

To:	Your Worship and Members
From:	Andrea Jackson, Manager Community Facilities & Activities
Endorsed by:	Kathryn Ross, Chief Executive
Date:	27 February 2019
Subject:	Parks and Open Spaces Procurement

FOR DECISION

Recommendation:

That Council

- 1) enters into a contract with Recreational Services Ltd for the delivery of Parks and Open Spaces maintenance and renewals on the following terms:
 - a. An initial contract term of five years with renewal options up to a maximum term of ten years. Term extensions are earned through the life of the first term:
 - i. Y1 – no incentive (establishment period)
 - ii. Y2 – earn Y6
 - iii. Y3 – earn Y7
 - iv. Y4 – earn Y8
 - v. Y5 – earn Y9 and Y10
 - b. A maximum contract value of \$1,911,007 per annum subject to agreed annual inflation (if any) with increased levels of service, including a Queen Elizabeth Park Custodian (Option 3).
 - c. Terms and conditions as per NEC4 Term Service Contract;
- 2) notes that the consequence of entering into a contract with Recreational Services to the value of \$1,911,007 per annum is an increase of \$232,595 per annum to the forecast budget; and
- 3) delegates authority to the Chief Executive to finalise and enter into a contract under these terms.

Purpose

Council staff have undertaken a negotiation with Recreational Services Limited for a new contract to deliver Parks and Open Spaces maintenance services. This report summarises the outcome of those negotiations and recommends next steps.

Summary

In December 2018 Council approved a three-stage procurement plan for a new contract to deliver Parks and Open Spaces maintenance services. Step 1 of the procurement plan (negotiation with the incumbent) has been successfully completed with agreement reached on the terms of a new contract with Recreational Services. The terms agreed include options for increased levels of service. Staff are now recommending Council enter into a contract with Recreational Services on those agreed terms, including all options for increased levels of service.

Background

In November 2018 Council completed a Section 17A review of Parks and Open Spaces service delivery. Following Council's acceptance of the review's recommendation in December 2018, Council approved a three-stage procurement plan for a new contract to deliver Parks and Open Spaces maintenance services as follows:

- *Step 1 - negotiation of a new contract with the incumbent Recreational Services Ltd. Staff will advise Council the outcome of negotiations prior to proceeding to a contract or competitive process*

If successful, staff will recommend that Council approve entering into a new contract on the terms and conditions agreed in the negotiation, and that the Chief Executive will be delegated the authority to execute the new contract.

If unsuccessful, staff will update this procurement plan including a 'lessons learned' from Step 1.

Note: *Step 1 is an exception to Council's policy and procedures and the Chief Executive confirms that this exception is of strategic benefit and will not disadvantage Council or ratepayers.*

- *Step 2 – RFP Stage 1 is an open market process to identify no more than three candidates to go into a competitive dialogue procurement*
- *Step 3 – RFP Stage 2 a competitive dialogue process with shortlisted candidates to identify a preferred supplier to recommend to Council*

That the probity period for this procurement commences with the approval of this procurement plan and remains in place until a new contract is executed. During this period all communications and queries are to be managed through the Procurement Project Manager – Rosanne Heyes.

Following Council's approval of the procurement plan, staff issued an Invitation to Negotiate (ITN) to Recreational Services. The ITN document and activity programme were structured in the same way as for a competitive Request for Proposal (RFP) to support the following procurement good practice:

- A fair and transparent process
- Consistency of message from the Section 17A review and procurement plan
- Provide for consistency of messaging and process should the negotiation with Recreational Services be unsuccessful i.e. much of the ITN would transfer directly into an open market RFP
- Provide a transparent process to track any changes made during the negotiation process and/or any lessons learned from the process to take through to an open market RFP

The ITN programme was as follows:

Week No	Week ending	Activity
1	14 Dec 18	Procurement plan approved (12 Dec 18) Incumbent advised verbally
2	21 Dec 18	Negotiation plan advised to incumbent. Programme agreed
3	28 Dec 18	Summer holiday period

4	4 Jan 19	Summer holiday period
5	11 Jan 19	Supplier preparation period
	17 Jan 19	Clarification Meeting (regular meeting in Masterton)
6	25 Jan 19	Clarification Meeting 2 / conference call with supplier
7	1 Feb 19	Supplier preparation period
8	8 Feb 19	Supplier preparation period Supplier submission closing time 4pm 8 February 2019.
9	15 Feb 19	Negotiation 14/15 February
10	22 Feb 19	Evaluation and recommendation report to Council
11	1 Mar 19	Council approval (if recommended) 27 Feb 19
12	8 March 19	Next steps as required i.e. contract details with incumbent or detailed programme for competitive dialogue process

Note: It is useful to note the supplier clarification interviews. These allowed Recreational Services to build a strong understanding of how Council was looking to develop a new collaborative contract to deliver the outcomes developed during the Section 17A Review and noted in the table below. Following these interviews, a final version of the ITN was issued to Recreational Services incorporating what were minor changes and clarifications.

One team doing the right thing at the right time Kokiritia i roto i te kotahitanga - Moving forward together					
Flexibility and Agility	Capability and Knowledge	Relationship and culture	Parks and Open Spaces Service Delivery	Asset and Budget Management	Focus and measures
We collaborate to plan for, and respond to, changing demand	We develop and maintain effective capability and knowledge management across people, systems and processes	We grow trust across all stakeholders through a culture of ownership and accountability of place, and shared outcomes	We demonstrate increasing efficiencies and effectiveness in affordable, predictable and sustainable service delivery	Our levels of provision and service are well-planned, clear, sustainable and affordable	We know that we're on track to meeting our community's expectations and outcomes

Negotiation process

The negotiation process was undertaken in three parts:

1. Presentation of proposal for a new contract
2. Discussions on proposed governance, operating and pricing matters
3. Agreement on key matters.

Presentation

The two-day negotiation with Council staff was based on a proposal document submitted by Recreational Services on 8 February. This was a comprehensive fully costed proposal that provided Council with well-reasoned options for a new contract based on a closer strategic relationship to deliver the outcomes tabled above.

The costed options provided a base line to continue service delivery at the current levels of service and specifications. Recreational Services then outlined costed options for Council to consider in the context of current budgets and the upcoming Parks and Open Spaces Strategy. All options are able to be implemented immediately, or at a later date as Council works through the potential impacts on budgets and strategic priorities.

Recreational Services described how by treating this as a new contract, and then leveraging their mobilisation processes for new contracts, they would be able to establish the new contract by July 1 2019.

Discussions

Discussions were professional, warm and frank. Council were able to work through both legacy issues and future potential opportunities with Recreational Services and gain confidence that they are able to add more value for Council. This would be achieved by:

- A change in contract governance to a three-tiered (strategic, management and operational) framework that supported collaborative working and issues and opportunities escalation and resolution
- Increased use of technology to capture timely asset data and condition information
- Improved performance management regime that supplemented responsible activity level auditing with an increased focus on achievement of strategic outcomes
- Increased cost transparency to support regular service reviews that respond to changing demand and priorities
- The introduction of new leadership, and then establishing new relationships with Council staff, based on the new collaborative contract management model. This would be supported by increased co-location of key staff and 're-induction' of all Council and contractor staff.

The discussions concluded with both Council and Recreational Services staff agreeing that with a change in key personnel, a new governance structure and mobilising a new contract using a new contract template, the team would be able to develop a flexible, affordable community focused relationship.

Agreed matters

It was agreed that staff would recommend that Council enter into a new contract with Recreational Services. The proposal from Recreational Services would provide the basis of a detailed schedule to append to a new contract and the new contract would commence with immediate and affordable improvements as follows:

1. New contract mobilisation and establishment process including all staff undertaking a new contract induction
2. Mobilisation to be governed by a joint steering team that will morph into the new three-tiered governance structure
3. Co-located staff where practicable
4. Change to asset place and group descriptions (e.g. premier, community, sports and informal parks) to facilitate LOS and specification standardisation across the district

5. New branding to Council specifications – uniforms, plant and depot
6. Updated systems and processes for increased asset data capture, regime transparency and auditing
7. A reduction in margin for sub-contracted work and materials from 10.1% to 5% to reflect that direct overheads are already allowed for in scheduled works
8. A transparent actual cost based annual price review to replace a generic index-based system. This will help ensure that future costs are aligned to the Masterton District environment
9. A new contract based on NEC4 Term Service Contract which is more suited than NZS3917 to collaborative working and will also support a changed approach to contract management by both Council and Recreational Services
10. Further proposed enhancements such as a dedicated caretaker for Queen Elizabeth Park will be considered in a new contract through the proposed innovation and continuous improvement process
11. Changes to frequencies to reflect current requirements as per the following table:

ASSET SUB TYPE	OLD SPECIFICATION OR FREQUENCY	NEW SPECIFICATION OR FREQUENCY	NOTES
Annuals	6-week cycle	4-week cycle	Will be achieved with extra labour unit in Queen Elizabeth Parks Person
Roses	6-week cycle	4-week cycle plus 4 visits per month from December to March to improve deadheading	Will be achieved with extra labour unit in Queen Elizabeth Parks Person
Shrub beds	6-week cycle	4-week cycle	
Revegetation	Quarterly	6 times per year	
Mowing Premier Parks	Approximately 24 cuts per year	Approximately 30 cuts per year	Possible with extra resource on berms mower, casual in flush periods and Queen Elizabeth groundsman
Mowing Community Parks	Approximately 24 cuts per year	Approximately 26 cuts per year	
Road Berms Mowing	Approximately 24 cuts per year	Approximately 26 cuts per year	
Mowing Informal Parks	Height 40mm to 200mm Approximately 24 cuts per year	Height 200mm to 300mm Approximately 17 cuts per year	This is a change of grading from 7 or 8 to a 9 grading
Mechanical edging in all parks where chemical not permissible	8 cuts per year	14 cuts per year	Possible with extra Spray & Weedeater Operator
Informal vegetation control in unmown areas in riverbanks and Recreational Trails using weed-eaters	2 cuts per year	4 cuts per year	Possible with extra Spray & Weedeater Operator and this is a minimum in all other contracts

Toilet Facilities Queen Elizabeth Park and Kuripuni Exeloos	Serviced once a day	Service twice a day	Currently only being done in a value-add situation and not a full service but just a quick check.
Vegetation control in streets and hard surfaces	Current task set up is to the whole street scape to be done 3 times in the year	4 times per year	This will be achievable with extra resource by putting on a second Spray & Weedeater Operator

Options consideration

Competitive pricing process

Prior to agreeing to recommend that Council enter into a new contract with Recreational Services, staff reviewed the proposal against the option of proceeding to a competitive process. This review found:

- Capability and capacity** – Recreational Services are the leading provider of parks and open spaces management as evidenced in part by their recent successes in winning new contracts with Queenstown, Hastings District Council and Central Hawkes Bay District Council. They have also added to their senior management resource to give clients more confidence of continued support at that level
- Price** – This reflects Recreational Services knowledge of the environment and therefore that *‘there is no pricing for risk in this contract’*
- Innovation and improvements** – to mitigate concerns that an incumbent can sometimes go ‘stale’ in a contract, and that a new contractor can bring fresh ideas, Recreational Services have described an innovation and continuous improvement plan that, with support from Council staff, will help ensure service delivery is aligned to current community demand and affordability
- Knowledge** – both Council and Recreational Services staff recognise there is an ongoing risk with loss of knowledge through change. This will be mitigated in part by an increased investment in systems (including Council’s intentions to upgrade its asset management systems for parks and open spaces). It will also require a collaboratively developed strategy to manage tacit knowledge i.e. ‘how to get things done around here’.

Overall, staff have determined that the risk of change to a new contractor is far greater than the risk of the incumbent not being able to change to meet Council’s new and future requirements.

Cost impacts

The new price for service delivery for 2019/20 indicates a price increase of 7.5%, on the current contract value of \$1,527,149, when comparing ‘like for like’.

Recreational Services demonstrated that due to inflation reviews not being awarded when Council extended the current contract in 2014/15/16 and 2017, their costs have increased by 18%. In that time, they have only had one CPI adjustment in 2018 of 3.4%.

Recreational Services have also recently introduced the Living Wage across their business, which aligns with Council's values and future-proofs the contract – no future adjustments if it is mandated by government.

Recreational Services are not seeking a full catch up on cost inflation since 2014 as they have made ongoing productivity improvements and also as an acknowledgement that Council have negotiated directly with them as the sole submitter.

The additional 7.5% on the contract is worth \$114,934, resulting in a new contract value of \$1,642,083. This value can be accommodated within the Council budgets allowed for 2019/20.

In addition to this adjustment, additional resourcing was identified as being needed to deliver the new levels of service specified above. The resourcing was identified in a table that allowed the negotiating team the ability to prioritise and select only some of the extra resourcing and allow room to take up more services in future years. An additional \$176,580 has been identified as the cost of the additional resourcing needed to meet the aspects in Agreed Matters above.

Council has budgets that cover the parks contract line items and a level of ordered works. Those budgets were inflated by 2.1% for year 2 of the LTP. A portion of the ordered works budgets can be combined into the contracted work (i.e. less ordered work can be expected). The net result is Council's 2019/20 budgets being \$140,215 short of the \$1.819m annual new contract value (please see table 1 for a summary of these costs).

The Council has the ability, via its annual budgeting round, to make the \$140,215 adjustment to its budgets. There is no ability to pass on those costs direct to users - Parks costs are largely funded by Council Rates. The \$140,215 represents a 0.47% increase in rates.

A further enhancement to contract service delivery is the addition of a dedicated caretaker for Queen Elizabeth Park (as identified in Agreed Matters page 176). This option will cost an additional \$92,344 (rates funded). This amount represents a further 0.31% increase in rates (see table 1. for a summary of options).

Table 1. Contract delivery and levels of service options:

Option:	Value (\$)	Pros	Cons
1. Current service deliver + CPI	1,642,083	Draft 2019/20 budget allows for this.	Level of service static for core business
2. Increased LoS + CPI	1,818,663	Level of service increased for core business	Requires a budget increase of \$140,215
3. Further enhancement on LoS	1,911,007	Increased LoS and greater stewardship of our heritage park	Requires a further budget increase of \$92,344.

with dedicated QE Park Custodian			Total extra funding \$232,595 (0.78% of rates)
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Staff recommend Option 3. This option will enable the level of contract resourcing to increase in order to increase the level of service across all parks and open space as well as ensuring a dedicated focus on Queen Elizabeth Park, reflecting the importance of this premier heritage park.

Contract Term

As per the Procurement Plan, the contract is proposed to be for an initial term of five years with renewal options up to a maximum of ten years. Extensions (based on performance through the life of the first term) will be as follows:

- i. Y1 – no incentive (establishment period)
- ii. Y2 – earn Y6
- iii. Y3 – earn Y7
- iv. Y4 – earn Y8
- v. Y5 – earn Y9 and Y10.

Evaluation

Staff evaluated the negotiated proposal with a simple pass/fail against the evaluation criteria. The evaluation team included Council’s Manager Community Facilities and Activities, Parks and Open Spaces Manager, Senior Parks and Reserves Advisor and the Manager Finance. The negotiation and evaluation was supported by Tim Munro from Infracure Ltd.

The outcome of the evaluation is:

Attribute	Evaluation criteria	Evaluation outcome and notes
Price	<p>Total price for scheduled services and response and unscheduled services. Price considerations include:</p> <ul style="list-style-type: none"> • Total cost of scheduled services for 2019/20 year • Rates for unscheduled / response services and total cost based on 2017/18 quantities for 2019/20 year • Cost of direct overheads • Margin for corporate overheads and profit • Appropriate risk allocation • Proposals for cost and price reviews • Comparisons with current costs • Costed options for council consideration 	<p>Pass</p> <p>Increased cost transparency supporting changing priorities and budgeting</p>

Attribute	Evaluation criteria	Evaluation outcome and notes
Team	<p>The competence and depth of the team that the supplier is proposing including both operations and support staff. Staff considerations include:</p> <ul style="list-style-type: none"> • Team leadership • Relationship leadership • Confidence team will work collaboratively • Confidence team will be pro-active and demonstrate ownership of council's parks and open spaces assets and outcomes • Demonstrating how learnings from other contracts / jurisdictions will be shared 	<p>Pass</p> <p>Change in team leadership together with induction into new contract to support a more flexible and engaged team</p>
Methodology	<p>The systems, procedures and approach that the supplier proposes to deliver the services. Methodology considerations include:</p> <ul style="list-style-type: none"> • Flexible and agile responses to change and disruption • Continuous improvement processes • Forward planning – 3, 12 and 36-month views • Optioning for potential demand changes (e.g. water, demographics) • Reporting and quality assurance • Appropriate use of initiative 	<p>Pass</p> <p>Meet all requirements plus a change to collaborative working to align methodology, processes and systems to future need</p>
Council alignment	<p>The supplier's alignment to council's culture, values, fit with the team and Kokiritia i roto i te kotahitanga - Moving forward together.</p>	<p>Pass</p> <p>Have satisfied staff that they will align performance (including contract renewal terms) to meeting outcomes.</p>

Conclusion

With Step 1 of the procurement plan (negotiation with the incumbent) having been successfully completed and agreement reached on the terms of a new contract (including options for increased levels of service) staff now recommend Council enter into a contract with Recreational Services on those agreed terms, including all options for increased levels of service. The increased levels of service will bring the value of the contract with Recreational Services to \$1,911,007 per annum (subject to agreed annual inflation if any) which is an increase of \$232,595 per annum to the forecast budget.

As part of this process, and before deciding to recommend Council enter into a contract with the incumbent, staff reviewed the proposal against the option of proceeding to a competitive process. Overall, staff determined that the risk of change to a new contractor is far greater than the risk of the incumbent not being able to change to meet Council's new and future requirements.

It is therefore recommended that Council enters into a contract with Recreational Services Ltd for the delivery of Parks and Open Spaces maintenance and renewals on the following terms:

- a. An initial contract term of five years with renewal options up to a maximum term of ten years. Term extensions are earned through the life of the first term:

- i. Y1 – no incentive (establishment period)
 - ii. Y2 – earn Y6
 - iii. Y3 – earn Y7
 - iv. Y4 – earn Y8
 - v. Y5 – earn Y9 and Y10
- b. A maximum contract value of \$1,911,007 per annum subject to agreed annual inflation (if any) with increased levels of service, including a Queen Elizabeth Park Custodian (Option 3).
- c. Terms and conditions as per NEC4 Term Service Contract.