

Queenstown Transport Programme Procurement

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Purpose

This paper asks the Committee to approve the 'Queenstown Transport Programme' Procurement Strategy and Plan which proposes a Pure Alliance in partnership with Queenstown Lakes District Council (QLDC) to deliver the projects in the Programme with committed funding.

Recommendations

It is recommended that the Committee **recommends** the Board:

- **Approves** the Queenstown Transport Programme Procurement Strategy and Plan.
- **Approves** the use of a Pure Alliance delivery model procured jointly with Queenstown Lakes District Council.
- **Notes** that a Memorandum of Understanding will be entered into between Waka Kotahi and Queenstown Lakes District Council to establish the basis for the partnership, including commercial principles.

Strategic relevance

At circa \$230M, the scale, complexity and interdependencies of the Queenstown programme of works are of high national, regional and local significance and will shape the future Queenstown transport system. This proposed approach to utilise a collaborative delivery model with Queenstown Lakes District Council (QLDC) will enable a number of aligned strategic outcomes for Waka Kotahi and QLDC, including project coordination, achievement of broader outcomes, and targeted economic stimulus.

Background

The Crown, Waka Kotahi NZ Transport Agency and local government have recently announced significant investment into the Wakatipu transport network. These include projects with delivery responsibility by Waka Kotahi and QLDC:

- Two Shovel Ready Projects - the Queenstown Town Centre Street Upgrades and Arterials Stage 1 projects— both with Crown Infrastructure Partnerships (CIP) arranged Crown funding, with the balance of funding to be met by QLDC.
- A significant investment for public transport and walking and cycling upgrades on state highway 6 and 6a funded through the NZ Upgrade Programme (NZUP) and the Wakatipu Active Travel Network (WATN) Stage 1 funded through National Land Transport Programme (NLTP).

These projects are together referred to as the Programme. The Programme represents a significant package of funded transport works for Queenstown to be delivered over the next four years (see Attachment 1 for indicative project plan and funding allocation).

This investment is occurring at a time of considerable uncertainty for the Queenstown area, whose economy relies heavily on international and national tourist visitors. The tourism sector has a corresponding influence on the transport demand in the Queenstown network, which had been at historically high levels prior to the pandemic.

There is currently a unique window of opportunity to carry out the funded investments in the transport system whilst the network has suppressed demand. This offers the chance to provide economic stimulus to the local economy and to build a better transport system for when demand returns.

Key issues

Procurement Outcomes

To make best use of this opportunity, a combined approach to delivery is required. There are three key programme-level strategic objectives that can be targeted by the procurement approach:

- 1) **Coordinated delivery** – deliver the projects in a coordinated and integrated way to minimise disruption and achieve improved overall delivery efficiencies.
- 2) **Broader outcomes** - achieve a broad range of positive outcomes, including industry and skills development, increased sector productivity, and a healthy and sustainable supplier market.
- 3) **Economic Stimulus** –provide local jobs transfer and retraining from affected sectors, and stimulus to the local economy, including through a minimum share of local sub-contractors.

Waka Kotahi is implementing improvements to its infrastructure procurement and delivery approaches, to support improved outcomes and to lift sector productivity and performance. The Programme presents an opportunity to implement elements of these improved approaches, through a collaborative delivery model for a major package of work with strong performance-based measures as the basis for future work allocation.

The QLDC Crown Infrastructure Partners (CIP) funding condition requires a collaborative approach between QLDC and Waka Kotahi to the delivery of the Queenstown Town Centre street upgrades and Arterials Stage 1 projects.

The Queenstown Challenge and Opportunity

Minimise disruption – In the town centre businesses are highly sensitive to construction activities, and state highway works will occur in locations sensitive to disruption, particularly near the major intersections close to the airport and along the constrained SH6a corridor. Coordinated and sequenced delivery will minimise disruption, and can be scheduled around peak visitor periods.

Enable efficiencies - Intentionally sequenced delivery and resource allocation will help avoid the situation where individual projects are competing against each other for resource. Coordination at a programme level also presents opportunities to benefit from economies of scale by attracting greater resourcing from Tier 1 suppliers and through supply chain efficiencies.

Achievement of broader outcomes - Greater scale and a longer pipeline of work can be harnessed to provide the basis for contractor investment in skills and training and in productivity enhancements such as use of digital technologies. Integrated coordination also enables improved targeting of economic stimulus, including through local supply chain management and by smoother and more consistent timing of work.

Identifying the best procurement approach

The urgency to meet the terms of QLDC's funding agreement and provide economic stimulus are the driving factors on the overall procurement timeframe, noting that the remaining projects are not subject to the same timing pressure. However, the Queenstown Town Centre Street Upgrade works affect an extensive area of the Queenstown town centre and are closely related in location, network disruption potential and resourcing to the other projects.

A number of different procurement models were considered and assessed. A high-level summary of these options and the assessment is outlined in the table below:

Procurement Models	Traditional	Panel	Collaborative Model (Alliance)
Advantages	Opportunity to develop individual projects in more detail	Makes use of existing QLDC three waters panel, so efficient	Provides flexibility to manage interface issues and deliver programme approach
Disadvantages	Least integration, longest programme and not attractive from economic stimulus view	Doesn't open opportunity to wider market and could distract existing panel	Compressed timeframe to implement and value for money needs to be managed carefully
Assessment Ranking	3	2	1

It is recommended that the projects be packaged together and delivered as a single programme, including QLDC's Queenstown Town Centre Street Upgrade works, through a collaborative arrangement between Client Partners Waka Kotahi and QLDC.

A collaborative approach could take the form of a joint client programme management forum with projects delivered under this separately through traditional contracting methods. However, it is more difficult in this approach to achieve the full range of benefits from coordination and deliver on other procurement objectives. It is important that the supplier partners are incentivised to perform in accordance with the strategic objectives above and can provide direct input to decision making processes for project design and for delivery planning. This will achieve alignment with common outcomes and the forward planning, flexibility and agility required by the nature of the programme and delivery environment.

A number of different collaborative 'Alliance' models were also considered as summarised below.

	Competitive Alliance	Hybrid Alliance	Pure Alliance
Advantages	Provides flexibility to manage interface issues and deliver programme approach	Provides flexibility to manage interface issues and deliver programme approach	Provides maximum flexibility to manage interface issues and deliver programme approach
Disadvantages	Insufficient time to implement this model given aggressive CIP and NZUP programme and project phase requirements	Insufficient time to implement this model given aggressive CIP and NZUP programme and project phase requirements	Needs scale to overcome value for money issues (proposed packaging brings the necessary scale)
Assessment Ranking	3	2	1

Recommended collaborative procurement model

The recommended collaborative model is one that is fully integrated between the client partners and suppliers with joint ownership of outcomes and decision making on the basis of a common purpose. This is consistent with an Alliance model.

Given the combination of early-stage development of some of the component projects (particularly the NZUP projects, for which design will not be available for procurement) and the urgency for the town centre projects, a Pure Alliance is preferred.

The specific efficiencies expected from delivery of the full Programme in a Pure Alliance mechanism are:

- A single Programme governance body and all key owner and supplier parties involved in the delivery mechanism with delegation of authority to make collective decisions and guide the Programme through the implementation phases.
- A consistent delivery approach through design and construction activities with integrated community consultation and communications.
- Ability to coordinate and actively manage the delivery programme to provide resource utilisation efficiency and potential reduction in the overall disruption.
- Opportunities to identify and act on early works packages, providing faster economic stimulus, and potentially enabling other parts of the Programme to be completed earlier.
- Coordination of demands for physical resources (construction equipment, quarried products, and asphalt, etc).
- Involvement in a single delivery vehicle is expected to be a more attractive market proposition, attracting higher calibre personnel from larger suppliers able to mobilise resource from around the New Zealand, and providing greater training, development and succession opportunities. A market assessment suggests that there is likely to be sufficient interest in an Alliance for this Programme.

The scope of the Alliance would be focused on delivery, being the design and construction activities. The upfront project business case, property acquisition and consenting (designation and resource consent application) activities will sit outside of the Alliance scope. Our experience is that construction alliances are best suited to the implementation phase activities only.

Market assessment

Waka Kotahi has considered the current professional services and construction markets in both the local and national contexts. QLDC and Waka Kotahi dominate the buyer market for local Horizontal Infrastructure (HI). The HI market has predominantly been projects less than \$10m, with a small number of larger projects such as QLDC's Eastern Access Road and the Waka Kotahi Kawarau Bridge. There is also a history of the two organisations working together as joint clients, examples include Kawarau Bridge, Tucker Beach and the Three Parks roundabout in Wanaka.

QLDC's 3 Waters programme commenced procurement in late 2018 and represents a substantial increase in HI works in the region for the next three years (at least). This programme is in the order of \$70m per annum. QLDC were successful in attracting a number of Tier 1 contractors to the 3W Contract Works Panel they established to deliver this work. From 12 responses, the successful suppliers were Fulton Hogan Ltd, Downer NZ Ltd, HEB Construction Limited and McConnell Dowell Constructors Ltd.

Nationally, the market for major roading infrastructure construction is entering a high demand phase after a period of relatively few new projects starts during the previous three years. The NZ Upgrade Programme is a new programme of works containing \$6.8Bn of transport projects (\$5.4Bn in the roading sector), which is currently bringing a number of projects to market concentrated in the upper North Island.

Limited international interest is likely in normal circumstances, and it is considered highly unlikely given the current impacts of COVID-19. This is not considered a barrier to the Programme given the availability and suitability of domestic resource. Potential supply chain difficulties of internationally sourced components and equipment are not likely to be a material aspect of the delivery given the scope of the Programme.

Given the scale of the works, if they were packaged together it is possible that one or more the Tier 1 contractors would team up to create construction consortia. It is also expected that these Tier 1 contractors would partner or sub-contract with local and regional suppliers in the completion of the works.

The procurement timeframes for the early projects in the Queenstown Programme mean there is some potential overlap with the procurement process for Wellington's Te Ara Tupua Ngauranga to Petone project and other ongoing NZUP/ NLTP processes. This would need to be closely monitored, managed and coordinated throughout all these processes.

The locally-based consultant market is a combination of smaller specialists with a few of the larger national consultancies (Beca, WSP and Stantec) having full-service offices locally. The current work has largely been undertaken by these three consultants. However, without a steady stream of larger infrastructure projects, full-service professional service project capability is typically brought in temporarily as required on a project by project basis. It is anticipated that many of these professional services providers would be interested in bidding for work in this programme, particularly if projects were packaged to produce a larger scale integrated work programme.

Therefore, a pure alliance model is the best option to ensure that we attract quality contractors and suppliers in order to deliver on the programme's outcomes.

Risks

The risks in the recommended approach include:

- the accelerated timeframe for procurement
- ensuring continued alignment between the Client Partners, noting that the experience with the Alliance delivery model sits with Waka Kotahi

- complexity in the commercial arrangements, project timing and interaction with multiple funding sources.

It is recommended that the projects within the Programme be established under individual Target Outturn Costs (TOCs). This simplifies the commercial and funding management and recognises the rolling nature of the Programme.

Additional future projects (such as subsequent stages of the Active Travel programme, Lakeview project or the Public Transport Interchange) may be allocated to the Alliance on a strictly 'yours to lose' basis. This approach offers contractors the chance of a future pipeline of work and empowers them to secure that work through their own performance. The work is not guaranteed or theirs by right, so commercial tension is retained. This reinforces performance incentives and collaborative behaviours and enables the Client Partners to retain a form of performance-based competitive tension over the Alliance partners.

A Memorandum of Understanding between the Client Partners has been developed to confirm the principles of the partnership from both an outcomes and commercial perspective.

Health & safety, customer/stakeholder & environmental impact

The impact of this decision is considered by Waka Kotahi to be positive in terms of health and safety and the environment.

Attachments

Attachment 1 Indicative Project Summary

Resource Centre

Document 1 Queenstown Transport Programme Procurement Plan

Attachment 1

Indicative Project Summary



Indicative plan view summary of projects in the Programme