

Report PE07.187
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Committee Utility Services
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Laboratory Services Tender

1. Purpose

To request the Committee's approval to close the Water Supply Laboratory and to accept a Tender for the supply of Laboratory Services.

2. Significance of the decision

The matters for decision in this report **do not** trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

3. Exclusion of the public

Grounds for exclusion of the public under section 7(2)(c), 7(2)(b)(ii) and 7(2)(i) of the *Local Government Official Information and Meeting Act 1987* are:

The information contained in the report is subject to mutually understood obligation of confidentiality. Release would be likely to prohibit future tenderers from tendering if they were aware that their names would be made public in advance of a tender decision being made. It is in the public interest that Greater Wellington receives tenders to ensure that Greater Wellington is able to attract the best possible tenderers.

Release of the tender evaluation contained in the report would be likely to prejudice the commercial position of the tenderers as it would reveal their tender strategy and details of their operational methodology. In the circumstances, this is considered unreasonable given the competitive environment they operate in. Their competitors could use this information to undercut them.

Release of the 2007/08 budget for laboratory work would disadvantage the Council in its negotiations with the preferred

tenderer and subsequent contract operations, as it would give an indication of the top price the Council would be willing to accept for the service.

Greater Wellington has not been able to identify a public interest favouring disclosure of the particular information above in public proceedings of the meeting that would override the identified prejudice.

4. Introduction

The GWRC Laboratory has for many years carried out sampling and analysis activities for the Water Supply department, other Regional Council departments and for external customers. In recent years the GWRC Laboratory has lost contracts to other laboratories and about 95% of the Laboratory's services are now for GWRC Water Supply. The other 5% is for non contracted services.

In 2005/6, changes were made to the Drinking Water Standards (DWSNZ:2005) which substantially reduced the requirements for bacteriological testing of water samples from the distribution system. In addition to this, the installation of more 'on-line' instrumentation at the water treatment plants has further reduced the need for laboratory testing. In light of these changes a revised testing schedule was prepared.

This new schedule, which is due to be implemented in July 2007, amounts to approximately 25% of the work in the existing schedule. The reduced workload for the laboratory is barely sufficient to occupy two people on a full time basis and therefore the future viability of the laboratory is questionable.

In October 2006 the decision was made to seek Tenders for the provision of laboratory services from external laboratories.

5. Tender process

5.1 Objective

The objective of the Tender Process was to engage a suitably qualified contractor to provide the following Laboratory Services for a contract period of three years:

- Collection and transportation of water samples
- Analysis of samples and reporting of results
- Assistance with technical issues and emergencies.

5.2 Registration of Interest

In January, Registrations of Interest were advertised. Interested parties were given until the 14 February 2007 to register their interest.

A total of seven companies registered interest and requested further documentation. Upon evaluation of the submissions it was decided that all parties would be given an opportunity to submit a Tender.

The tender documents were prepared and issued on 9 March 2007 to the following companies:

- AgriQuality Ltd
- Cawthron Institute
- Central Environmental Laboratories
- CRL Energy Ltd
- ECAN Laboratory
- Environmental Laboratory Services Ltd (ELS)
- Watercare Laboratory Services

The closing date for the submission of Tenders was Friday 30 March 2007.

5.3 Tender documents

We received notification from three of the Tenderers advising that they would not be submitting Tenders. These companies were AgriQuality Ltd, Cawthron Institute and ECAN Laboratory.

Only two Tenders were received. These were from:

- Watercare Laboratory Services Ltd of Auckland
- Environmental Laboratory Services Ltd of Wellington.

The opening of the Tenders took place at Regional Council Centre in line with approved procedures.

5.4 Tender evaluation

The tender evaluation was completed on Tuesday 3 April 2007 and was carried out as per the tender evaluation plan prepared on the 22 March 2007.

The evaluation plan uses the weighted attribute method and is based on Transfund NZ's *Competitive Pricing Procedures Manual*.

Normally, Tenders submitted to the Committee do not cover the tender evaluation in detail. On this occasion, because laboratory tendering has been in the national media recently, it is appropriate to provide the Committee with additional information.

The first stage of evaluation consists of determining Tender acceptability and grading against each of the tender attributes. Each non-price attribute is graded on a points basis, from 0 (completely inadequate) to 100 (excellent). Any Tender that scores 35 or less on any non-price attribute is excluded from further consideration.

Each tender price is converted to a grade using the following formula:

$$\text{Grade} = 50 + 100 \times \frac{(\text{Median Conforming Tender Price} - \text{Tender Price})}{\text{Median Conforming Tender Price}}$$

The second stage consists of multiplying the weighting allocated to each attribute, as specified in the tender documents, by the grade of that same attribute, to give an index for each attribute. The indices for each Tender are then summed to give an overall index for each Tender.

5.5 Tender attributes

Much of the laboratory work carried out for the Water Supply is required for Drinking Water Standards compliance, Resource Consent compliance and MoH grading. Accordingly, we allocated a reasonable weighting to attributes that relate to quality and reliability of service, items 2, 3 and 4 below.

Attribute	Weighting
1. Health & Safety and Environmental Management	5%
2. Resources, technical and management skills	10%
3. Track record	15%
4. Previous relevant experience	13%
5. Opportunities for existing GWRC personnel	7%
6. Price	50%

6. Watercare Laboratory Services Tender

This section summarises the results of our evaluation of each of the Tender attributes for Watercare Laboratory Services. Included at the end of each sub section are the grading scores allocated to each attribute.

Watercare's Tender is a conforming Tender with six tags as listed below:

- 1 – Minor item re staff - Accepted
- 2 – WLS want 'right' to renew contract - Not acceptable
- 3 – Minor item re performance default - Accepted
- 4 – Clause added to limit WLS's liability - To be checked with Council's insurance broker
- 5 – Clarification that hard copy reports will not contain all the information requested - Accepted
- 6 – Minor item on reporting – Accepted

6.1 Health & Safety and Environmental Management

WLS have had one incident over the last 12 months, no days lost due to injury. Detailed reports and statistics are maintained by the Contractor.

WSL's Tender states that they comply with all points itemised in the Evaluation Plan, however this was not able to be ascertained as a copy of the Health and Safety Plan was not included in their documents.

Grade 65/100

6.2 Resources, technical and management skills

Watercare Laboratory Services are well established in the Auckland region and have a staff of 62. WLS propose to establish a laboratory in Wellington and run it with 3 fulltime staff, being; 1 Team Leader and 2 Samplers/Technicians. Their preference would be to lease the existing GWRC laboratory. No details of proposed lease arrangements were included in the Tender.

The skills and experience of the team at WLS is impressive and exceeds the technical requirements of the GWRC contract.

Samples with a short turn around time will be analysed in Wellington with the remainder being couriered to the Auckland laboratory. A small portion of the analysis work will be sub contracted to AgriQuality.

WLS are confident that urgent work, i.e. work to be carried out within 24 hours notice, can be adequately managed. In the event that back up or emergency resources are required, WLS will use staff from Auckland whenever necessary.

WLS will apply a 200% premium to costs for all urgent work.

There are some areas of uncertainty with regard to this attribute, these are:

1. Long term viability of maintaining three staff in Wellington. The portion of work, under this contract, that WLS intend to do in Wellington will not support three full time staff and additional work would need to be found.
2. The co-ordination and costs to provide back up by staff travelling from Auckland.
3. There is no detail in the Tender documents of plans for managing the couriered samples to Auckland and so it is difficult to judge how well this would work.

Grade 80/100

6.3 Track record

WLS currently has existing contracts with six water supply organisations in the Auckland, Franklin and Thames regions which have been in place for some years. Each of these contracts is recorded as having achieved client satisfaction.

Referee checks were carried out on two of WLS's present customers; both have rolled over contracts based on acceptable performance. No comments were given as to weaknesses, while strengths were quoted as:

- Open to negotiation
- Fast, accurate results
- Willing to improve
- Assist with technical issues
- Work as a cohesive team
- Follow up-to-date methods.

Grade 80/100

6.4 Previous relevant experience

WLS has been in operation for many years. Their core business is the provision of sampling and analytical services for water, waste and environmental clients and, therefore they have considerable experience in carrying out the scope of work covered in the GWRC contract.

Watercare do not have any local knowledge and will be relying on engaging key staff from GWRC to help in this regard.

The familiarity and knowledge of the DWSNZ is evident in the documentation supplied and WLS has a number of clients whose compliance and grading is governed by the DWSNZ.

Grade 85/100

6.5 Opportunities for GWRC personnel

WLS have confirmed that they will make an offer of employment to each of the existing GWRC Laboratory staff members, some positions offered will be based in Wellington and some will be in Auckland.

The opportunity for staff to remain in Wellington is considered to be limited as the type of work that WLS plan to do in the Wellington laboratory is mostly biological testing. From informal discussions with the present staff it is our understanding that they would not consider relocating to Auckland for work.

Grade 45/100

6.6 Price

WLS tendered a price of \$187,467. Using the CPP formula identified in Section 5.4, this equates to a grade of 41.90.

7. Environmental Laboratory Services Tender

This section summarises the results of our evaluation of each of the tender attributes for Environmental Laboratory Services (ELS). Included at the end of each sub section are the grading scores allocated to each attribute.

ELS's Tender is a conforming Tender with no tags identified.

7.1 Health & Safety and Environmental Management

No incidents over the last 12 months, no days lost due to injury.

The tender document shows compliance with all points itemised in the Evaluation Plan. The Health & Safety Plan is clear and easy to understand.

ACC approved and audited workplace. Some staff have 'Site Safe' certification.

Management Systems Manual covers environmental management and includes policy for Didimo management.

Grade 80/100

7.2 Resources, technical and management skills

ELS are a well established local Laboratory with a staff of 44 who service over 100 customers and cover 11 potable water contracts similar in scope to the GWRC Tender. A small amount of work under this contract will be subcontracted out to Hills Laboratory and AgriQuality.

The reported skills, experience and qualifications of the ELS team are all relevant to this contract and exceed the requirements to carry out this work.

The General Manager is a member of the expert committee advising the MoH on matters relating to DWSNZ:2005. The ELS samplers have achieved NZQA sampling units.

ELS have sufficient staff and other resources to provide adequate support for urgent work. There is no cost premium for this work.

Examples of chain of custody forms and sampling procedures were provided.

The computer system ELS uses covers all the reporting requirements of GWRC and is able to be customised to meet individual client needs, including automated emails, invoicing summaries and Priority Action flags.

Good evidence of internal performance monitoring was provided in the Tender Documents and ELS currently report on turn around times as well as quality system corrective actions.

Grade 85/100

7.3 Track record

ELS was originally the Lower Hutt City Council Laboratory which was privatised in 1994. Since that time they have taken over the Wellington City Council Laboratory in 1998, the inorganic section of AgriQual in 2001 and the Biostandards Laboratory in 2006. There are no reports of customers being lost through this time.

Referee checks were carried out on four of ELS's present customers. All four have contracts with ELS which are over five years' duration. Contracts have been rolled over based on acceptable performance and some have been re-tendered. The re-tendered contracts were won/retained by ELS.

No comments were given as to weaknesses, while strengths were quoted as:

- Helpful and willing to assist with non-routine work and technical issues
- Very good communication and flexibility of reporting
- Well resourced
- Timely reporting and good service
- Sound technical advice.

Grade 80/100

7.4 Previous relevant experience

ELS have been in operation for many years, their history being predominantly in the water and waste field. Today their core business is the provision of sample collection and an extensive range of analyses.

ELS prepare and implement the sample schedule and reporting requirements for the DWSNZ compliance issues for Wellington and Hutt City Councils and have a good working knowledge of this document.

Grade 85/100

7.5 Opportunities for GWRC personnel

ELS have stated that they will offer positions to most of the existing GWRC laboratory staff. In early March ELS were advertising for a chemical analyst and a microbiologist. These engagements are now on hold pending the outcome of this tender assessment.

Grade 60/100

7.6 Price

ELS tendered a price of \$159,361. Using the CPP formula identified in Section 5.4, this equates to a grade of 58.10.

8. Comparison of evaluation results

The table below shows the results of the evaluation of each of the two Tenders. The Tenderers achieved a very similar score on the non-price attributes but have a significant difference in price, (\$28,106 per year).

Attributes	Allocated Weight		Watercare Laboratory Services	Environmental Laboratory Services
H&S & Environmental Management Performance	5%	Grade Index	65 3.25	80 4
Resources, Technical & Management skills	10%	Grade Index	80 8.0	85 8.5
Track record	15%	Grade Index	80 12	80 12
Previous relevant experience	13%	Grade Index	85 11.05	85 11.05
Opportunities for existing GWRC personnel	7%	Grade Index	45 3.15	60 4.2
Non price attribute index			37.45	39.75
Price	50%	Amount	\$187,467	\$159,361
		Grade	41.90	58.10
		Index	20.95	29.05
Overall Score		Index Ranking	58.40 2	68.80 1

Our pre-tender estimate of the contract value was \$180,000 and so we have confidence that the prices we received in the Tenders are realistic.

9. Option to lease existing laboratory premises

WLS have expressed an interest in leasing the existing laboratory premises if they are successful in winning the Tender. No discussions have been held with WLS regarding the lease value but GWRC Property Manager, Peter O'Brien, has provided a current market rental estimate of \$150/square metre/year for this location. The estimated floor area that would be leased is approximately 140 square metres, giving a possible annual lease revenue of \$21,000.

If this option were to be put in place we would need to carry out some building modifications to allow access to the existing lunch room for GWRC Operations staff and ensure security for the new laboratory operator.

10. Purchase of redundant laboratory equipment and materials

In the Tender Documents we provided a schedule of redundant equipment and materials and advised the Tenderers that the successful Tenderer would be given first option to purchase any or all of the items on the schedule. Both

Tenderers have indicated that they intend to make a full purchase of these items should they become the preferred Tenderer.

The book value for the significant saleable assets, such as automatic analytical instruments and microscopes, is \$150,000 and our estimate of the sale value of the remaining miscellaneous items, such as glassware and consumables is \$10,000 plus or minus \$5,000.

11. Financial

The total Water Supply budget for laboratory work in 2007/08 is \$807,000. Note that this is based on the existing testing schedule and not the new one which is to be implemented in July/August. This budget figure is made up of routine testing of \$747,000 and unscheduled work of \$60,000.

The ELS tender of \$159,361 is for routine testing based on the new schedule. The tender documents provide for any unscheduled work to be carried out at unit rates but unscheduled work is not included in the tender price.

In addition the Water Supply department intend to appoint an Instrument Technician in order to adequately manage the compliance monitoring equipment and other modern water treatment plant process instrumentation. The total cost of the new Technician & vehicle will be \$100,000 and there will be approximately \$5,000 set up costs for calibration equipment.

The split for the technician's time will be approximately 75/25 between work on compliance equipment and work on non-compliance equipment. Currently, the compliance instrumentation is managed by the Laboratory staff.

The expected annual net savings in laboratory testing costs is expected to be as follows:

2007/08 budget	\$807,000
ELS price (routine work)	-\$159,361
Unscheduled work	-\$60,000
New staff member (75%)	-\$75,000
Saving	\$512,639

Redundancy will be paid to all Laboratory staff who are employed by GWRC at the time that the Laboratory closes.

The annual tender sum is within the delegated authority of the Divisional Manager. The contract is planned to start on 1 July 2007 and covers a three year period. Provision has been made in the 2007/08 budget for the work through the in-house laboratory rather than a contracted service.

12. Conclusion

The evaluation of each Tender was carried out on the tender documents submitted, i.e. they were not evaluated against each other. The evaluation identified that each of the Tenderers are very capable of carrying out the work and are on an equal footing in terms of quality of service but that ELS are the Preferred Tenderer.

The points of difference, where ELS gain the advantage, are

- Health & Safety and Environmental Management
- Opportunities for existing staff
- Price.

There is also the issue of ease of transferring the work. ELS have taken over a number of laboratories in recent years and would be expected to manage the transition with the minimum of fuss. On the other hand there are some unknown's in Watercare's sample management arrangements.

We have not included the matter of lease income in this assessment as leasing the laboratory space will be an option regardless of which Tenderer gets the work.

As a result of introducing a water testing schedule that meets the DWSNZ: 2005 and tendering the water testing work, annual savings in the order of \$500,000 can be achieved.

13. Next steps

It is proposed that ELS is given "Preferred Tenderer" status and this conveyed to them. This will then allow ELS to interview the Council's Laboratory staff who are seeking new employment. ELS are then able to advise how many employment offers are made. Provided the Divisional Manager is satisfied with this process, the ELS Tender can be accepted.

In the event no job offers are made, assuming staff apply for positions, then further discussions would be entered into with ELS about the reasons why.

Given the minor reservations expressed about the Watercare Services Tender and the higher price, ELS's Tender is still preferable even if they do not offer staff positions.

14. Recommendation

It is recommended that the Committee

1. *Receives the report.*
2. *Notes the content of the report.*
3. *Approves the closure of the GWRC Laboratory and the outsourcing of the work.*
4. *Approves the awarding of Preferred Tender Status to Environmental Laboratory Services Limited.*
5. *Delegates to the Divisional Manager the acceptance of the contract, subject to:*
 - (i) *the Divisional Manager being satisfied that ELS has undertaken all reasonable steps to employ the existing laboratory staff who are seeking new employment.*

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