RURAL CITY LIVING

LGOIMA Response to GrassrootsNZ

19 September 2024

Dear Jess

Thank you for your request for information, received by the Council on Friday 6 September, about the Council's management of infrastructure projects. You asked the following:

Did the East Gore Water Treatment Plant upgrade, experience a budget overrun of $268,614.00, as claimed by the 'Gore Rates Reform Group' on Facebook?

Can you please define 'Remaining Contingency' in non-technical terms for public clarity?

When assessing quotes for long-term projects, does inflation play a role? If so, could you please detail the calculation method?

What are the approval procedures for projects, and how are cost overruns addressed?

When a contractor fails to meet the expected standard for a project, necessitating its redoing, who bears the liability: the Council or the Contractor?

In considering a response, our GM Critical Services Jason Domigan and 3 Waters Operations Manager Aaron Green have taken the opportunity to provide you with an insight into the intracacies of local government infrastructure projects.

Infrastructure projects vary greatly in complexity, scale, and cost.

Small-scale projects, such as culverts, are typically less expensive, but still require careful budgeting for materials, labour, and ongoing maintenance. Larger, multi-year projects, such as water treatment plants, involve significant investment in design, engineering and construction.

Councils develop project budgets based on the scope of work, environmental factors, and long-term community needs. In many cases, costs are reviewed regularly to ensure projects remain within budget. That said, unforeseen circumstances can occasionally result in adjustments.

Timelines depend on the complexity and scale of the project.

Small projects may be completed within weeks or months, while larger projects can take several years to plan, design, and construct. Timelines are influenced by factors such as weather conditions, availability of materials, regulatory approvals, and the coordination of contractors.

For large-scale projects, such as water treatment plants, there may also be a need for extensive planning, design work, and community consultation before any physical construction begins.

Once construction starts, project milestones are regularly monitored to ensure progress is on track.

For local government projects, a council (as the principal) typically engages contractors to carry out the works. A council would oversee the project and ensure the contractor adheres to agreed-upon standards, timelines, and budgets.

Contractors are generally responsible for delivering the project according to the specifications outlined in their contract. Liability is typically shared depending on the type of agreement in place.

Contractors are responsible for the quality and safety of their work, while a council maintains responsibility for ensuring the project aligns with broader public interests and regulatory standards. For larger, more complex projects, councils may also retain independent engineers or consultants to provide oversight and manage risks.

We have, to the best of our ability, provided answers to your questions below. However, it is important to note every project has different complexities to consider in terms of design and construction.

Q: Did the East Gore Water Treatment Plant upgrade, experience a budget overrun of $268,614.00, as claimed by the 'Gore Rates Reform Group' on Facebook?

GoreDC Response: This project was subject to a variation from the contractor due to additional Covid-19 related costs. A variation of $290,000 was approved by elected members at a meeting on 20 September 2022.

Variations are standard practice for contract work of this nature. The variation process allows tenderers to be realistic in their pricing, otherwise these risks would be built into contract pricing, which would significantly increase tender prices.

We also had some unforeseen changes mid-project due to government changes to the New Zealand Drinking Water Standards. This resulted in an unanticipated 4% cost increase.

Q: Can you please define 'Remaining Contingency' in non-technical terms for public clarity?

GoreDC Response: A contingency is an amount included in a project's overall budget to address any unforeseen changes needed to complete the project. It is best practice to include a contingency as part of a capital project.

For example: A person undertaking renovations on their house would likely allow a contingency for unforeseen circumstances. The plan was to replace the carpet in their home but the person finds some floorboards are rotten and need replacing.

The 'remaining contingency' is the amount of money left in the contingency line of the budget.

Q: When assessing quotes for long-term projects, does inflation play a role? If so, could you please detail the calculation method?

GoreDC Response: This is where a project's contingency would come into play. Inflation can be difficult to predict for multi-year projects. The Council had major infrastructure projects underway when the country went into Covid-19 lock down. As a result, we had to deal with the rising cost of importing materials and delays to contracts.

Contracts can either include or exclude inflation. The normal practice for projects scheduled to be completed in one year is **not** to allow for inflation. With longer term contracts there is a provision under NZS 3910:2013 to allow for cost fluctuations due to inflation.

Q: What are the approval procedures for projects, and how are cost overruns addressed?

GoreDC Response: This depends on the cost of the project. Our procurement policy provides some guidance. It states:

(a) Procurement with a cumulative value of more than $10,000 and less than $25,000 requires at least two written quotations.
(b) Procurement with a cumulative value of more than $25,000 and less than $150,000 require at least three written quotations.
(c) Procurement with a cumulative value of more than $150,000 requires an approved procurement plan and an open and competitive process (RFP/RFT). This will outline the scoring base that the project is rated on. Below are just a few that can be included.
    I. Relevant Experience
    II. Relevant Skills
    III. Methodology
    IV. Price
    V. Design

Potential cost over-runs are addressed with contingency. The greater the risk, uncertainty or complexity of a project, the higher the contingency amount to allow for these factors. Our staff regularly report to Council committees, providing elected members with updates and pointing out risks to budgets and timelines that a project may be facing.

Q: When a contractor fails to meet the expected standard for a project, necessitating its redoing, who bears the liability: the Council or the Contractor?

GoreDC: If the work does not meet the requirements of the contract, the cost of the rework to make things right falls on the contractor. For larger projects, the liability on the parties is generally outlined in the contract arrangements.

For instance, a culvert is installed at an incorrect elevation, causing drainage complications. As a result the culvert needs to be removed and reinstalled.

So, who is liable? Liability is determined by various factors. For example:

If the contractor was instructed to install the culvert at a specific depth and failed to do so, liability falls on the contractor.

If the contractor was instructure to install the culvert at a specific depth, does the work as instructed but the culvert doesn't work correctly liability would fall to the Council. If the Council used an external party to design the culvert, liability would fall to it.

I hope this provides you with some clarity around the complexities of infrastructure projects and the challenges our staff sometimes face.

Please get in touch if you have any questions.

If you are unsatisfied with the response, you are entitled to lodge a complaint with the Office of the Ombudsmen. You can find more information on its website http://www.ombudsman.parliament.nz.

Kind regards

Sonia Gerken
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