



chatham islands council

PROCUREMENT STRATEGY

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CHATHAM ISLANDS COUNCIL

Procurement Strategy 2022



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Revision Tracking

The Council reviews this document on an approximately three-yearly cycle, with the revised document published on the Council's website.

	Summary of Changes	By	Date
01	Original document	A. McDonald	2009
02	Update of minor details; changes to procurement limits for roading	S. Boshier, O. Pickles	Sept. 2014
03	Edited to include NZ Transport Agency endorsement dates, update contractor and Stantec water engineer.	S. Boshier	Dec. 2015
04	Three-yearly update (2019)	S. Boshier, N. Lister, O. Pickles	Jun. 2019
05	Three-yearly update (2022)	R. Tinga, S. Boshier, N. Lister, O. Pickles, C. Peni	Jul. 2022

1. EXECUTIVE SUMMARY

The Chatham Islands Council's (herein referred to as 'the Council') goals are to work towards a sustainable future for the people and the Islands, these goals are fully described in the Council's Long-Term Plan (LTP). This Procurement Strategy principally focuses on transportation activities, but other Council activities are included where overlap exists, as the Council gains price and resource efficiencies by using the roading maintenance contractor to maintain other community assets, such as the potable water and wastewater networks.

Aside from large capital infrastructure projects (e.g. Waitangi Wharf, Tuuta Airport upgrade), the Council is the largest organisation to procure engineering and construction services on the Islands on an on-going basis. The small population means the Council's income from rates is limited and without Government assistance the Council would struggle to raise funds to maintain and improve community assets. The focus of the Council's work programme is to raise the standard of all facilities to that routinely found on mainland New Zealand. However, the quantum of work is limited by the ability of the Council to meet its local share of any project cost. The Council cannot be too ambitious with its projects and often must spread improvements over more than one year.

The 'value for money' proposition presented in this Strategy includes intrinsic aspects such as the Council values, the isolation of the Islands, the long-established relationships with some of the current providers and their knowledge of the Council's assets and business. Other important factors to be considered are community satisfaction with the suppliers and participation in the community by the suppliers. Therefore, taking these factors into account, the Council considers it will achieve best value for money by maintaining the status quo subject to the limitations described below.

Historically willingness to compete has declined under the Competitive Pricing Procedures (CPP) environment with the established suppliers (at the time) being the only bidders for the 2010 advertised tender of the Road Maintenance and the Water & Wastewater Maintenance contracts. A key change to the Procurement Strategy occurred with the release of the 2014 Procurement Strategy. Waka Kotahi endorsed Council to establish a longer 10-year contract term that combined both contracts under one tender. Traditionally the main factors for low levels of competition are the isolation of the Islands, the high cost to establish, the higher cost of doing work and the low volume of work on the Islands.

1.1 Approvals and Endorsements

Waka Kotahi endorsed Council's 2019 Procurement Strategy in July 2019. This 2022 Procurement Strategy is a minor update of the 2019 strategy.

Waka Kotahi endorsed the 2022 Procurement Strategy in September 2022. Final approval by Council came at the Council meeting held in 15 September 2022.

1.2 Recommendations

The following recommendations are being made in accordance with s25(1) of the Land Transport management Act:

- Endorse the Chatham Islands Council Procurement Strategy dated TBC 2022
- Approve the continued use of a variation to Procurement manual, section 10.21 Maximum term of a term service contract for infrastructure or planning and advice to allow Chatham Islands Council to use a contract term of ten years for the road, water and wastewater asset maintenance and operations term service contract.
- Approve the use of a variation to Procurement manual, section 10.21 Maximum term of a term service contract for infrastructure or planning and advice to allow Chatham



chatham islands council

Islands Council to use a contract term of seven years (5+1+1 years) for the professional services term service contract.

2. POLICY CONTEXT

2.1 Chatham Islands Uniquely Remote Context

The Chatham Islands and its people are a unique community, located approximately 800km east of mainland New Zealand. It consists of two main inhabited islands, Chatham Island and Pitt Island.

The Council maintains a roading network across two islands, Chatham Island and Pitt Island. Chatham Island comprises 150.3 km of unsealed roads, 12.9 km of sealed road, and the wharves at Owenga and Kaingaroa. All are key links between the main settlements of Waitangi, Te One, Owenga, Port Hutt, Kaingaroa and Pitt Island. Pitt Island has 15.2 km of unsealed roads serving the community. The overall population of the two islands is approximately 663 people (2018 census) comprised of fishermen, farmers, tourist operators, and those who provide other services such as policing, medical care, hardware, groceries, and fuel. With no public transport or alternative modes (train, tram, bus) being available, the road network is an important asset to the community for the transportation of goods, and travel to employment.

The road network on Chatham Island is maintained daily and the Pitt Island road network is maintained on typically an annual basis, unless urgent works are required.

The principal means of transport to the Islands is via air, with Air Chathams providing passenger and freight services from Auckland, Wellington and Christchurch. Other freight and livestock are transported to the Islands from Napier or Timaru by sea freight, currently completed by a single operator. Travel between Chatham and Pitt Islands is by air (light aircraft) or sea (barge or fishing boat). Due to these externalities the cost of living for Chatham Islanders is typically higher when compared to mainland NZ, but the community is entitled to the same standard of living as experienced on mainland New Zealand.

The private and commercial vehicle fleet comprises cars, SUVs, and light trucks with some specialist heavy vehicles. The road maintenance vehicle fleet comprises of three-axle rigid dump trucks, graders, loaders, light trucks and utilities. A programme for traffic counting commenced in 2009, which assists with management and improvement of the network.

The Council is the smallest local authority in New Zealand and being a Unitary Authority completes both Regional and Local Authority tasks. Under the Land Transport Management Act (LTMA) 2003 the Chatham Islands are mentioned in Section 7A about preparation and consultation on the LTP, which recognises the absence of a regional land transport strategy. The Council also performs the role of the Regional Transport Committee (RTC).

The Council does not have any neighbouring local authorities and there are no state highways, railway, or public transport networks on the Islands.

The Council does not have a Council controlled works unit or any in-house engineering staff. All engineering, road maintenance, renewals and improvements have been completed under CPP guidelines with contractors or consultants engaged directly or by open tender.

The current road, water and wastewater maintenance contract has been held by Fulton Hogan since January 2016 with Stantec (and its predecessor companies) providing professional services to the Council since 1956. Along with Council, the parties have developed strong working relationships to perform tasks on a 'best for Islands' approach.

There is no intention, nor any need, to develop a Regional Transport Strategy, however the 2021 Roding Activity Management Plan (AMP), Road Maintenance Strategy, Traffic Counting Strategy and Safety Management System are documented and support the Council's programming of work. RAMM is operated as an asset inventory only as the Network is too small to justify Condition Rating and Treatment Selection Analysis.

2.2 Strategic Objectives and Outcomes

The Council's goals and objectives for delivery of roading infrastructure are described in the 2021-24 LTP and 2021 Roading AMP. The relevant community outcomes are:

Social Well-Being: Resilient Community

Ensure everyone has a sense of belonging and can access information to participate in decision making to help shape the future of the Chatham Islands. We will build and maintain relationships to strengthen active participation in the best interests of the community. Communities are prepared and can recover from the changes in the environment, including natural disasters.

Cultural Wellbeing: Embracing Diversity

We celebrate our unique identity through arts, culture, heritage, sport and recreation. We will work with imi and iwi to ensure that appropriate regard is made to miheke/taonga and culturally significant matters. We recognise and value the voices of all cultures and ages within the communities we serve

Environmental Well-Being: Sustainable Action

Unique ecosystems, landscapes and indigenous biodiversity are valued and stewardship/t'chiekitanga/kaitiakitanga exercised to safeguard our environment for future generations. The quality of freshwater and coastal water is protected and improved for community wellbeing and ecosystem health. Living and working environments are sustainable, contribute to healthy communities and minimise waste.

Economic Well-Being: Growth Builders

People and goods can move safely and efficiently while reducing impact on the environment. The economy is supported by appropriate infrastructure that protects people and assets. We will support growth of a skilled workforce, increased employment, and opportunities for everyone to contribute to and benefit from a vibrant and prosperous economy.

The Economic Wellbeing outcome is further described in the LTP as the factors relating to the capacity of the economy to generate the employment and wealth necessary to provide many of the prerequisites the other well-beings. These factors are:

- A community that promotes economic development for its fishing, farming and tourism industries
- Up-to-date telecommunication and information technology that supports economic growth¹
- An educated, skilled workforce
- Access to reliable and affordable transportation services²

The Council relies on external providers for most activities and procures these based on:

- Ability to manage work in an isolated location
- Quality rather than price driven selection
- Long term relationship-based arrangements ('one team' approach)
- Employment of local people
- Participation in the community
- Minimising cost of doing business
- Efficient allocation of resources and work activities

¹ For the first time in December 2021 the cellular phone network went live on the Islands, including some reception on Pitt Island. This also significantly improved the internet capacity for residents, providing the long desired stronger connection to the rest of the world.

² In 2021 construction began on the 'Longer and Stronger' upgrade of Tuuta Airport to facilitate Class 4C aircraft. This follows on the back of the Waitangi Wharf upgrade project finished in 2018.



2.3 Waka Kotahi Funding and Value for Money

The total amount of investment for the land transport programme is limited by the ability of the Council to provide its own share and this is recognised in the Waka Kotahi calculated Funding Assistance Rate (FAR). Therefore, the Council concentrates on network maintenance, renewals, low cost / low risk, and small projects on the roading network, as large projects are often difficult to justify with the low population base. The higher cost of work on the Islands leads to lower benefit cost ratios (BCRs), however it is recognised that economics is not the only factor in assessing project priority. The Council has worked closely with Waka Kotahi to secure funding to meet maintenance and improvement needs.

The Council believes it achieves value for money for its current services as demonstrated via the open tender process adopted since 1994 (most recently in 2015 for asset maintenance & operations and 2016 for engineering services) and values the good relationships established with the current suppliers.

Council took the opportunity to combine the maintenance and operation of their Water & Wastewater treatment systems into a combined single physical works tender in 2015, after permitting a ten-year physical works contract term in the 2014 issue of the Procurement Strategy.

This was a reactionary change, as the remote location of the Islands and relatively small population lead to high establishment costs for works on the Islands, thus open tendering for the 5-year term maintenance contract only attracted bids from the incumbent provider for at least the last three contract terms. Increasing the contract term and including some additional unsubsidised works attracted competing bids and has ultimately delivered better value for money.

The intention is to pursue a 10-year contract term again when the current contract expires in 2025, and the relevant LTMA approvals will be sought at the appropriate time in the tender process.

Standalone capital projects have similarly failed to attract competitive bids when released to open tender, as the relative proportional cost of establishing a works presence on the island is significantly higher than for projects of similar value in mainland New Zealand and thus the value of contracts in the Chathams Islands needs to be higher to attract competitive bids from contractors with no established presence on the Island. Knowing that open tendering low value contracts will attract no bids, representing a cost saving from avoiding the expense of unsuccessful tendering processes.

To address the lack of commercial competition created by the remoteness and low population density on the islands, Council stipulates that pricing of direct appointment work is undertaken on the basis that the incumbent would use off-island resource for the work to ensure the on-going delivery of routine maintenance works. This eliminates the established presence bias in pricing and ensures that competitive values are used to measure the value of the project.

This Procurement Strategy was prepared with reference to the:

- Waka Kotahi Procurement Manual and guidelines,
- Government Procurement Rules,
- Office of The Auditor General procurement guidelines and good practice notes,
- Local Government Act 2002,
- Land Transport Management Act 2003,
- Council policies.

2.4 Direct Appointment

The Chatham Islands Council acknowledges that “competition” is still the default position: however, the Council where appropriate will look to the direct appointment options. This will be used where there is a lack of market-driven competition, to ensure that best value can be obtained through avoiding lengthy and expensive tendering processes for lower-value capital projects that are unlikely to attract competitive bids on the open market.

To provide comfort the Council may consider calling for registrations of interest to gauge market interest.

The lack of open-market competition for projects in the Chatham Islands results from several factors including:

- High establishment costs where contractors have no appreciable presence in the islands already,
- High on-going freight costs for critical materials and components, affecting margins and the ability to present similarly competitive prices as for equivalent works in mainland New Zealand,
- High resource costs where the costs of temporarily relocating staff are relatively high as there is little short-term residential accommodation available on island and therefore hotel accommodation is required, and where workers either require additional compensation for long periods of work away from home or travel costs escalate from fly-in-fly-out-type arrangements,
- High delivery risk from lack of redundancy in material supply and labour resource contributing significant time delays caused by downtime from unplanned staff sickness or plant breakdowns where repair components must be sourced from mainland New Zealand.

The magnitude of projects needs to be considerably higher in the Chatham Islands to attract interest from sufficiently large firms with the capability to deliver projects entirely internally or absorb the extra costs of using rental plant and sub-contracted resource, as there is no additional labour market or equipment supply available in the Chatham Islands. Smaller firms that may rely on renting specialist plant or sub-contracting specialist labour are often precluded from consideration on Chatham Islands projects as they lack the capacity to absorb the additional costs of hire plant and sub-contracted labour, and therefore cannot compete with larger contractors.

It is likely that under the current significant inflationary pressures and supply-chain uncertainties the price of works will increase significantly in the Chatham Islands.

The current network maintenance contract has a clause requiring the contractor to reliably deliver routine maintenance works throughout the duration of any capital projects won at tender or directly appointed. This requires the incumbent network contractor to price capital projects using exclusively off-island resource for delivery, and significantly reduces the competitive advantage gained from their established presence. The prices prepared under this assumption allow Council to test whether the works will fall under the direct appointment threshold at open-market prices.

Savings can be realised after appointment if the incumbent can provide resource and plan to support to capital works using on-island resource not required for routine delivery, but this is not assumed at any point during the direct negotiation phase.



3. PROCUREMENT PROGRAMMES

3.1 Current Contracts and the Method of Procurement

The following table outlines the activities currently procured by the Council:

Activity	Service	Procurement Method	Contract Term	Contract Commenced	Contract Expiry	Current Provider
Roading	Council Engineer and Professional Services	Public Tender	5 Years + 1 + 1	1 November 2016	31 October 2023	Stantec NZ
	Physical Works	Public Tender	10 Years	4 January 2016	31 December 2025	Fulton Hogan
Water & Waste Water	Council Engineer and Professional Services	Public Tender	5 Years + 1 + 1	1 November 2016	31 October 2023	Stantec NZ
	Physical Works	Public Tender	10 Years	4 January 2016	31 December 2025	Fulton Hogan
Solid Waste	Professional Services	Direct Negotiation	Ad Hoc	N/A	N/A	Stantec NZ
	Physical Works	Direct Negotiation	4.5 Years	1 August 2021	31 December 2025	Fulton Hogan
Governance	Regional Functions and Corporate Services	Direct Negotiation	Annual	1 July 2022	30 June 2023	ECan
Bio Security	Border Control	Sub contract to ECan	Annual	1 July 2022	30 June 2023	ECan
Building Consents	Consent processing and monitoring	Direct Negotiation	Statutory Appointment	N/A	N/A	Wellington City Council
Resource Consents	Consent processing and monitoring	Direct Negotiation	Ad Hoc	N/A	N/A	BECA, Christchurch

The following table outlines some of the larger current and proposed future capital works projects, along with an estimated capital cost or cost range for each, along with the envisaged year of pre-implementation and implementation.

Project	22/23	23/24	24/25	25/26	Procurement Method
Whangamoe Bridge replacement: Construction	\$600k				Direct Negotiation
Owenga Wharf Loading Ramp: Design	\$65k				Under existing Contracts
Owenga Wharf Loading Ramp: Construction		\$700k			Direct Negotiation
Maipito Bridge Replacement: Design			\$65k		Under existing Contracts
Maipito Bridge Replacement: Construction				TBC	Direct Negotiation
Te One Weighbridge (CRRF)	\$130k				Pre-Approved Tender
Solid Waste Minimisation Infrastructure	\$280k				Pre-Approved Tender



The water and wastewater capital programme still hinge on securing additional funding, and now should be considered aspirational. The high-level costs of the following capital investments were estimated early in 2021, but are likely to have escalated significantly since then due to the impacts of the ongoing global pandemic on supply costs, availability, and logistics.

- Waitangi water supply upgrade, with extension to Te One - \$4M (25/26).
- Waitangi Wastewater upgrade - \$4M (24/25),
- Kaingaroa reticulation renewal - \$600k (23/24),
- Water Tank Loan Scheme - \$500k (22/23).

Council endeavours to replace Kaingaroa Wharf with a new structure in the future, however again this is subject to securing funds to design and construct the facility.

3.2 Core Services - Roading

The following information is relevant to the Roading activity. It is hard to anticipate what affect the Three-Waters Reform will have on the three-waters core services in the medium to long term, and they have been omitted from this procurement strategy.

Physical Works – Maintenance & Renewals

Core work categories are Maintenance, Renewals and Low Cost / Low Risk project, with some Capital Works included where the cost of establishing another contractor is significant compared to the value of work. The contract also includes unsubsidised works such as cemetery and reserves mowing, street cleaning, litter collection, miscellaneous landfill management tasks and minor building maintenance.

Professional Services

Core services include; Engineer to Contract, management of the maintenance contract, engineering reports, routine inspections, preparation of planning documentation, NZ Transport Agency funding requirements and reporting, stakeholder liaison, and professional advice. Additional specialist services are Activity Management Planning, Safety Inspections, Bridge Inspections and Asset Valuations. Professional services for improvement projects are usually negotiated directly with the incumbent as they have intimate knowledge of the road network.

3.3 Contribution to Council and LTMA 2003 Section 25 Objectives

This procurement strategy supports the Council objectives of:

- A community that promotes economic development for its fishing, farming and tourism industries (*minimise cost of doing business and efficient allocation of resources and work activities*)
- An educated, skilled workforce (*employment of local people*).
- Access to reliable and affordable transportation services (*quality rather than price driven selection and minimise cost of doing business*).
- A community that promotes partnership with leading organisations (*long term relationships and participation in the community*).

Section 25 of the LTMA 2003 requires that:

- Procurement procedures must be designed to obtain best value for money spent, having regard for the purpose of the LTMA, which is to ‘contribute to an effective, efficient and safe land transport system in the public interest’.



- The Transport Agency must approve procurement procedures designed to obtain the best value for money spent.
- When approving a procurement procedure, the Transport Agency must also consider the desirability of enabling fair competition and encouraging competitive and efficient markets for the supply of outputs required for funded activities.
- Procurement procedures approved by the Transport Agency must specify how the procurement is to be carried out.
- Outputs must be purchased from external providers, except for minor and ancillary works, which may be purchased from an internal business unit under certain conditions.
- To reinforce the point that the lowest price proposal received for the provision of any outputs does not always equate to the best value for money spent, S25 ends with a specific provision stating that an approved organisation is not compelled to accept the lowest price proposal. This has important implications when it comes to determining value for money.

3.4 Broader Outcomes

3.4.1 National Context

In October 2018 central Government recognised that its procurement activities offer a unique opportunity to achieve broader cultural, economic, environmental and social outcomes for New Zealand. Of these broader outcomes, the Government identified four priority outcomes for agencies (including Local Government) to start focusing on:

1. Increasing access for New Zealand businesses

Agencies must consider how they can create opportunities for New Zealand businesses, including Māori, Pasifika and regional businesses, as well as social enterprises.

2. Construction skills and training

The Government is committed to using its procurement to find ways to partner more effectively with the construction sector to grow the size and skills of New Zealand's construction workforce.

3. Improving conditions for New Zealand workers

The Government aims to improve conditions for New Zealand workers by requiring agencies to ensure suppliers and their sub-contractors comply with employment standards, and health and safety requirements. Agencies must also consider how they can create quality employment opportunities through their procurement activities.

4. Reducing emissions and waste

The Government is committed to achieving positive environmental outcomes through sustainable procurement by buying low emissions and low waste goods, services and works.

3.4.2 Council Context

The Council is limited in some regard to give full effect to all the broader outcomes outlined by central Government. However, the following outlines how best Council can seek to align Procurement decisions to best fit Government objectives.

1. Increasing access for New Zealand businesses

It is difficult in many circumstances to encourage regional businesses (e.g. Chatham Islands based) to tender for larger capital works projects on the Island, as the small population base often does not contain the specific plant, design and construction



skills/knowledge necessary to successfully implement the capital works. Therefore, these skills usually come from mainland New Zealand based companies and Council can look to support businesses on a national level.

2. Construction skills and training

When larger capital works projects occur on the Islands, the Contractor tends to bring over mainland-based employees who have appropriate experience, knowledge and skills to implement the project. This may create opportunities for Island domiciled people to secure short term contracts with the Contractor to work on the project and increase their own skills and experience in the construction sector. Whilst Council would not instruct a Contractor on how to procure their workforce, it would strongly encourage the advertisement of opportunities to work on larger projects, particularly for younger persons, who would not often get the opportunity to work on such projects. This could create a springboard on the direction of their career.

3. Improving conditions for New Zealand workers

Council will outline the standards and pre-qualifications expected of Contractors to enable them to tender on larger capital works projects. Council supports the Government outcome and does not wish to see a situation arising of a 'race to the bottom', whereby workers conditions in health and safety or monetary compensation, are sacrificed in order to secure tendered contracts.

4. Reducing emissions and waste

Reducing waste to the Islands is already an area of concern for Council, as the cost of removing waste back to the mainland (if required due to waste type) is cost prohibitive and therefore what is bought to the Islands, very often stays on the Island. Therefore, Council will seek Contractors to consider the full lifecycle analysis of materials and plant bought to the island and any wastage remains.

With an electricity network running on diesel generation, it is difficult at this stage to strongly encourage Contractors to operate electric vehicles on-Island. The electricity produced is not renewable as it is for a large percentage of mainland New Zealand electricity generation. If a renewable electricity source becomes available in the near-future, Council would look to change directive on this matter.

3.5 Public Value

Section 25 of the LTMA requires Waka Kotahi to approve procurement procedures 'designed to obtain best value for money'. Whilst the cost of any contract is very important, it alone is not a reliable indicator of value for money. 'Efficiency' and 'Economy' have both financial and non-financial attributes. Non-financial attributes may include:

- Quality of supplier or product
- Impact on communities and the environment
- Design integrity
- Innovation
- Whole-of-life considerations
- Training and development opportunities (also linked with Broader Outcomes)
- Health and safety practices

When tendering larger scale capital works projects, Council ensures that non-price attributes are including in the tender evaluation and that price alone is not the sole determinant of the best supplier for the project. These non-price attributes historically have assessed the experience, capability and track record of tenderers. Whilst tenderers must also qualify with Health and Safety at Work Act (HSWA) 2015 as a minimum requirement.

For future tendered capital works projects, Council will endeavour to require tenderers to provide examples of other non-financial attributes within the contract. If appropriate, these



too may receive weighting in the non-financial tender assessment to appropriately capture the importance to Council.

Council has publicly tendered both the physical works and professional services contracts in the past six and a half years, which has provided comfort in the knowledge that the best financial ‘value for money’ was competitively achieved. The biggest change to financial outcomes in that time, was the expansion of tendering a ten-year physical works contract, instead of a five-year contract as had been adopted prior. A ten-year contract duration provides certainty for both Council and the Contractor on the work over a long timeframe, which is essential when considering the physical isolation, the Chatham Islands has to the rest of New Zealand.

3.6 Health & Safety

Council recognises its obligations under the HSWA and expects contractors and suppliers to take practical steps to ensure safe work practices are employed. Council recognises there are shared responsibilities under HSWA between Council as the ‘Person Conducting a Business or Undertaking’ (PCBU) and contractors or suppliers undertaking work on their behalf. Council requires all contractors and suppliers to apply best practice health and safety throughout the procurement lifecycle.

3.7 Risk Management and Profile

The Council is acutely aware of the risks involved in doing business on the Islands and the risk profile tabulated below is provided to advise the current known risks to the industry.

Category	Description	Impact/Benefit
Social	Acceptance into community	Current relationships are strong, new relationships take time to establish. Good relationships assist with consultation and work planning.
Economic	Contribution to local economy	Employment of local staff very important. Local suppliers used for fuel, food and other consumables. Sustains community.
	Freight	Contributes to sustainability of current operators (air and sea). Subject to volatile pricing (e.g. fuel costs directly impact on freight charges). Programme delivery delays are apparent due to shipping schedule.
	Fuel	Contributes to sustainability of current supplier. Subject to volatile pricing and freight.
	Consumables e.g. groceries/hardware (+25-30% approx. on mainland prices)	Contributes to sustainability of current suppliers. Reduces apparent value for money by delivering less work for greater value.
	Access to other work	Limited, establishment of another Contractor is not sustainable in the short term.
	High cost to establish on Islands	Assessed at >\$1M for maintenance contract, less for specific projects.
	Pitt Island Accessibility	Lack of adequate facilities at Owenga and Flower Pot Bay reduce efficiency of operations Risk of failure to meet contractual obligations on Pitt Island due to lack of access or on main island when plant is left on Pitt Island



Category	Description	Impact/Benefit
Materials	Existing quarries leased by Fulton Hogan	Lease periods are of varying lengths or have no end term agreed (open-ended).
	Quarries require further development	Work may be unsustainable if opportunity to invest is limited.
	New quarry required near Waitangi, Tuku and Owenga to supply quality materials	Reduction in long haul distances and heavy traffic on road network. Reduction in fuel consumption. Quality of materials from existing quarries is variable. Work may be unsustainable if investment period is too short.
	Importation of bitumen, cement, and other materials	Can be delayed due to weather, shipping schedule changes and capacity.
	Fuel Supply monopoly and supply uncertainty	Monopoly on diesel supply market may impact costs. Unreliable fuel supplies may impact programme delivery.
Competition	Lack of other Contractors on the Islands	Small contractors with ability to sub-contract work may not be able to present appropriate Health and Safety and Quality plans required by main contractor or Waka Kotahi
	Reluctance in competition from Contractors without established presence	Total current work volume is low. High cost to establish on Islands. High rates tendered/submitted (counter by auditing submissions or seeking cost plus rates)
	Impact on other contracts if incumbent loses roading contract	Possible abandonment of other contracts
Global	Pandemic	Widespread illness affecting programme delivery, supply chain reliability, material availability and cost, and efficiency.
	War in Eastern Europe	The current conflict in Ukraine has had a large impact on fuel and commodity prices globally, as Russian oil supply has been boycotted.

The Three Waters Reform is likely to have some impact on three-waters service delivery and asset management procurement. As the reform has not progressed in its entirety the magnitude and nature of the impact on the Chatham Islands is not certain but the following risks should be considered:

- If three-waters service delivery is unbundled from the main maintenance and profession services contracts the provider loses the economies of scale present in the current contracts.
- Similarly, the corresponding roading contracts may suffer from the reduction in contract size from removing the 3-waters aspect of the service delivery.
- If the new entities elect to provide water service delivery via separate contracts, they are likely to incur significant mobilisation costs in terms of the physical works requirement.
- The water entity's selected supplier may need to look to the established contractor for support, which may reduce the contractor's ability to deliver the required roading and stormwater maintenance programmes.

4. PROCUREMENT ENVIRONMENT

4.1 Supplier Market

For many years the supplier market has been limited on the Islands because of its isolation and the low work volume across all procurement agencies or clients. The current 10-year contract term created tender competition that was able to overcome; the high cost of establishment, the short period for investment in plant, quarry development, buildings and to establish a connection to the community. For roading activities, the following is relevant:

Consulting Engineering Activities (Network & Asset Management, Investigations, Design Services):

- There are no Consultant Engineers domiciled on the Islands.
- Consulting services have been supplied by Stantec NZ since 1956 (in one company form or another).

Contracting Activities (Maintenance, Renewals, Low Cost / Low Risk, Capital Projects and non-subsidised works):

- Fulton Hogan is the only major Contractor established on the Chatham Islands and has provided contracting services since 2016.
- The general maintenance contract was awarded via public advertisement.

During 2014/15 a selection of contractors experienced in maintaining unsealed roads in isolated rural areas were approached seeking their views on willingness to compete based on the ideal contract term and any other factors to overcome the constraints imposed by establishment and development costs. The main comment was that a five-year contract duration was too short a period to overcome the high establishment costs and operate at a profit whilst presenting a competitive tender bid. This information was used to change the previous version of this Procurement Strategy to let Council tender a maximum 10-year contract for maintenance services.

Consultants have shown an unwillingness to compete in this environment as evidenced by Stantec being the only tenderers in the last publicly advertised Professional Services contract tender (2016). The 2016 tender permitted a longer duration than in previous tender rounds, with a 5 + 1 + 1 term presented.

As the Council already faces higher unit rates for all its activities due to its isolation, and has little control over this, establishment costs for project work can be minimised by obtaining physical works through the current contractual relationships. The Council is aware of the limited work volume on the Islands and its impact on sustaining a competitive supplier market on the Islands. Further, it values the good relationships established with current suppliers and the supplier's participation in the community.

4.2 Expenditure Profile

The Council's typical expenditure profile on all activities is:

Activity	Sub-Activity	Estimated Annual Expenditure
Transportation	Maintenance & Renewals	\$3,800,000
	Low Cost / Low Risk Improvement Projects	\$750,000
	Capital Projects	Varies, up to \$1.25M*
	Network & Asset Management: Core Engineering Services	\$77,000
Water Supply	Maintenance & Renewals	\$1,050,000
Waste Water & Stormwater	Maintenance & Renewals	\$81,000
Solid Waste Management	Maintenance & Renewals	\$600,000
Community Services	Maintenance & Renewals	\$147,000
Democracy	Corporate Services, etc	\$950,000
Environmental Services	Resource management, biosecurity, Emergency management	\$2,048,000
Coasts, Harbours and Navigation	Maintenance & Renewals	\$60,000
Legislative (includes Regional Activities)	Resource Management, Dog Control, Liquor Licensing, etc	\$1,170,000

* historically no more than one project per year on average

The proposed annual expenditure by activity is described in more detail in the LTP. Expenditure on roading represents approximately 40% of the Council annual spend with 88% of roading funds coming from Waka Kotahi via the FAR. The funding plan is described in the National Land Transport Programme (NLTP).

4.3 Other Procurement Activities

The Council is unable to gain any price efficiency associated with activities arranged by other local authorities, as none exist as neighbours. Other agencies, such as DOC, the Canterbury DHB or private landowners, often rely on the Councils' contractor to complete work for them under separate commissions. This work is infrequent and cannot be relied on to reduce the fixed cost components of projects.

As described above the following activities are part of the wider procurement programme and assist with price and resource efficiency:

- Council Housing on ad hoc basis (Stantec/Fulton Hogan, major upgrades by advertised tender (current contract arranged by Wellington City Council)).
- Water Supply by contract (currently awarded to Stantec/Fulton Hogan).
- Wastewater Treatment by contract (currently awarded to Stantec/Fulton Hogan).
- Solid Waste Management (currently awarded to Stantec/Fulton Hogan).
- Governance/Corporate Services/Accounting by contract (currently awarded to ECan).
- Resource consents on ad hoc basis (processed by Beca).
- Building Consents by direct negotiation (currently Wellington City Council).
- Health Services (currently provided by Canterbury DHB).

The Council has very few opportunities to support a competitive supplier market, manage negative impacts, or gain from opportunities due to the isolated nature of the Islands and limited work volume.



5. APPROACH TO DELIVERING THE WORK PROGRAMME

Both the road, water and wastewater maintenance and operations physical works contract and the professional services contract will expire during the three-year tenure of this procurement strategy.

The physical works maintenance contract includes both roading and three water assets. With the current central Government reform of three water delivery, there is much uncertainty on how the proposed Water Entity responsible for Council’s assets would procure maintenance and operation services on the Island.

Therefore, Council’s intention is to revise this procurement strategy earlier than the required minimum of three years (Q3, 2025), instead updating this strategy in the first half of 2024, when it is expected a much clearer understanding of the Three Waters reform outcomes are established.

The professional services contract is up for renewal in October 2023.

Specific Objectives

The Council wishes to obtain contracting and consulting services at a reasonable price in accordance with the Waka Kotahi Procurement Manual but recognises the isolated environment restricts competition and increases costs. It also wishes to retain the ability to negotiate non-roading activities with the roading contractor and consultant, thereby preserving the current efficiencies in resource allocation and cost. This leads to reduced transaction costs associated with administration of supply contracts and ensures all related work is undertaken by one team. This Strategy supports this strategic objective.

Service providers need to understand the risks and economics of working on the Islands along with fitting in with the community. Further, the Council wishes to establish strong relationship with its suppliers.

When a competitive tender contract is procured, the Council will advertise the contract on the Government Electronic Tenders Service (GETS).

5.1 Procurement Methods

Being an isolated Council there is very limited competition for tendered packages of work. For this reason, the Council may consider the direct appointment option. Council has found that a competitive tender process does not occur unless a capital works project is anticipated to cost at least \$1.3-1.5M, as the cost of establishment is often too high for off-island based tenderers to overcome in their price.

Work Category	Preferred Procurement Method	Limits	Reason
Maintenance, Renewals and Low Cost / Low Risk Activities	Competitive Tender	< \$4.0M pa Up to 10-year duration NZS:3910 / 3917 Conditions of Contract.	Lack of willing competitors. Insufficient work volume to sustain competition. Isolated environment. 10-year term encourages investment and attracts tenderers.



Work Category	Preferred Procurement Method	Limits	Reason
Road Network Management - Professional Services	Competitive/ Tender Direct appointment based on the market at the time		Lack of willing competitors at 2016 open tender. Consultant has excellent relationship with Council and Contractor. Retention of network knowledge.
Capital Works - Physical Works	Direct Appointment (small projects)	subject to Council approval of Rule 10.11 analysis ³ .	Lack of willing competitors, small market. High establishment cost compared to cost of work.
	Open Tender (large projects)		Staged selection or Register of Suppliers. Suppliers to demonstrate ability to complete and manage work in an isolated environment.
Capital Works - Professional Services	Direct Appointment	Professional services contract holder	Current consultant has thorough knowledge of network

5.2 Specialist Services

5.2.1 Roading

The following services, in addition to core network management and generally less than \$50,000 in value, will be procured as described below.

Task	Procurement Method
Asset Valuations	Additional to the Professional Services Contract
Activity Management Plans / LTP Updates	Additional to the Professional Services Contract
Structural Bridge Inspections	Additional to the Professional Services Contract
Road Network Safety Inspections	Additional to the Professional Services Contract

5.2.2 Other Specialist Services

The following services are generally less than \$30,000 in value (for one off engagements), will be procured as described below.

Task	Procurement Method
Legal Services	Direct Negotiation
Property Management	Direct Negotiation
Street Light Energy	Monopoly Supplier (Chatham Islands Electricity Limited)

³ Waka Kotahi New Zealand Transport Agency Procurement Manual – 10.11 Direct appointment where competition will not help obtain best value for money (page 149).

5.3 Internal Procurement Process

The assessment of any openly tendered physical works contracts is conducted by the Council Engineers, who follow Waka Kotahi procedures. Where the Professional Services Contract is openly tendered, the procurement process is handled by an external party⁴.

5.4 Delegating Authority

The Chief Executive Officer delegations are:

- \$200,000 for non-transportation activities;
- Unlimited for transportation activities, however, larger projects are always referred to Council for final approval.

The Operations Manager delegations are:

- \$100,000 for non-transportation activities;
- Unlimited for transportation activities, however, larger projects are always referred to Council for final approval

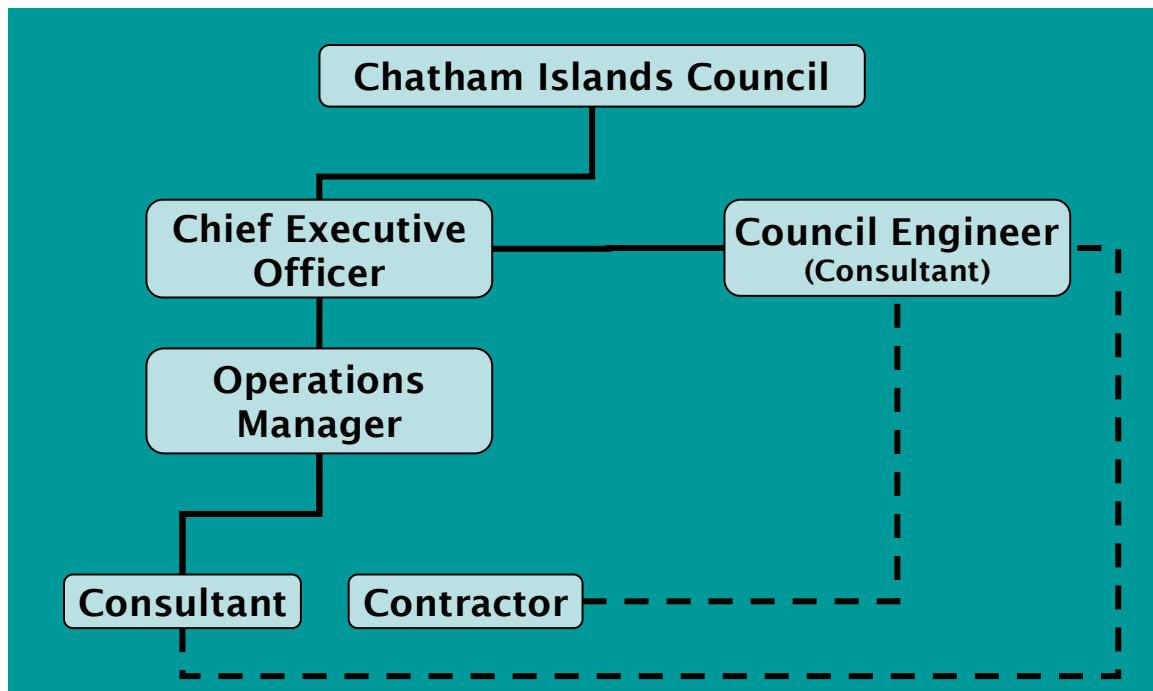
⁴ The 2016 Engineering Services Tender process was conducted by ECan on Council's behalf.

6. IMPLEMENTATION

6.1 Capability and Capacity

The Council has no engineering staff in-house, instead relying on its Consulting Engineers for professional advice on the maintenance and development of its infrastructure. There is no intention to change this arrangement in the foreseeable future. However, if future development leads to increased Council funding then this situation may be reviewed.

The Council receives assistance from the Waka Kotahi Christchurch Office for LTMA activities.



CIC Organisational Structure (Infrastructure Services)

Further information on the Council organisation and management is included at the end of this procurement plan.

6.2 Internal Procurement Processes

Stantec assists Council with all internal procurement processes for construction activities, and ECan assisted Council when the Professional Services Contract was up for renewal.

6.3 Performance Measurement and Monitoring

The Key Performance Indicators (KPI) include:

- Waka Kotahi annual reporting KPIs
- Maintenance contract KPIs
- Network condition (monthly contractor inspections / periodic inspections by consultant).
- One Network Framework assessment.
- Programme and budget achievement.
- Waka Kotahi Technical and Procedural Audit outcomes.
- Customer feedback.



These performance measures are necessary to monitor procurement under this Strategy and ensure value for money is being obtained.

KPI Reporting:

- Annual report to Waka Kotahi.
- Monthly reports to Council from contractor and consultant.
- LTP reporting.

6.4 Communications

This Procurement Strategy is owned by the Chatham Islands Council and is a public document. It will be referred to in the LTP and made available on the Council’s website (www.cic.govt.nz).

Stakeholders are:

- Councillors
- Waka Kotahi
- Iwi (Māori)
- Imi (Moriiori)
- DOC
- Heritage New Zealand
- Ratepayers
- Contractor(s)
- Consultant(s)

6.5 Corporate Ownership

This procurement strategy is approved by:

Owen Pickles
Chief Executive Officer
Chatham Islands Council

Date: 15 September 2022

Monique Croon
Mayor
Chatham Islands Council

Date: 15 September 2022



The Organisation – Council and Contractors (2022)

Chatham Island Council		
Mayor	Monique Croon	
Deputy Mayor	Greg Horler	
Councillors	Keri Day	
	Celine Gregory-Hunt	
	Graeme Hoare	
	Steve Joyce	
	Nigel Ryan	
	Amanda Seymour	
	Jason Seymour	
Council Staff		
Chief Executive Officer	Owen Pickles	owen@cic.govt.nz
Operations Manager	Colette Peni	operations@cic.govt.nz
Finance Technical Lead	Jakana Lanauze-Phillips	accounts@cic.govt.nz
Regulatory Officer	Colleen Clearwater	colleen@cic.govt.nz
Community Services Manager	Mereraina Hemara	info@cic.govt.nz
Council Secretary	Jo Guise	secretary@cic.govt.nz
Emergency Management Co-ordinator	Rana Solomon	rana@cic.govt.nz
Waste Management Officer	Fulton Hogan	
Engineers		
Stantec NZ	Nigel Lister, Shaun Boshier, Rebecca Tinga, Richard Bennett, Kirsten Norquay, Andrew Wong, Phil Landmark, Bryan Peters, Selena Tsai	
Contractors		
Fulton Hogan (Waitangi and Wellington)	Philip Holt, Dylan Fraser, Erin von Elders	
Regional Council projects and corporate services assistance		
Environment Canterbury	Tanya Clifford, Jaden Wallace	
Resource Management		
Beca	Paul Whyte	
Solicitors		
	Wynn Williams	
Bankers		
	ANZ – (ANZ Corporate, Christchurch)	
Auditors		
	Audit New Zealand (on behalf of the Auditor General)	

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