stage 1 (Don and Esk Streets)	13,750,000	
Preliminary Works	157,800	
Professional Fees (Design and Delivery)	2,320,000	
Contingency (Streetscape)	1,520,000	
<b>City Street Upgrade Subtotal</b>		<b>\$17,747,800</b>
Drainage Renewal Works	600,000	
<b>Total Project Budget</b>		<b>\$18,347,800</b>

Elements not included (as described above) which Council may wish to consider and allocate additional budget are:

Shelter	\$500,000
Exploration and Discovery (additional)	\$100,000
Heated seating	\$150,000
<b>Total Additional Elements</b>	<b>\$750,000</b>

**CONCLUSION**

The detailed costings provide the basis for developing the Total Outturn Cost (TOC) which is requested for approval such that the works can commence and meet the timelines required. This project budget is \$18.347 million and includes \$600,000 for drainage renewals in Esk Street.

The selection of appropriate materials and design elements are vital to delivering a “street for people” but has consequences that the time required to construct the works will be an extended period which for Esk Street is 14 months.

A Letter of Intent is planned to be used to bridge the contractual gap in time such that preparation and material ordering can occur.