

Attachment 6



Memorandum

To: EcoCare Project Steering Committee – Council Members and Joanna Roberts
From: Jack McKerchar
Date: 8 July 2003
Subject: EcoCare Project Management (4505.01)

Background

The Beca/EPS Contract for the EcoCare Project only takes the project to the signing of the Build Own Operate Transfer (BOOT) Agreement with the successful proponent. Obviously this has changed and therefore the project is now the signing off of the Design Build Fund and Operate (DBFO) project. Because of the change in the nature of the project, project fees were closed off at 31 December 2002 and since that time the consultant's fees have been charged on a time and materials basis only.

There is now a need to take this project through to the signing of the Design Build Fund and Operate Agreement and this needs to be followed by project management requirements for post contract signing where the Council will need to provide some oversight of the construction of the project as it is being built for the Council. The present contract including the signing of the DBFO contract needs to include the rescoping of the project, the signing of the Design Build Fund Operate Contract, the subsidy application, the new requirements for consultation and the resource consent. Following this there is then the plant and network acceptance in terms of the contract document.

Moving Forward

Council has the following options with the management of the project:-

- (a) Terminate at the signing of the DBFO and tender the construction project oversight.
- (b) Terminate at the signing and employ its own project manager.
- (c) Negotiate an extension of the contract with Beca/EPS.

I believe the only sensible way forward is to negotiate a new-extended contract with Beca/EPS. They have the full background and understanding of the Council position and the project history. This will facilitate the way forward.

To change project managers at this point will put the project at risk. There will be the need for the new managers to become familiar with the project at a detailed level. This will take considerable time and compromise Council's ability to deliver in a timely way. It is also unlikely that Council has the ability to adequately brief new contractors in a short time space.

Given this I believe the following proposal is an appropriate way forward.

Proposal for Project Management

This proposal is in three distinct sections: -



4505.01

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- (a) From 1 January 2003 to the signing of the contract with the preferred proponent.
 (b) Post contract signing to the resource consent process.
 (c) Post contracts resource consent process to commercial acceptance.

The first section is in two parts, the work that has been undertaken from 1 January until 31 May and then from 1 June 2003 to the signing of the project. The summarised details of these sections are as follows: -

(a) 1 January 2003 to Signing of Contract :-

(i) Endorsement of work from 1 January to 31 May 2003 :-	
Assess impacts of the Local Government Act	35,340
Rates approach	13,800
Statement of Proposal	7,235
Subsidy Application	15,300
Project Management	<u>24,350</u>
Total	\$96,025

(ii) 1 June 2003 to signing of contract :-	
Statement of Proposal	7,500
Subsidy Application	time and materials charge
Community Consultation	time and materials charge
Project Management	33,500
Contract Negotiations	15,000
Modify Contract to a DBFO – Beca/EPS	6,000
External (mainly legal)	<u>cost</u>
Total	\$62,000
	plus time and materials charges

It should be noted that the subsidy application and community consultation components are recommended to be charged out on a time and materials basis. This is because of the high level of uncertainty that surrounds the amount of resource that may be required for these aspects. These will have to be monitored as Council proceeds.

(b) Post Contract Signing – To Resource Consent:-

Review design proposals	12,000
Economic evaluation of proposals and negotiation with proponent	18,200
Monitoring consenting process	7,150
General project management	<u>35,250</u>
Total	\$72,600

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(c) Resource Consent Process to Commercial Acceptance:-

Review of final detail design	6,000
Administer GMP	15,500
Audit and process review	35,500
Review data provided by Simons	15,500
General project management	<u>48,950</u>
Total	\$121,450

Full details of these proposals are included in the attached letters from Beca Carter Hollings and Ferner Limited dated 25 June and 1 July respectively.

Council has paid fees of \$641,500¹ to date. The original budget for this stage of the project was \$617,000. In total this will mean the following fees will be incurred on this project.

Fees to:	31 December 2002		\$641,500
	Signing of Contract	96,025	
		<u>62,000</u>	158,025
	Resource Consent		72,600
	Commercial Acceptance		<u>121,450</u>
			\$993,575

plus time and materials charge

This needs to be put in the context of the total project which has a budget of \$13 to \$15 million. The level of fees at approximately 7.6% is considered appropriate for this project given its nature and the changing circumstances that have affected it.

Recommended

That the proposal from Beca/EPS to manage this project through to commercial acceptance or earlier termination be accepted.

Reason for the recommendation

This proposal will provide Council with a cost effective way of achieving the outcome it desires. To take an alternative approach will not only put the project at risk, it will also be likely to involve the Council in additional expense in familiarising new project managers with the project.

Jack McKerchar
Chief Executive

¹ Includes additional work : Section 122C Report \$8,500, additional Council briefings \$13,000, NRC Invoices \$2,000, Council reassurance process \$21,000.

Kaipara District Council
Private Bag 1001
DARGAVILLE

1 July 2003

Our Ref: 2411172

CI:28-EBJ37L51.DOC

Attention: Jack McKerchar

Dear Jack

Mangawhai Infrastructure - Project Management Service Post Contract Signing

Further to our recent proposal relating to project management services through to contract signing, we are now pleased to submit our proposal for post contract signing services. This proposal would take the project through to "commercial acceptance" of the built scheme.

Background

Beca Carter Hollings & Ferner Ltd (Beca) in association with EPS Consultants International (EPS) has a consultancy contract to provide a project management service through to the signing of a contract for the delivery of the Mangawhai Ecocare project on a Build Own Operate Transfer (BOOT) basis. In our letter of 24 June, we have proposed a service and fee structure to modify the contract delivery to a Design Build Finance Operate (DBFO) methodology, to support the Kaipara District Council (KDC) with an application for a subsidy under the Sanitary Works Subsidy Scheme (SWSS), and to support KDC consultation with the community as required by recently enacted local government legislation.

Subject to KDC resolving to enter into a contract with the preferred proponent Simon Engineering Australia (SEA), there will be two distinct phases through to commercial acceptance of a built scheme. These will be:

- Contract signing through to receipt of Resource Consent, and;
- Detailed design through to Commercial Acceptance.

Services to Complete Through to Resource Consent

During this phase, SEA will:

- Undertake geotechnical investigations and complete other site investigations to optimise the design, taking into account KDC and community preferences identified during previous consultation;

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- Prepare Resource Consent application documentation based on the optimised design and undertake consultation as required by the consenting process; and
- Lodge Resource Consent applications with relevant Territorial Authorities and respond as required to the process of consenting the scheme.

SEA has offered a Guaranteed Maximum Price (GMP) for the scheme and at the same time limited its financial exposure to resource consent costs. The GMP offer has the potential to reduce the costs to KDC, and thus the community, however it will also necessitate increased involvement by KDC and its consultants to realise these financial benefits. It is recognised that the benefits to the community will be eroded if consultant costs outweigh the potential savings identified.

The GMP will be set on contract signing with the majority of the items resolved, however the final cost will be effected by items such as:

- Site investigations effecting final design;
- Final location of treatment plant site; and
- Negotiations of reuse agreements and the preferred disposal method.

SEA will be encouraged to negotiate with the Golf Club regarding options for using golf course land for the treatment plant site. SEA has indicated this approach is acceptable. The GMP may also be impacted by any KDC directed changes associated with the treatment plant site and reuse options or any other KDC directed scope changes.

The project management service during this phase will focus on resolution of the above issues including identification of potential savings and economic evaluation (including risk analysis) to determine the ultimate value attached to each saving. It is not proposed that KDC or its consultants be heavily involved in preparation of Resource Consent documentation or in the process of consenting as this is rightly left to SEA.

It is estimated that this stage will take a minimum of six months.

Services provided during this phase and our fees are:

1. Review of design proposals including technical evaluation and monitoring against benchmark. **Fixed fee, \$12,000 plus GST.**
2. Economic evaluation of design proposals and negotiation with SEA on costs affecting the GMP. **Fixed fee, \$18,200 plus GST.**
3. Monitoring the process of consenting, but without direct involvement with Territorial Authorities. **Fixed fee, \$7,150 plus GST.**

4. General project management including monthly meetings with and reporting to the Steering Committee, meetings with the Community Liaison Group in conjunction with SEA representatives, and briefing Council. Fixed fee, \$35,250 plus GST.

The total fee is \$72,600 plus GST. All activities will run concurrently over the six month period so we propose to invoice at the rate of \$12,100 plus GST per month. If the duration of the consenting process is extended beyond six months we would agree a monthly fee with you recognising the fact that design proposals will have been evaluated and agreed in the first six months. In addition, our proposal does not allow for the production of newsletters as this task would be taken over by SEA as part of the consultation required for the consenting process.

Services to Complete Through to Commercial Acceptance

During this phase SEA will produce design documentation for tendering and construction, tender subcontract works, supply process equipment, manage construction of reticulation and other works, install process plant, and commission the scheme.

It is anticipated that this stage will take 14 months to complete.

Project management services during this stage will be focussed on oversight of SEA design and construction processes to verify compliance with the project documentation. Services will also be required to administer the GMP process, whereby 50% of savings will accrue to KDC. In particular SEA will endeavour to achieve savings through design and more importantly to improve on the sub contract prices for the reticulation network.

Once design and sub contract prices have been received and accounted for, we will not have a high resource requirement for a construction monitoring or site supervision role. Under the DBFO methodology, the responsibility for monitoring and supervision will lie with SEA employed design consultants with KDC having the right to audit works as and when appropriate. SEA consultants will be required to report on inspections undertaken and any non-conformances disclosed, and to certify completion of construction and commissioning in accordance with the project documentation.

It is expected that SEA will be focussed on effective customer service and will "go the extra mile" to keep the ratepayers happy. A key task for KDC during this phase, however, will be to provide the contact point for the Mangawhai community to raise any issues or complaints associated with the physical construction works. This will include on site visits and ratepayer liaison to resolve complaints relating to such things as reinstatement works or location of pipelines.

Services provided during this phase and our fees are:

5. Review of final detailed design proposals including technical evaluation and monitoring against benchmark. **Fixed fee, \$6,000 plus GST.**
6. Administration of the GMP including economic evaluation of detailed design proposals and verification of subcontract pricing. **Fixed fee, \$15,550 plus GST.**
7. Auditing and process review including endorsement of final detailed documentation, monitoring of construction progress against agreed milestones, monitoring of reporting by consultants for compliance with project documentation, and monitoring of compliance with legal and commercial terms. **Fixed fee, \$35,500 plus GST.**
8. Review of data provided by SEA to demonstrate commercial acceptance including technical assessment of plant, analysis of commissioning results and submission of report recommending commercial acceptance. **Fixed fee, \$15,550 plus GST.**
9. General project management including bi-monthly meetings with and reporting to the Steering Committee, meetings with the Community Liaison Group in conjunction with SEA representatives, and briefing Council. **Fixed fee, \$35,250 plus GST.**

The total fee is \$121,450 plus GST. All activities will run concurrently over the 14 month period so we propose to invoice at the rate of \$8,675 plus GST per month. If the duration of construction is extended beyond 14 months we would agree a monthly fee with you recognising the fact that design proposals had been fully evaluated and administration of the GMP would have been completed. In addition, our proposal does not allow for:

- The production of newsletters as we would expect this task to form part of SEA ongoing liaison with the community. This task would be completed by SEA as part of its ongoing consultation with the community; and
- The provision of a community liaison contact as this would be more efficiently handled by the existing KDC organisation.
- Involvement with or the procurement of legal or other advice in the unlikely event that a contractual or legal dispute arises.

We propose that the work outlined above be undertaken as a variation to our existing contract.

We look forward to being of service on this project through to its completion.

Yours sincerely

Beca Carter Hollings & Ferner Ltd

Brent Johnston

Project Director

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Copy

EPS International

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24 June 2003

Our Ref: 2411172

C1:26-EBJ36L52 V31.DOC

Attention: Jack McKerchar

Dear Jack

Mangawhai Infrastructure - Project Management Service

With reference to our recent discussions, we are pleased to provide this offer of service to take the Mangawhai Ecocare project through to signing a contract with Simon Engineering the preferred proponent.

Background

Beca Carter Hollings & Ferner Ltd (Beca) in association with EPS Consultants International (EPS) has a contract to provide a project management service for the delivery of the Mangawhai Ecocare project on a Build Own Operate Transfer (BOOT) basis. Six of the seven stages of the agreed service were completed by late last year and negotiations with Simon Engineering had been started to finalise the project deed. Late last year, changes to local government legislation were enacted specifically requiring Councils to own water assets and to limit wastewater operations contracts to 15 years. At the same time Central Government announced the implementation of a Sanitary Works Subsidy Scheme (SWSS) specifically designed to assist smaller communities where funding wastewater schemes may be difficult.

In response to the new legislation, Kaipara District Council (KDC) has decided to modify the delivery methodology to Design Build Finance Operate (DBFO) with a 15 year operations duration, and to apply for a subsidy under the SWSS. Earlier this year we agreed a final fee for services to 31 December 2002, and since that time we have been assisting with re-scoping the delivery methodology and making a preliminary application under the SWSS. At a Council meeting on 28 May, KDC resolved to proceed with:

- Finalising a contract with Simon Engineering on the basis of a 15 year DBFO contract with a 5 year interest only financing component;
- Establishing a consultation plan as required by the new legislation; and
- Finalising an application under the SWSS.

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Services to Complete Through to Contract Signing

Since the beginning of the year, we have been providing a service on a time and disbursement basis while the project has been re-scoped and a new way forward agreed with KDC. These services have included:

- Review of new legislation and reporting in relation to previously proposed BOOT delivery methodology;
- Investigation of DBFO methodology including discussion with Simon Engineering to establish basis of new contract and funding mechanism;
- Meetings with relevant authorities and preliminary application under the SWSS;
- Preparation of draft Statement of Proposal as the basis of consultation required under new legislation;
- Meetings with and reporting to the Project Steering Committee;
- Preparation of detailed financial ratings model;
- Management of and meetings with the Community Liaison Group;
- Production of a newsletter; and
- Meeting with and briefing Council.

Our total costs for this preliminary work over the last five months are \$96,025 plus GST.

A breakdown of this value is included in the attached spreadsheet. You will note the above costs include fees of \$16,490 for legal advice (Bell Gully), \$6,650 for auditing, and \$9,350 for financial modelling (Price Waterhouse Cooper).

The stages/tasks to complete the process through to contract signing and the fees are:

1. Finalise consultation plan including Statement of Proposal and submit to Council for approval. This task will be completed and the plan submitted to Council for approval at its July meeting. **Fixed fee, \$7,500 plus GST.**
2. Finalise SWSS provisional acceptance application and submit for funding approval. The application will be submitted for approval by 30 June, however we are not able to estimate the time that will be required to answer questions and generally provide support for the application. **Fee on a time and disbursement basis plus GST.**
3. Assist with community consultation based on the approved consultation plan. This will include finalising the treatment plant location and effluent disposal site. We would expect this activity to take up to three months from approval of the

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consultation plan. Our input to this task will depend on the scope of the final consultation plan and the extent of our involvement in the consultation. **Fee on a time and disbursement basis plus GST.**

4. Meeting with and reporting to Project Steering Committee, management and meeting with Community Liaison Group, and production of newsletters for the duration of the process through to submission of a contract to Council for signing. Assuming a three month duration for consultation, the total duration of the process will be five months. Over this time we assume there would be three sets of meetings and the production of three newsletters. **Fixed fee, \$33,500 plus GST.**

The total fee including costs for preliminary work (but excluding services on a time basis) is \$137,025 plus GST. This total fee is for additional scope required as a result of changed legislation, and was not included in our original proposal for the project management of the Mangawhai Ecocare project.

The following work is largely in line with our previous proposal however it now requires the project documentation to be amended to suit a DBFO and also to include the Guaranteed Maximum price concept.

5. Finalise contract negotiations following outcome of consultation and prepare documentation based on a 15 year DBFO basis with 5 year interest only financing. This will include negotiation with Simon Engineering to establish the final form of contract and legal input into the project documentation. The completion of this task will be the submission of the final contract form to Council for approval. This task will run in parallel with the community consultation, and be complete ready for Council consideration when community consultation is complete. You will note that we have previously allowed \$15,000 to complete contract negotiations, but now will require some additional time to modify previous work to suit a DBFO delivery. **Fixed fee, \$21,000 plus GST plus any Bell Gully fees at cost.**

We have made no allowance in the fees above for:

- Revision to the currently approved contract delivery methodology; or
- Additional project duration beyond November 2003 where the extended duration is caused by delays in Council approval or a Council requirement to undertake additional project auditing or reporting.

We propose that the work outlined above be undertaken as a variation to our existing contract.

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Our Ref: 2411172

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We look forward to now moving ahead with this project and completing tasks required to enter into a contract later this year. Please be assured of our continued support.

Yours sincerely

Beca Carter Hollings & Ferner Ltd

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