

**ORDINARY MEETING**

**OF**

**WELLINGTON CITY COUNCIL**

**AGENDA**

**Time:** 9:30am  
**Date:** Wednesday, 27 February 2019  
**Venue:** Committee Room 1  
Ground Floor, Council Offices  
101 Wakefield Street  
Wellington

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**MEMBERSHIP**

Mayor Lester  
Councillor Calvert  
Councillor Calvi-Freeman  
Councillor Dawson  
Councillor Day  
Councillor Fitzsimons  
Councillor Foster  
Councillor Free  
Councillor Gilberd  
Councillor Lee  
Councillor Marsh  
Councillor Pannett  
Councillor Sparrow  
Councillor Woolf  
Councillor Young

**Have your say!**

*You can make a short presentation to the Councillors at this meeting. Please let us know by noon the working day before the meeting. You can do this either by phoning 04-803-8334, emailing [public.participation@wcc.govt.nz](mailto:public.participation@wcc.govt.nz) or writing to Democracy Services, Wellington City Council, PO Box 2199, Wellington, giving your name, phone number, and the issue you would like to talk about.*

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## 1. Meeting Conduct

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### 1.1 Karakia

The Chairperson will open the meeting with a karakia.

<b>Whakataka te hau ki te uru,</b>	Cease oh winds of the west
<b>Whakataka te hau ki te tonga.</b>	and of the south
<b>Kia mākinakina ki uta,</b>	Let the bracing breezes flow,
<b>Kia mātaratara ki tai.</b>	over the land and the sea.
<b>E hī ake ana te atākura.</b>	Let the red-tipped dawn come
<b>He tio, he huka, he hauhū.</b>	with a sharpened edge, a touch of frost,
<b>Tihei Mauri Ora!</b>	a promise of a glorious day

### 1.2 Apologies

The Chairperson invites notice from members of:

1. Leave of absence for future meetings of the Wellington City Council; or
2. Apologies, including apologies for lateness and early departure from the meeting, where leave of absence has not previously been granted.

### 1.3 Announcements by the Mayor

### 1.4 Conflict of Interest Declarations

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

### 1.5 Confirmation of Minutes

The minutes of the meeting held on 25 December 2018 will be put to the Council for confirmation.

### 1.6 Items not on the Agenda

The Chairperson will give notice of items not on the agenda as follows:

***Matters Requiring Urgent Attention as Determined by Resolution of the Wellington City Council***

The Chairperson shall state to the meeting.

1. The reason why the item is not on the agenda; and
2. The reason why discussion of the item cannot be delayed until a subsequent meeting.

The item may be allowed onto the agenda by resolution of the Wellington City Council.

***Minor Matters relating to the General Business of the Wellington City Council***

The Chairperson shall state to the meeting that the item will be discussed, but no resolution, decision, or recommendation may be made in respect of the item except to refer it to a subsequent meeting of the Wellington City Council for further discussion.

**1.7 Public Participation**

A maximum of 60 minutes is set aside for public participation at the commencement of any meeting of the Council or committee that is open to the public. Under Standing Order 3.23.3 a written, oral or electronic application to address the meeting setting forth the subject, is required to be lodged with the Chief Executive by 12.00 noon of the working day prior to the meeting concerned, and subsequently approved by the Chairperson.

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## **2. General Business**

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### **TOWN HALL STRENGTHENING AND MUSIC HUB**

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#### **Purpose**

1. The purpose of this report is to:
  - a) Update Council on the Town Hall strengthening project and Music Hub proposal that was presented to the City Strategy Committee on 22 June 2017, and the subsequent provisions made in the 2018-2028 Long Term Plan;
  - b) Update Council on the procurement of a main construction contractor for the Town Hall strengthening works;
  - c) Identify the changes in the work including the project risk profile;
  - d) Request additional funding so the project can commence;
  - e) Provide an update on negotiations with Victoria University (VUW) and the New Zealand Symphony Orchestra (NZSO) to create a Music Hub within the Town Hall; and
  - f) Seek approval to commence the necessary strengthening work of the east wall to the Municipal Office Building (MOB) in conjunction with commencement of the Town Hall works.

#### **Summary**

2. Wellington Town Hall was declared earthquake prone in 2009, requiring the building to be strengthened by 2019. The building was closed to the public in 2013 after the Seddon earthquake.
3. Initial consideration was given to returning the Town Hall to its original use. In 2014 Council further considered how it could improve the use of a strengthened and renovated Town Hall.
4. In 2017 Council prepared a proposal that would see the Town Hall strengthened and refurbished, with better utilisation of the building through shared use between the Council, The New Zealand Symphony Orchestra (NZSO) and Victoria University School of Music (VUW). A provisional budget of \$97.4m was agreed, inclusive of a \$23.4m contingency.
5. During 2017 and early 2018, design work was completed and, following Long Term Plan public consultation in 2018, Council formally approved expenditure of \$97.4million to strengthen the Town Hall. This was based on updated design information and revised construction estimate. It was evident at the time that contingency requirements would have to be reassessed once tender pricing was received.
6. The decision was linked to the granting of a long term lease to NZSO and VUW for the joint use of the Town Hall. A leasing agreement was signed in 2018.

7. The proposed investment by Council and the agreements with NZSO and VUW are supplemented by a significant fundraising programme to support the fit-out and associated costs of the Music School.
8. Further testing, investigations, and the design of the Town Hall strengthening work has been completed in the last 18 months and a competitive tender process for a main contractor was undertaken in 2018. Naylor Love was appointed the preferred tenderer in December 2018.
9. The testing, investigation, design, and tendering process has provided a more comprehensive understanding of the extent and likely cost of the works required to strengthen and restore the Town Hall. The current estimated total project cost is \$112.4 million excluding contingency.
10. Factors that influenced the revised estimated total project cost include:
  - The Wellington construction market is currently the most expensive in the country;
  - The experience and capacity for this type of complex strengthening project sits with a few large construction companies;
  - Contractor willingness to accept risk has dropped following the collapse of, and heavy losses sustained by some of the country's most trusted contractors; and
  - Investigations into the conditions of the ground and building resulted in necessary changes to the design.
11. Naylor Love has provided for a construction period of four years. This has been assessed by the technical experts and procurement panel as a reasonable estimation of the time required. The programme will remain subject to the progress on the in-ground works which will only become clearer 6 - 12 months into the project. The programme duration will be re-assessed on a regular basis.
12. Subject to Council approval of the funding to complete the Town Hall strengthening, a contract is being negotiated with Naylor Love to act as the main contractor with a planned start in March/April 2019.
13. MOB, adjoining the Town Hall, also requires strengthening and redevelopment. It is likely that Council will be required to act as the developer, on the basis that the bulk of cost of the redevelopment will be recouped through a commercial lease of the building. This will be submitted as a separate budget approval. However, the wall that adjoins the Town Hall and MOB needs to be strengthened early in the Town Hall construction programme for maximum efficiency and exposure mitigation. This will require a provision of \$5.9 million in the 2019/2020 Annual Plan to continue the MOB design and proceed with the wall strengthening.

### **Recommendation/s**

It is recommended that Council:

1. Receives the information.
2. Approves the tenancy agreements with Victoria University School of Music and the New Zealand Symphony Orchestra.
3. Approves additional funding for the Town Hall of \$19.3m to complete the strengthening project, amending the project budget from \$93.1 million (included in the 2018-28 Long Term Plan) to \$112.4 million excluding project contingency.

4. Agrees that in addition to the project budget of \$112.4 million, a contingency fund will be established based on terms agreed in the confidential paper entitled *Town Hall Strengthening Project Risk and Contingency Management* which will be considered in the public excluded agenda of the 27 February 2019 Council meeting.
5. Approves funding for design and strengthening works for the Municipal Office Building east wall of \$5.9 million.
6. Notes that in agreeing to amend the project budget to \$112.4 million and contingency fund, Council will proceed with formalising a construction contract with Naylor Love Wellington Ltd, which is the preferred tenderer.
7. Notes that if Council approves funding and a contract is formalised, the construction project is scheduled to commence in March/April 2019.
8. Delegates to the Chief Executive Officer the power to conclude all matters in relation to the lease, construction contract and separate contingency, including all legislative matters, issuing relevant public notices, negotiating the terms of any other related regulatory approvals, contracts, and works required to finalise the recommendations.

## **Background**

14. An earthquake prone notice was issued for the Town Hall in 2009, requiring completion of the strengthening of the Town Hall to be undertaken by December 2019.
15. Following the Seddon earthquake in 2013, the Town Hall was closed to the public and Council re-commenced a design investigation into the seismic strengthening of the building. A base-isolated scheme was developed and early indications were that previous budget allowances were going to be considerably exceeded - by in excess of 50%. Even more concerning was advice received at the time by way of an independent review of the project (completed by project management specialists The Building Intelligence Group - TBIG) that the project had been minimally scoped and costs were likely to be "an unreliable basis for WCC budgeting".
16. From a Wellington city and Council perspective, a shared occupancy of the Wellington Town Hall with NZSO and the University presents the opportunity to further embed key creative partnerships we already enjoy in the music and music education sectors. Shared occupancy has been designed to ensure continued public access to the Town Hall facilities, while strengthening the city's 'creative capital' branding, and ensuring a high degree of utilisation of the Town Hall given the investment in earthquake strengthening required. As well as providing an important return on capital, this occupancy will also provide increased vibrancy and activation in Te Ngākau Civic Square - confirming its place as the local democratic and cultural heart of the city.
17. The project was put on hold in 2014 as a direct result of the uncertainty over the rigour of both the process and the resulting cost estimates for the project. It is clear from the work that has followed, that the concerns raised by TBIG were well founded and the costs for the project were inevitably going to considerably exceed the circa \$60 million project, which comprised "estimates that were rich in uncertainties".
18. The project was re-started within the year in 2015. Since that time on-going and comprehensive testing, investigations and design reviews have been undertaken. During the course of this process, the Canterbury, Seddon and Kaikoura earthquakes

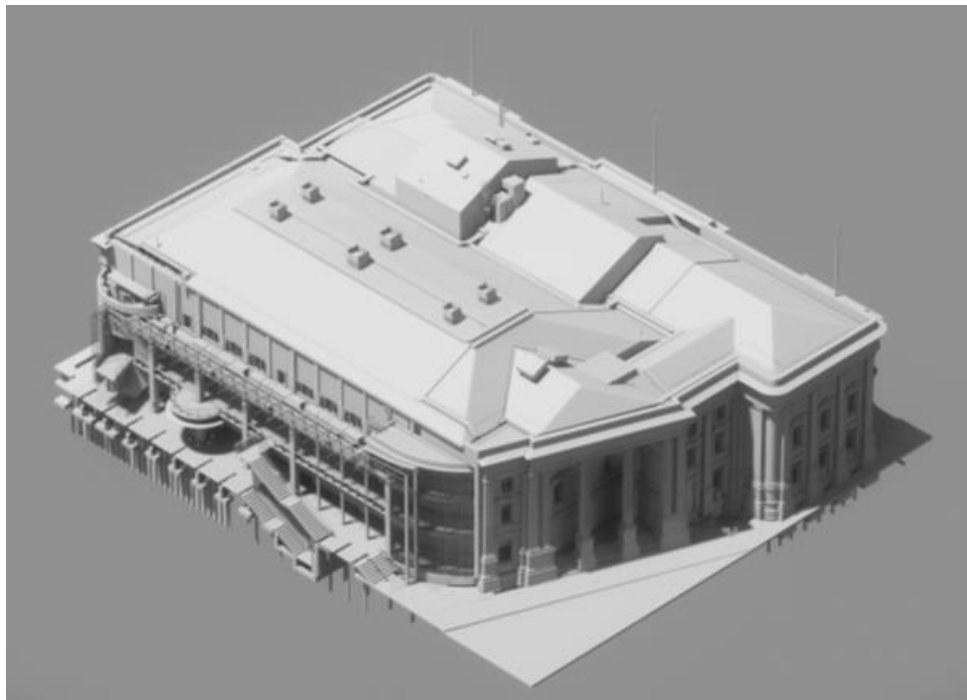
have led to a greater robustness of the design. In addition, the project has benefited from an increased focus on how the Town Hall can be best utilised and re-purposed.

19. Council commenced positive discussions with the NZSO and VUW regarding the development of a Music Hub within the civic precinct.
20. In June 2017 Council approved a budget for the seismic strengthening of the Town Hall and for negotiations to proceed with the NZSO and VUW. The approved budget for the development was \$89.9m plus Fixtures, Fittings and Equipment (FF&E) of \$3.8m and incremental capex associated with MOB of \$3.7m, totalling \$97.4m.
21. Key strategic outcomes and benefits identified for the Music Hub are to:
  - Provide the Wellington public with opportunities to experience and be inspired by music and musicians in a central city setting and reinforce the city's reputation as a vibrant, arts-rich place to live;
  - Enhance the city's international positioning as a film scoring destination;
  - Strengthen the connection of the NZSO to Wellington as its home and create opportunities for increased collaboration and resource-sharing in the sector; and
  - Maximise the utilisation and income producing capacity of the earthquake strengthened Town Hall and contribute to an energised Civic Square Precinct.
22. The key approval linked to the Town Hall decision in June 2017 was the granting of a long term lease to the NZSO and VUW. A Collaboration and Redevelopment Agreement (CRA) was concluded in 2018. The long term commitment from the tenants realises a total rental stream in excess of \$31m (\$15m on a NPV basis) over the term of the lease.
23. Council will retain approximately 40% of the total occupancy of the Town Hall. NZSO and VUW will share access to the remaining 60% of the Town Hall in return for a rental stream at market-derived rental levels. Three shared performance spaces will open in the strengthened Town Hall. The Music Hub adds to the stand-alone earthquake strengthening scenario for the Town Hall through the following:
  - The provision of a recording space designed to meet the needs of the NZSO to allow for film scoring and other recording work;
  - Level two will incorporate a new practice and performance space in the north-west corner above the Mayor's office;
  - Extensive fit-out throughout the Town Hall with tenant spaces paid for by VUW and the NZSO; and
  - The debating chamber space will be altered to provide extra seating for performances and practice sessions and the gallery will be refurbished in order to allow for larger audiences, better viewing angles, improved acoustics, and a better end user experience.

## **Town Hall Upgrade**

24. The Town Hall was initially constructed from unreinforced masonry wall elements with a stone plinth around the base. The building sits on an area of reclamation fill and is supported on a series of original concrete piles. Since first constructed, the building has undergone a series of alterations, often in response to known earthquake risks. This work includes:

- Mid 1930s removal of clock tower, parapets and gables after the Napier earthquake. The original Roman-styled portico was replaced with a much smaller entry porte-cochere.
- Mid 1940s strengthening including concrete buttress walls and parapet ties, removal of heavily decorated features, reinstatement of elements damaged during the 1942 Wairarapa earthquakes.
- Early 1990s refurbishment and major alterations as part of the larger Civic Square redevelopment. As part of this work the building was seismically upgraded to the then minimum 66% of the 1965 Building Code. Key alterations included relocating the concert chamber, the introduction of the west ambulatory, various internal planning modifications for function spaces and a comprehensive exterior and interior refurbishment including the reintroduction of fibreglass cornice and capitals to the exterior elevations.
- In 2018 work had been completed to secure the unreinforced masonry and parapets on Wakefield St.



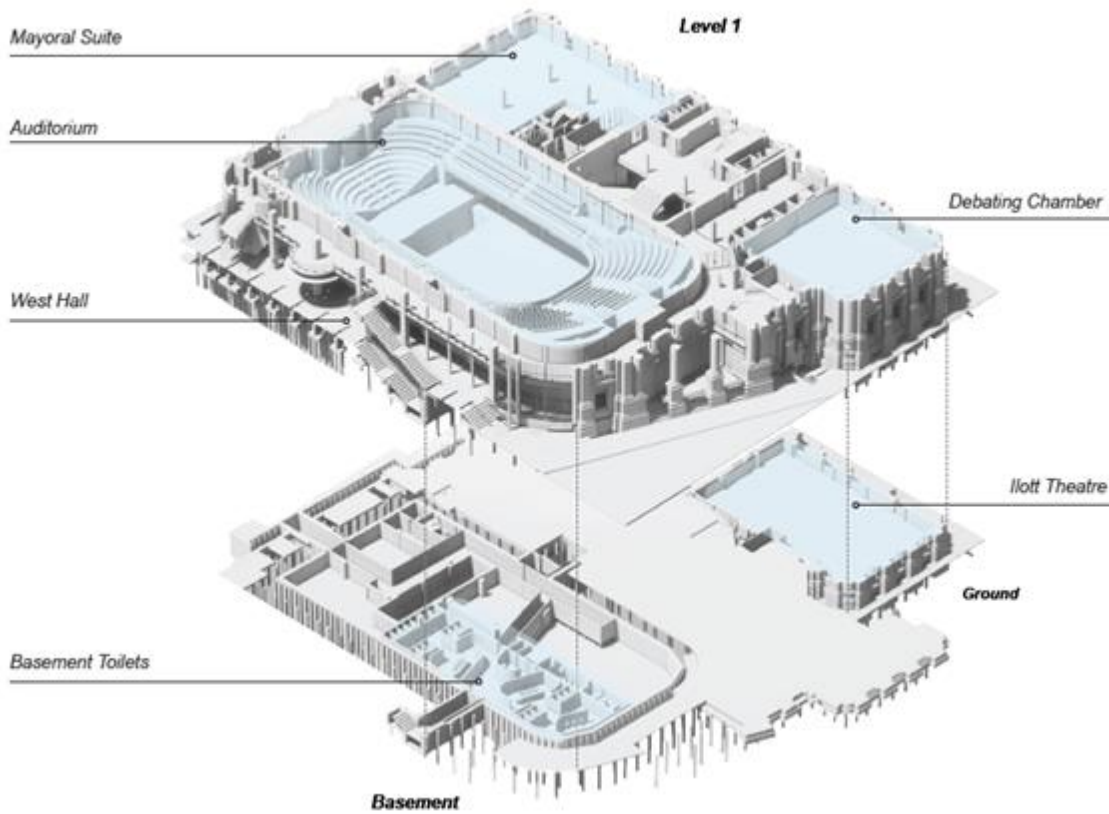
**Figure 1** View from Wakefield St towards the Michael Fowler Centre

### **Key objectives**

25. Council's brief for the Town Hall includes the following key aspects:
- a) Seismically upgrade the building to target 100% NBS (IL3) of the Building Code applicable as at 31 March 2017;
  - b) A venue for performance and musical events;
  - c) A venue for community, corporate & civic events;
  - d) A place to engage with local community and connect regionally, nationally and globally;
  - e) A place of work for the Mayor and associated support services; and



- f) A venue to host council meetings.
26. In addition to the above requirements for the Town Hall, the building is to be upgraded to provide tenancy space within the Town Hall to enable it to accommodate key functions of the NZSO and NZSM programme.

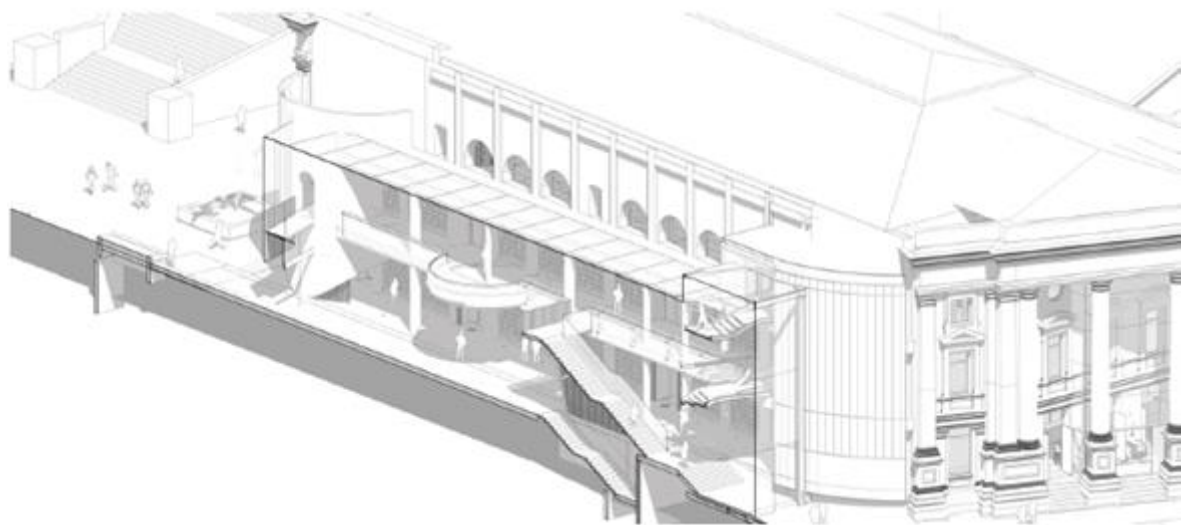


**Figure 2:** Exploded view from Wakefield St towards the Michael Fowler Centre



**Figure 3:** Wakefield St West Hall entry





**Figure 4:** West Hall

27. Critical to this project is the adaptation of existing spaces to enable a complementary arrangement of scaled, adaptable, highly programmed performance and amenity spaces to allow civic, music, education and community engagement.



*Proposed Civic Square West Hall Entry*

**Figure 5:** Proposed Civic Square West Hall Entry

### **The Auditorium**

28. Wellington Town Hall Auditorium is an internationally recognised acoustic venue and one of New Zealand's most sought after performance spaces. It functions as a flat floor venue with up to 2200 person capacity.
29. The Auditorium is to be retained in its current configuration with any structural upgrade being 'hidden' if reasonably possible so as to maintain the existing acoustic qualities and overall atmosphere. Front and back of house facilities are considered cramped and do not support the venue all that well, these concerns are to be considered within the constraints of the space available.
30. The Auditorium's functions as a performance venue for hire. The Auditorium will be utilised for civic and community functions, performances both commercial and non-commercial, during the day and night. Specific uses might include: NZSO rehearsals,

NZSO film scoring, Orchestral Performances, Music concerts, Community events, and corporate events.



**Figure 6:** Auditorium as is

### **The Debating Chamber**

31. Council requirements include formal Council meetings, general Council meetings, and citizenship ceremonies; Space for an audience of up to 200 plus people.



**Figure 7:** Debating Chamber looking west: 1951



**Figure 8:** Debating Chamber looking west: 2018



**Figure 9:** Proposed Debating Chamber looking north

### **The Mayoral Suite**

32. Retention and re-construction of the Mayoral Suite is planned in its current location.
33. The current fitout will be demolished to accommodate the installation of structural strengthening of the second floor for an increased loading as required and paid for by the tenant. A new fitout layout has been agreed with full design to be completed during the main construction period.

### **Heritage**

34. The Town Hall is the irreplaceable civic and symbolic heart of the city and is the centrepiece of Te Ngākau Civic Square. As such it has significant cultural value for Wellington as a focal-point for democratic, social and community activities. The building has fine interiors and contains a world class auditorium concert chamber. Wellingtonians often have a personal connection to this place and have stories of the events and celebrations that they have enjoyed, collectively and individually.

35. The Wellington Heritage Policy 2010 has the vision that:

*“Wellington is a creative and memorable city that celebrates its past through the recognition, protection, conservation and use of its heritage for the benefit of all the community and visitors, now and for future generations”.*

36. Historically the Town Hall was the centre of municipal administration providing a venue for democratic processes. It is the place where Mayors and Councillors made decisions that helped shape the city, and has been since the building opened on December 7th, 1904. The approach to strengthen and carefully adapt the building for new uses is sympathetic to its history and reflects Wellington’s wider concerns with ensuring a resilient city that can prosper into the future. This is an historic theme as the building was also modified after the 1931 Hawkes Bay and 1942 Wairarapa earthquakes when the clock tower and much of the external ornament were removed. The redevelopment of the Town Hall enables it to continue to tell part of Wellington’s unique and evolving story of the city and its people.
37. The refurbishment and seismic strengthening of the building is the anchor in a wider project to revitalise and activate Te Ngākau Civic Square with new uses and new opportunities. The continuing evolution of the Town Hall and its part of the broader ambitions for Wellington as the acknowledged Cultural Capital of New Zealand, and is fundamental to the revitalisation of Te Ngākau Civic Square as the re-energised cultural, community and administrative centre of the city into the future.
38. The strengthening and revitalisation of the Wellington Town Hall is a tangible example of the city’s commitment to its heritage.

## **Construction Procurement**

### **Summary**

39. Securing a realistic, transparent construction cost for the works has been the primary aim of the project team for the last 18 months. This section outlines the process through design and procurement and in particular covers:
- The significant investigation into ground and building condition and subsequent changes to the design as a result;
  - Contractors willingness to accept risk has dropped following the collapse or heavy losses sustained by some of NZ’s most trusted contractors and ongoing earthquakes;
  - The Wellington construction market is the most expensive in NZ;
  - The current status of the construction market in Wellington which is the busiest it has been in the last 30 years;
  - The experience and capacity to complete this type of work is in short supply and scattered amongst a few large contractors;
  - Despite the above, a competitive tender was completed with a high level of engagement with the three tenderers;
  - The 4 year duration involves a 2 year in-ground programme, with concurrent strengthening and restoration of a heritage listed building over a total 4 year period - all of which are high risk activities, which cannot be completely defined;



- Given the current escalation, rates for material and labour cannot be fixed for a four year project; and
- This project is the most challenging project undertaken in Wellington over the last 15 years and is potentially the most complex within NZ currently.

### **Procurement process**

40. Following Council approval to proceed with the project, granted in June 2017, the project team prepared a strategy for the procurement of the construction phase of the development. This presented the project in an open and transparent manner with full disclosure of the complexities and a fair allocation of the known risks.
41. Prior to developing the strategy extensive research was conducted including interviews with Auckland and Christchurch City Councils with respect to their Town Hall works and preliminary engagement with main contractors.
42. The three step procurement process consisted of:
  - a) open registration of interest - five main contractors responded;
  - b) an information exchange process and tenderer selection; and
  - c) a request for tender to three main contractors.
43. Hawkins Construction, LT McGuinness & Naylor Love were qualified and selected to tender. LT McGuinness withdrew seven weeks into the tender period, citing a full order book of less risky projects.

### **Tender process**

44. The two complying tenders were assessed by the procurement panel whose members included representatives from Council, VUW, NZSO, Xigo experienced project managers and Bruce McLean, an independent construction expert. These representatives were carefully selected for their experience with risky and large scale projects and successful completion.
45. The procurement panel were equally supported by the technical advisers from the design team. These included Tonkin and Taylor for geotechnical review, Holmes Consulting for structural and fire, Athfields for architecture, Beca for electrical and mechanical services, and RLB for quantity surveying along with smaller packages from other consultants. Collectively these technical representatives provide some of the best, most experienced staff available nationally and are supported by their national and international teams.
46. The panel unanimously recommended Naylor Love (NL) as preferred tenderer. The NL teams experience included significant strengthening projects such as Parliament House, Supreme Court and Wellington Museum
47. The complexity of the project ensured that both tenders contained a large number of exclusions and conditions (tags). They adopted the provisional sums included in the contract and added others. Provisional sums are a contractual means of including an estimated cost into a contract where the scope and cost of the work is uncertain.
48. This is to be expected with a project that includes an extensive amount of in-ground works and a historic building where as-built records are not always accurate or are unavailable.

49. The tags and provisional sums have been assessed and either removed, a detailed scope developed, or a more accurate cost provided based on further investigation. This exercise remains on-going with further work, such as pile testing underway. It is expected that a number of these sums will remain provisional for a significant time as the investigation / discovery phase will be on-going through most of the contract.
50. A key risk for this project in particular will be the high level of safety risk inherent in deep excavations and extensive strengthening works under an earthquake prone building.

### **Construction duration**

51. The construction duration of four years (48 months) has been provided by NL and assessed by the technical experts and procurement panel as a reasonable estimation of the time required. The programme will remain subject to the progress on the in-ground works which will only become clearer 6 - 12 months into the project. The programme duration will be re-assessed on a regular basis.

### **Construction market**

52. The building industry is currently at the crest of the wave in the financial cycle and is experiencing unprecedented financial and resource pressure. Staff and skill shortages are at an all-time high. Cost increases of subcontractors and materials have proliferated. Tight margins and rapidly rising cost structures have resulted in well publicised industry failure. The receivership of Mainzeal, Eberts, Orange H and withdrawal from the vertical market by Fletcher Construction has resulted in remaining main contractors and subcontractors not being prepared to accept risk that they cannot quantify.
53. At the same time there is forecast to be \$1b - \$2b of new projects coming on stream in Wellington alone over the next 9 - 24 months. The combination of these factors has resulted in a systemic shift in construction costs and allocation of risk. We now have a 'new normal' environment that requires an adjustment in our general acceptance of cost.
54. The Rider Levett Bucknall (RLB) Oceania Report for 1st Quarter 2019 provides evidence that the market cycle in Wellington is expected to grow through to 2022, with a national average cost escalation of 3.5% p.a. over this period with Wellington experiencing higher increases.
55. As a result of the volume of work across New Zealand, main contractors and sub-trades are experiencing labour shortages. Sub-trades are selective and a lack of competitive pricing tension drives up cost. Consistent with this, NL has advised that the project is at real risk of losing key sub-trades. If there is a delay to approval, then they may choose to secure a confirmed project, which would lead to higher prices and/or the use of less qualified sub-trades.
56. The Registration of Interest (ROI) process demonstrated that the required capability for this complex project is in short supply and the attraction of this complex and risky type of work is fragile, especially during this period of high market activity.
57. The Council project team is satisfied that NL possesses the necessary experience and is attracted by the challenge and the benefit to Wellington that will come with a successful completion of this project.

### Cost estimate management

58. Construction cost estimate reviews were conducted throughout and at the completion of each design stage by the design team and quantity surveyor. At the Preliminary Design stage total construction cost excluding contingency was estimated at \$74m plus a contingency of \$23.4m to give a total project estimate inclusive of contingency of \$97.4m.
59. At the completion of the Detailed Design stage in 2018, a pre-tender estimate was completed. This showed an increase in the estimated project cost (excluding contingency) of \$19.1m to total \$93.1m. Due to uncertainty over how much of the initial contingency provision could be removed as a result of the detailed design process, Council retained the total project cost estimate for the purposes of the 2018-28 LTP at \$97.4m, on the basis that the contingency requirement would be reassessed following the tender process.
60. At the conclusion of the tender process, the project estimate excluding contingency is \$112.4m. This comprises \$89.1m for construction as tendered by Naylor Love with design fees and other costs making up the balance. This constitutes a further increase of \$19.3m from the assumption included in the LTP. This figure excludes any contingency provision to reflect risks that will be retained by Council under the proposed construction contract.

### Cost breakdown

61. A breakdown of the change between the Preliminary Design estimate, 2018 LTP and the tendered price is shown in the table below:

**Table 1**

Component:	<b>Prelim Design</b>	<b>Change</b>	<b>2018 LTP</b>	<b>Change</b>	<b>Tender</b>
	\$m	\$m	\$m	\$m	\$m
Tender price	51.5	16.9	68.4	20.4	88.8
Design fees	12.1	0.0	12.1	2.0	14.1
Insurance/ organ	2.9	2.2	5.1	0.6	5.7
FFE & other	7.5	0.0	7.5	-3.7	3.8
<b>Total (Excl. Contingency)</b>	<b>74.0</b>	<b>19.1</b>	<b>93.1</b>	<b>19.3</b>	<b>112.4</b>
Design contingency	5.2	-5.2	0	Not disclosed	
Escalation contingency	10.3	-10.3	0		
Construction contingency	7.9	-3.6	4.3*		
<b>Total Contingency</b>	<b>23.4</b>	<b>-19.1</b>	<b>4.3</b>		
<b>Total (Incl. Contingency)</b>	<b>97.4</b>		<b>97.4</b>		

\* Subject to reassessment post tender

### Project Cost Forecast

62. The nature of the project, which includes a large component of in-ground works followed by the strengthening and restoration of a heritage building, necessitates a contract that requires a fixed cost wherever possible, but recognises that the scale of the work will vary, and therefore provides a mechanism to vary the amount paid, based

on a pre-agreed rate for measured quantities. Wherever possible, the scale and scope of the work is defined and a fixed sum provided, however where this work can vary, a Priced Bill of Quantities will be used to assess variations.

63. The work that can reasonably be allowed for has been designed and priced. Investigations have been completed on site to turn assumption into knowledge wherever possible. There is variability in ground and in the existing building condition that cannot be quantified until the construction project is underway. The scale and sequence of work to fully document ground and building condition would be too extensive to complete as a separate project, without equal work to strengthen and upgrade at the same time. A separate contingency is proposed to allow for this risk.
64. For example the following trades comprise work that is expected to vary in scale:
  - a) Excavation
  - b) Dewatering
  - c) Pile lengths and types
  - d) Building condition requiring additional temporary support structures and repair
  - e) Allowances for in-ground services
  - f) Extent of contamination removal
  - g) Heritage works.

#### **Design Fees, Insurance, Organ, URM**

65. In addition to construction costs Council is responsible for project costs including:
  - a) Professional consultancy fees
  - b) Insurance
  - c) Consents
  - d) Mayoral Suite design and construction
  - e) Unreinforced masonry repair
  - f) Refurbishing and reinstating the organ
  - g) Furniture, fixtures and equipment.
66. Consultant fees were previously fixed until the end of the project, based on a three year construction period, with the extended duration requiring renegotiation of their contracts. The additional forecast cost has been included.
67. Insurance costs have increased significantly with an additional \$1.1m added to the budget. The contract works insurance is currently being tendered, with seismic activity over the last several years resulting in insurers being less willing to insure longer duration and higher risk projects. The insurance will be negotiated at the conclusion of the tender.
68. There are additional design elements required for the fitout of internal spaces that cannot be defined as yet. The organ has been refurbished and will be reinstalled at completion.
69. Unreinforced masonry (URM) work was completed in 2018, ahead of the programmed work.



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## **Risk and Contingency Management**

70. The construction market has changed significantly over the past 18 months through a continuing increase in new projects, the failure or near failure of large well-respected national contractors and ongoing earthquakes. The identified scope of the in-ground works has been priced, this will be borne out progressively once the work has commenced. The in-ground works will continue for up 2 plus years, requiring a significant contingency to allow for unknowns.
71. The main risks for the construction project include: geotechnical, existing building condition, design, construction methodology and temporary works. The project was designed to explicitly identify risk, and for a commercial decision to be made on who would carry the risk from a contractual and financial perspective.
72. The Detailed Design and associated tender documentation assumed that the majority of construction risk would be carried by the contractor and therefore incorporated in their tender price.
73. With respect to the ability to assess and include risk, as part of its tender response, Naylor Love stated:
- “Ground conditions ..., the integrity and actual make-up of the building fabric will remain uncertain until work progresses far enough for these to be assessed properly. The ability to accurately scope the works is ...limited....We are acutely aware that this is not what was asked for in the tender ...but do not believe it equitable for these risks to sit solely with the contractor and nor would it seem reasonable for the principal .. to pay the significant cost premium associated with this risk transfer.”*
74. After consideration of all tenders, and a broader review of the prevailing market conditions, officers and the consultant team have reluctantly accepted this approach.
75. Council will therefore retain geotechnical risk, unless the piling contractor is willing to fix prices at the completion of further screw pile testing. The project geotechnical engineers will continue to monitor, review and advise on the ground conditions and tenderers performance.
74. The existing building condition will remain a Council risk throughout the project. The design risk will reduce as further tag and provisional sum reviews are completed, and construction methodology and temporary works are progressed
75. The complex nature of the project, its long duration and the prevailing market conditions all contribute to variability in prudent levels of contingency to apply to various components of the project. Accordingly it is recommended that the proposed contingency provisions for the Town Hall project are not publicly released. Keeping these confidential will assist in ensuring that the Council can work with its contractors and provide the appropriate incentives to deliver the project in a cost effective manner.
76. Contingency assumptions are covered in a separate public excluded report entitled *Town Hall Strengthening Project Risk and Contingency Management*, which will be considered in the public excluded agenda of the 27 February 2019 Council meeting. Ongoing risk and contingency management will be reported through to the Finance and Audit Risk Management subcommittee as part of our regular reporting on significant projects.

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**Escalation**

77. The original budget estimate assumed that the contractor would have provided a fixed price, including escalation. However, with the extended duration of the construction and the pressure on costs from the market, the tenderer is not prepared to fix prices.
78. The project can be broken into three distinct phases:
- i. Demolition In-ground Works (30% by value) – not impacted by escalation
  - ii. Structural Strengthening (30% by value) – escalation on steel, concrete, labour
  - iii. Make Good/Refurbishment (40% by value) - majority of escalation
79. Phase [iii] will be intensive given the wide variety of trades and various materials, subcontractors and suppliers. The final two years of the contract will require considerable resource, both contractors and consultants, to manage cost escalation.
80. This scenario is not a typical aspect of a construction contract and there are no precedents to follow or applicable construction cost indices to rely upon. The contractor is not willing to take this risk on providing a fixed price, and if they did, Council may not wish to accept the price. Given the above, this risk will need to be managed by Council in conjunction with its contingency provisions and may potentially be fixed later in the contract.

**Value Engineering**

81. Value Engineering (VE) has been carried out and will continue to be throughout the project. The process commenced with the development of a list of technical options which are currently being assessed. Many of these items will require further design and work with the contractor, design consultants and Council to determine if they are viable. To date the potential saving options are limited and cannot be relied on to provide meaningful savings beyond \$1m to \$2m. Any savings through VE will be reported at appropriate times.
82. One of the main VE items is the removal of the toilets and recording studio from the basement to allow reduction in the basement size. This is currently being assessed and will include a cost/benefit of this option.

**External review and assurance**

83. Given the scale and complexity of the project, Council commissioned an external review, which was carried out by PWC. The purpose of this review was to:
- a) Assess and provide assurance in relation to the procurement process Council followed
  - b) Provide advice on the options and best approach to progress the project
  - c) Provide general comments and recommendations on how Council can improve future procurement processes.
84. PWC briefed Council on its findings, and a final report is included as **Attachment 1**.

**Music Hub**

85. The Civic Music Hub proposal is designed to revitalise the Town Hall as a civic asset and a world-class acoustic space. The Town Hall will remain accessible to elected members, arts organisations, venue hirers, and the public as part of the fabric of the

city. But it will have greater utilisation and 'vibrancy' from the NZSO calling it 'home' and rehearsing there, and from the 'buzz', activity, rehearsals and performances of NZSM music students and faculty.

86. The physical co-location of these partners will enhance Wellington's claim to a strong and vibrant arts and educational precinct in the heart of the city. It is also anticipated to lead to broader and deeper collaboration between the partners directly, and to significantly increase collaborative opportunities with other arts and educational groups in the city such as New Zealand Festival, Jazz Festival, Chamber Music New Zealand, Royal New Zealand Ballet, Massey University, and Te Auaha.
87. Wellington City Council will become a shared tenant in the Town Hall, with approximately 40% of the total occupancy of the building. NZSO and NZSM will share access to the remaining 60% of the Town Hall in return for a rental stream at market-derived rental levels. Three shared performance spaces will open in the strengthened Town Hall.
88. The Civic Music Hub will accommodate the specialised spaces required by each partner, as well as spaces common to the shared purposes of studying, creating, sharing and performing music. A recording space is proposed to be built in the basement of the Town Hall and classrooms and break-out spaces will be created. Council and VUW are negotiating the inclusion of the Municipal Office Building to house administrative functions for the resident partners, as well as teaching, practice, performance, research and storage spaces for the NZSM.
89. The Civic Music Hub proposal adds to the stand-alone earthquake strengthening scenario for the Town Hall through the following:
  - The building of a recording space designed to meet the needs of the NZSO to allow for film scoring and other recording work;
  - A small box office space in the Town Hall circulation area, available as required;
  - Level two will incorporate a new practice and performance space in the north-west corner above the Mayor's office;
  - Extensive fit-out throughout the Town Hall with tenant spaces paid for by the NZSM and the NZSO, including improved floor loadings for a performance space, improved acoustic quality, and internal spaces to meet the needs of the NZSM and NZSO as tenants; and
  - The debating chamber space will be extended to provide extra seating for NZSM performances and practice sessions and the gallery will be refurbished, in order to allow for larger audiences, better viewing angles, and improved acoustics.

## Key spaces and sharing arrangements

Table 2

Shared Performance Space	Usage	Specifications	Proposed Partner Allocation	Notes
Town Hall Auditorium	One of the city's primary venues for concerts and musical performances	1,025sqm 12m room height Occupancy of up to 1,400 seated; 1,900 with general admission	WCC 67% (245 days) NZSO (120 days)	NZSO current usage is around 30 performance days and 90 non-performance days
Ilott Room	The primary performance space for NZSM – used for teaching and public performances by students and faculty members	223sqm 4m room height Flat floor (previously raked) Occupancy of up to 250 -best for 150-200	WCC 20% VUW 80%	During term time, WCC allocation is likely to be one weekend day and one evening per week
Debating Chamber		150sqm 8m room height Occupancy of up to 220 (including the expanded gallery)	WCC 20% VUW 20%	Available for the monthly Council meetings and citizenship ceremonies

90. An element of the Music Hub proposal worth particular mention is the scoring stage / recording suite. As NZSO noted in its Long Term Plan submission, "A key capability of the enhanced Wellington Town Hall would be the installation of a permanent and fully equipped control room for film scoring". This will be a dedicated recording space, which requires high-quality sound isolation and a good connection to a performing stage (or scoring stage).
91. The facility will allow the NZSO to build on recent success in this area, including its Grammy nomination for Best Orchestral Performance for Symphony 'Humen 1839' and the recording of the soundtracks for The Hobbit: The Desolation of Smaug and The Hobbit: The Battle of the Five Armies. It will also further consolidate the existing partnerships that both NZSO and NZSM have with Park Road Post Production.
92. Currently New Zealand does not have a professional recording venue of this size and set-up and prior work on this topic has indicated that the lack of a scoring stage prevents New Zealand successfully packaging 'one-stop' post-production packages. Anecdotally, there are already scoring inquiries that cannot currently be delivered in the city. This facility will also offer opportunity in the area of soundtracks for the online gaming industry and is likely to become a hireable space within Wellington.
93. The agreement between the three parties has been enshrined in an overarching Collaboration and Redevelopment Agreement (CRA). The CRA sets out how the sharing allocations will work and how the organisations will work together to create a curated programme of Music and other performances within the Town Hall. The CRA sets out the relation principles upon which the legal obligations of the three parties are based upon.

94. The CRA creates hard obligations for each party in terms of development, leasing and management responsibilities for the 25 years of the agreement. Key commercial terms encapsulated by the agreement for the Town Hall are summarised below and are entirely consistent with the commercial parameters outlined in the Civic Music Hub Business Case 2017.

**Table 3**

TERM	NZSO	VUW
<b>Rental</b>	\$473,787 p.a	\$512,000 p.a
<b>Spaces</b>	Auditorium and Basement	Illott, Debating and Classroom
<b>Term</b>	25 years	25 years
<b>Reviews</b>	2% p.a. increases	Pre-set increases
<b>Renewals</b>	1 of 10 years	1 of 10 years

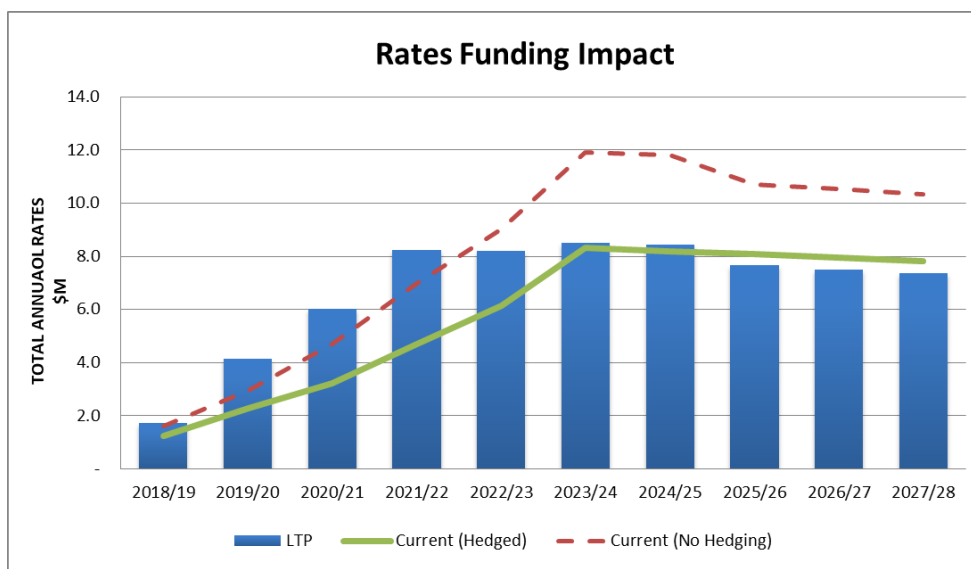
95. The long term commitment from the tenants is shown in the table below:

**Table 4**

Tenant	25 year Cashflow	25 year NPV
<b>NZSO</b>	\$15.2m	\$7.3m
<b>VUW</b>	\$16.4m	\$7.9m
<b>TOTAL</b>	<b>\$31.6m</b>	<b>\$15.2m</b>

### WCC funding and the LTP

96. There are rates impacts and funding implications stemming from this project. The graph below shows the impact on rates funding as a result of the additional capex as per this proposal.



**Figure 10: Summary of Rates Funding Impact**

97. On the basis that the Councils average cost of debt is applied to the Town Hall Project, rates funding would peak at \$11.9m in 2023/24 an increase of \$3.4m compared with that forecast in the 2018-2028 Long Term Plan. The main driver for the increase in rates is the additional debt required and the associated interest costs.

**Table 5**

Rates Requirement	2018/19 \$M	2019/20 \$M	2020/21 \$M	2021/22 \$M	2022/23 \$M	2023/24 \$M	2024/25 \$M	2025/26 \$M	2026/27 \$M	2027/28 \$M	Total \$M
LTP	1.7	4.1	6.0	8.2	8.2	8.5	8.4	7.6	7.5	7.4	67.7
Current (No Hedging)	1.6	3.0	5.7	7.0	9.0	11.9	11.8	10.7	10.5	10.3	80.6
Increase / (Decrease)	(0.1)	(1.2)	(1.3)	(1.2)	0.9	3.4	3.4	3.1	3.0	3.0	12.9

98. To mitigate the impact of increased interest costs it is expected that a funding and interest rate hedging programme will be put in place similar to that proposed for the Council's Convention Centre project. In simple terms this means applying a project specific interest rate hedging programme at lower rates than Council's average weighted cost of funds. This will result in a significantly lower interest expense forecast for the project, with rates funding peaking at \$8.3m in 2023/24, slightly lower than the LTP forecast, despite the higher borrowing requirement.

**Table 6**

Rates Requirement	2018/19 \$M	2019/20 \$M	2020/21 \$M	2021/22 \$M	2022/23 \$M	2023/24 \$M	2024/25 \$M	2025/26 \$M	2026/27 \$M	2027/28 \$M	Total \$M
LTP	1.7	4.1	6.0	8.2	8.2	8.5	8.4	7.6	7.5	7.4	67.7
Current (Hedged)	1.2	2.3	3.2	4.7	6.2	8.3	8.2	8.1	8.0	7.8	57.9
Increase / (Decrease)	(0.5)	(1.9)	(2.8)	(3.5)	(2.0)	(0.2)	(0.2)	0.4	0.5	0.5	(9.8)

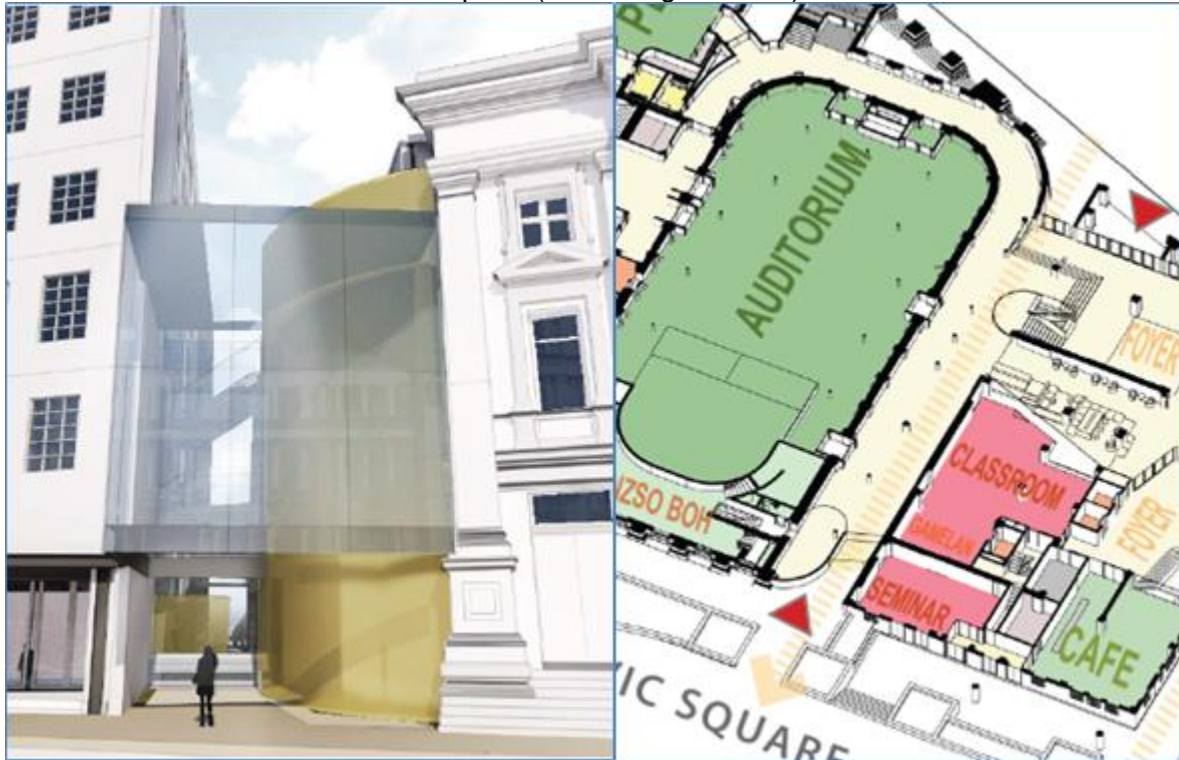
### West Hall and Municipal Office Building

99. The use of MOB in conjunction with the Town Hall to create the Civic Music Hub was proposed in the June 2017 paper. VUW rejected its Right of First Refusal to purchase MOB in December 2017. This resulted from VUW receiving two private developer proposals to redevelop MOB on their behalf which required rental far in excess of their means. Discussions with VUW have since centred on the potential redevelopment of MOB by Council as developer.
100. Irrespective of any agreement with VUW as tenant, the options available to Council for MOB are limited. Planning advice is that it is unlikely that resource consent to demolish will be obtained. This is an outcome of the current District Plan which lists MOB as a contributing building within the Civic Centre Heritage Area. Independent planning advice states:

*'In summary, whichever process was used, to seek demolition of the MOB will be a 'high risk' action with associated significant costs, long timeframe and low chance of success'*



101. The redevelopment costs for MOB, strengthened to 90% of NBS (IL2) has been estimated. Given the very low likelihood of being able to demolish this building, due to heritage considerations, and the high rentals required to attract private developers, it is likely that Council will be required to act as the developer for this project. This will be on basis that the capital costs are largely funded by a commercial lease arrangement or that the Council would reoccupy the building. This will be the submitted as a separate report for Council approval at a later date.
102. A key feature of the redeveloped Town Hall is the West Hall, which spans the space between the Town Hall and MOB and provides the important pedestrian link between Wakefield St and the Civic Square (refer images below).



**Figure 11: (L) West Hall as viewed from Wakefield Street; (R) Aerial cross section view of the West Hall**

103. Strengthening MOB requires constructing a shear wall over the MOB east wall. For programme and cost efficiencies, the shear wall and foundations need to be constructed within the West Hall, by the Town Hall contractor, early in the construction of the Town Hall.
104. Not strengthening the east wall as part of the Town Hall works will result in a more expensive solution, including the removal of completed Town Hall works to achieve 90% NBS - if it can even still be achieved.
105. In order to design the MOB east wall strengthening solution, the whole of the MOB design needs to be taken to the Developed Design stage. The design programme for this work commenced in December 2018 and is expected to be completed by August 2019. To date the design works have consisted of survey and preliminary investigation.
106. The critical path for full development requires approval of funding for both the MOB strengthening design and the east wall strengthening works. The preliminary estimate for this work is \$5m. \$5.9m to be provisioned in the 2019/2020 Annual Plan in order to continue the design and to proceed with the east wall strengthening works.

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## Fund raising

107. Victoria University of Wellington and the New Zealand Symphony Orchestra established a fund raising committee to raise \$30 million for the creation of an innovative music and arts centre on Civic Square.
108. In order to attract sizeable philanthropic gifts to enable the project to proceed, Council has identified physical spaces in the Town Hall that will be able to be used to honour donor contributions. We have been informed by Council's draft Naming Policy and have also been guided by historical practice, for example, the naming of the Renouf Foyer within the Michael Fowler Centre.
109. Naming rights for the Wellington Town Hall will not be granted, but the use of an Honours Board and the naming of significant spaces within the Town Hall have. For example the main auditorium will be named the Adam Auditorium in recognition of the significant donation made by the Adam family.
110. We understand the target sum is close to being achieved.

## Options

111. The Price Waterhouse Coopers (PWC) report (**Attachment 1** refers), discusses the relative merits of the following options.
  - Stop or defer approval
  - Proceed with the project as is
  - Proceed with the project but reduce the scope to strengthening only
  - Proceed with project but modify the contract
  - Do not award the contract, consider other contracting approaches
  - Mothball, having undertaken the bare minimum of works
112. Given the buildings classification as HNZ Category 1 listed building demolition is not considered a viable option.
113. The PWC report notes that the project as explained in this report, meets the goals of the Council's agreed business and broader objectives such as heritage, restrengthening buildings and the future of the Civic Precinct, albeit at a higher capital cost.
114. Ceasing works or undertaking the bare minimum to strengthen the building, while technically feasible, are not considered reasonable or prudent for reasons of safety, earthquake prone statutory obligations, and ensuring utilisation of city assets.
115. The Council also received strong public support for the Music Hub concept through earlier public consultation and is now at a point where it can elect to commence the construction phase of the project.
116. Accordingly this report proposes that the Council proceed with the project, but consider how the contract can be managed and/or modified to incentivise contractor performance and manage ongoing risks.

## Next Actions

117. Continue inground investigation for the construction methodology to firm price.
118. Sign the construction contract with Naylor Love Wellington Ltd.



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119. Start construction in March/April 2019.

### Attachments

Attachment 1. PWC report: Wellington City Council Town Hall project  
procurement review [↓](#) 

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Authors	Bede Crestani, Project Manager Ian Pike, Manager Build Wellington
Authoriser	Kane Patena, Director, Strategy and Governance Andy Matthews, Chief Financial Officer

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## **SUPPORTING INFORMATION**

### **Engagement and Consultation**

Extensive consultation on the Town Hall through previous LTP and Annual Plans.

### **Treaty of Waitangi considerations**

Not applicable.

### **Financial implications**

The financial implications are included in the body of the report.

### **Policy and legislative implications**

Not applicable.

### **Risks / legal**

This project will provide reports to the Finance, Audit and Risk Management Subcommittee regularly as part of the Significant Projects Report.

The risks are set out in the body of the report and the external report from PWC, which is attached as appendix 1. The project team will work with our external and internal lawyers to manage any contractual and legal issues.

### **Climate Change impact and considerations**

The proposed design takes into account forecast direct impacts of sea level rise.

### **Communications Plan**

If Council approves the budget, an updated communications plan will be developed to support the project delivery.

### **Health and Safety Impact considered**

Safety in Design considerations have been incorporated into the design and we will actively monitor health and safety issues throughout the project.

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# *Wellington City Council Town Hall project procurement review*



**pwc**

February 2019



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Kane Patena  
Director, Strategy and Governance  
Wellington City Council  
PO Box 2199  
Wellington

20 February 2019

Dear Kane,

**Town Hall project procurement review**

In accordance with our letter of engagement dated 17 January 2019, we have pleasure in reporting to you our findings following our review of specific aspects of Council's Town Hall project procurement process. The re-strengthening, restoration and refurbishment of this key civic asset represents a major project for Wellington City and we appreciate the opportunity to be involved in its progression.

Our reports are typically not intended for general publication or circulation and should not be copied to any party without our prior written consent. However, we do acknowledge that for the current engagement, our report, or elements of it, will be publicly available. We reserve the right to review and approve any elements that Council intends to make available to the public.

We accept no responsibility to any party other than yourselves in respect of our advice and we will accept no responsibility to any party if our advice is used by any party including yourselves in breach of our engagement terms with Council.

Please do not hesitate to contact us should you require any clarifications or further information.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'R. Chung', is written over a light blue circular stamp.

Richard Chung  
Partner



## Executive summary

*Pending approval by Council, the Town Hall Music Hub delivery phase can commence. Council's project team has undertaken a robust and competitive procurement process to select a preferred main contractor. Project costs have increased substantially over previous budgets due to several crucial factors. The design for the re-strengthening, restoration and refurbishment now provides for a more future-proofed heritage civic asset.*

### Town Hall background

The Town Hall was designated as being earthquake prone in 2009. Initial plans in 2011 were for a strengthening project that would simply see the Town Hall returned to use. Consideration of wider uses commenced in 2014 including a public consultation process. In 2017, Council decided on a comprehensive re-strengthening, restoration and refurbishment project, the outcome of which will see this heritage civic asset converted into a Music Hub (to accommodate Victoria University of Wellington's NZSM and the NZSO alongside Council).

The amount of time since the Town Hall was closed to the public (late 2013) in part reflects the decision process for its end use as a Music Hub and reaching occupancy agreements with NZSM and NZSO. However, it is also a reflection of the complexity of the project in terms of both design and construction. This has been clearly demonstrated following Council's tendering of the construction works which is in the process of being finalised with its preferred contractor (subject to Council approval). Project costs and the construction timeframe have increased substantially over previous estimates, which reflects design progression of the project, greater understanding of the construction methodology and challenging market conditions.

### Council's procurement process

During 2018, Council undertook a procurement process to appoint a preferred main contractor to complete the construction works. An experienced project team of internal and external members with a combination of property construction, procurement, legal and governance expertise implemented the process.

The process adopted has been largely traditional with detailed design completed, an open market ROI and an RFT phase. A shortlist of three main contractors with relevant experience was selected for the RFT phase,

two of whom submitted formal tenders. Against Council's evaluation criteria, a preferred contractor was selected and post tender clarifications and pricing has been progressed (but is not complete). The procurement process completed under the traditional approach was robust and consistent with the elements of good practice.

The project budget following Council's tender is now \$112.4m (excluding contingency) which compares to \$74m (excluding \$23.4m contingency) set at the preliminary design stage and adopted in June 2017. Most of this increase is attributable to the construction cost and reflects several crucial factors:

- Greater understanding of the complexity in the methodology required to complete the seismic upgrade and heritage restoration elements;
- Design progression and increased scope, particularly around acoustic resilience and tenant requirements;
- An increased construction timeframe from 33 months to 48 months; and
- A 'heated' construction market with capacity constraints.

However, it should also be noted that the project design now provides for a more future-proofed civic asset, supported by completed occupancy agreements with NZSM and NZSO (and an NPV of circa \$15m plus based on the long term lease commitment terms). The Town Hall will also be better placed to catalyse other civic precinct revitalisation e.g. MOB and CAB.

Current construction pricing is based on a competitive market process. However, the final cost that will be borne by Council remains uncertain, as there are still significant components where scope and cost could change from the preferred contractor's original tender. For example, the preferred contractor's tender includes provisional sum allowances. Also, all of the costs for work on the ground floor and below are provided as an estimate (rather than a fixed sum).





## Executive summary (cont'd)

*Council has undertaken significant work to understand project risk and potential consequences and the preferred contractor has also considered the key risks in some detail. In order to optimise the outcome, there remains an opportunity to complete negotiations with the preferred contractor to establish greater collaboration, incentivisation around minimising/managing the outturn cost and develop a deeper understanding of the project risks and requisite contingencies. Advancement of the Town Hall Music Hub is consistent with Council's approved business case and broader objectives.*

A project contingency allowance is in the process of being assessed by Council. We are informed that Council is likely to adopt a 'portfolio approach' whereby there will be a larger pool of contingency funds (sitting outside individual projects) able to be applied on a project by project basis. The complexity of the Town Hall project and current risk allocation between Council and the preferred contractor means cost and time uncertainties will remain for large parts of the project.

### Project risk profile (procurement)

In the context of Council's objective to achieve a fixed price at the earliest point possible, it adopted a traditional procurement process and sought to allocate primary risks to the contractor.

Due to rapidly changing market conditions and the inherent complexity of the project itself, all shortlisted tenderers refused to accept a number of the risks that Council sought to transfer. As a consequence, the current tender has:

- a significant portion of estimated costs;
- a significant portion of provisional sums;
- exposure to cost escalation remaining with Council; and
- a number of specific items tagged by the contractor (e.g. piling, construction methodology and heritage restoration).

### Project options

Council committed to move forward with the Music Hub in June 2017. The project is now at a point where Council could elect to commence the delivery (construction) phase.

At a project level, there are, technically, a number of options that Council could reconsider (options have been considered during the process), including a reduction in scope and delaying or ceasing works.

Ceasing work or undertaking the bare minimum to strengthen the building are not considered reasonable options for reasons of safety, statutory obligations to lift the Town Hall from earthquake prone status, productive use of City assets (particularly a key heritage building in the civic precinct) and meeting the goals of Council's approved Music Hub business case. Furthermore, strong public support for the Music Hub concept was established via consultation and engagement, and commitments were made in the Long Term Plan.

Advancement of the Town Hall Music Hub is consistent with Council's approved business case and broader objectives such as heritage, re-strengthened buildings and the Civic Precinct.

### Outstanding work

In finalising the construction contract, a better understanding of the risks and related contingency allowances should be established and potential incentivisation structures established in the contract to manage and mitigate these aspects.

It is important to capitalise on the extensive work that Council, its consultants, and the preferred contractor have already completed in respect of understanding the project and its inherent risks.

However, it is clear from our interviews and the tender response that significant work is required before the contractor can confirm a cost for key parts of the project, in particular, the ground floor slab and below.



## *Executive summary (cont'd)*

*All parties should participate openly in collaborative workshops to progress the four recommended initiatives. An open approach, inclusive of the contractor, should inform, rather than constrain, Council's decisions on risk and contingency allowances.*

We have identified four key initiatives that should be undertaken prior to commencing works:

1. Update the project risk register and use this as a basis to systematically allocate and confirm the quantum of contingency allowances.
2. As part of the contract negotiations, agree a structure that provides for an incentivised approach to fixing provisional sums and current trade estimates, expending contingency and managing time and time related costs.
3. Establish a clear reporting and monitoring framework in order to ensure that initiatives 1 & 2 are actively and continuously managed.
4. Continue to explore value engineering opportunities and their potential incorporation into the project.

### **Way forward**

An appropriate way to take these initiatives forward is through a series of structured workshops which could be commenced immediately. Project knowledge is now held across a wide range of stakeholders, including the design team and the preferred contractor. To maximise the benefit of a collaborative approach, all parties should participate openly in these workshops. An open approach, inclusive of the contractor, should inform, rather than constrain, Council's final decisions on risk and contingency allowances.

In addition, appropriate members of the executive teams of both Council and the preferred contractor should play an active role in supporting the process, through both engagement during the proposed workshops and as part of the Project Control Group over the life of the project. Any agreement on incentivisation will have to be a negotiated outcome. The preferred bidder's response cannot be prejudged.





## Our brief and approach

*We formed a view of the project's procurement process and outcomes using a combination of generally accepted good practice in the industry, Government good practice guidance, document reviews, interviews and our own knowledge and experience of the market.*

### Our brief

This report covers three broad areas of enquiry in relation to the Town Hall project:

- 1) An assessment of the procurement process
- 2) Advice on the approach to progress the project
- 3) Improvements to future procurement processes.

### Procurement process

This section provides PwC's opinion on:

- the robustness of the procurement approach, methodology and approach that Council has followed, and
- the extent to which the approach has facilitated competitive tenders that provides Council with assurance that it represents a fair current market price for the scope of works tendered for.

This assessment is limited to the procurement of a preferred main contractor (the construction being the main component of the project). Any assessment of the design, project management and other procurement processes were outside of the scope of this review.

This section includes an assessment of the reasons for the increase in estimated project cost from \$66.5m (excluding \$23.4m contingency) approved June 2017 and in the LTP, to circa \$112.4m (excluding contingency).

### Approach to progress the project

This section provides PwC's:

- assessment of the options available to Council from this point and the implications and risks of each option
- advice on ways to best manage risks if Council proceeds with finalising and awarding the construction contract for the Town Hall Music Hub
- views on how Council can continue to improve the way it undertakes procurement processes for major capital projects.

## Our approach

### Interviews

Interviews were held with internal members of the Council project team, procurement respondents, and external advisors utilised by Council.

### Documents

A large range of Council's project documents were provided and formed part of our review. We also compared some of these to Government good practice guidance on construction procurement.

### Market

We applied our own knowledge of, and experience in, the market and tested this against the process adopted for the Town Hall project.

# *Assessing the procurement process*

## *Validating the process to procure the main contractor*

### *Task*

*To provide our opinion on the:*

- 1. robustness of the procurement approach, methodology and approach that Council has followed; and*
- 2. extent to which the approach has facilitated competitive tenders that provides Council with assurance that it represents a fair current market price for the scope of works tendered for.*



## Project chronology

*The Town Hall project has been evolving since 2009. When the project had a single focus of re-strengthening (2013), an Early Contractor Involvement (ECI) approach was utilised and this continued when a Music Hub concept was introduced (circa 2016). However, as the Music Hub design progressed, Council switched to a more traditional procurement approach to attempt to get price certainty as early as possible.*

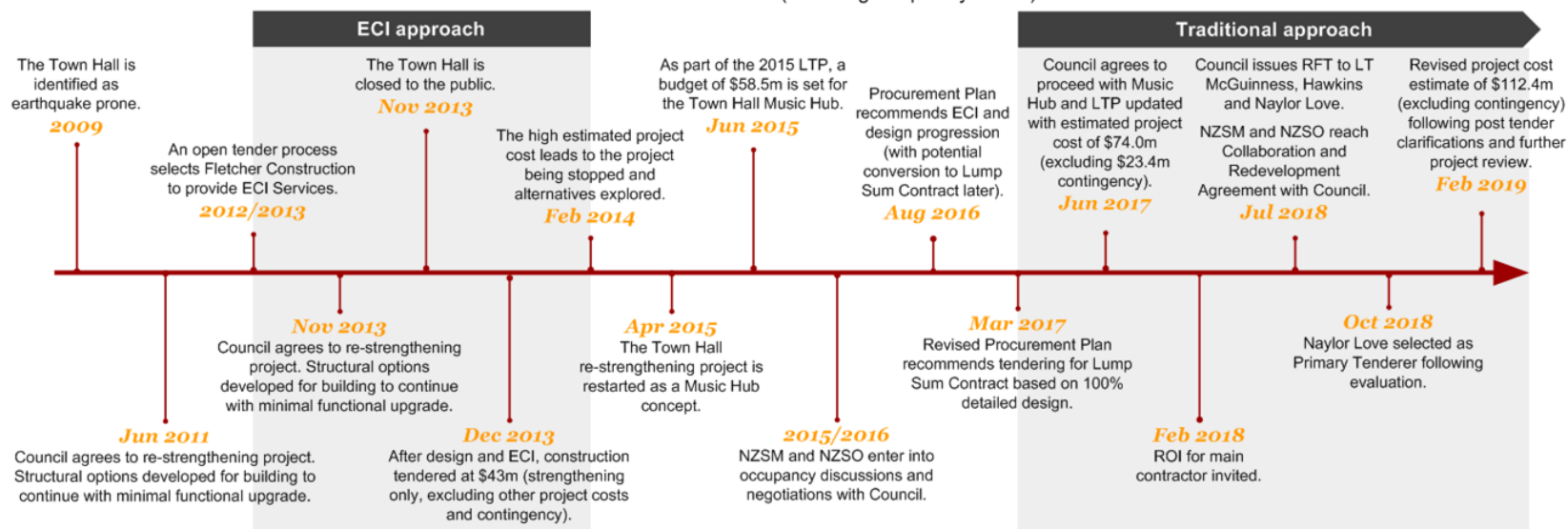
### Context

A seismic re-strengthening project was initiated after the Town Hall was identified as earthquake prone. Fletcher Construction was engaged on an ECI model to assist with the strengthening project approved by Council. The project was 'parked' in 2014 when project costs exceeded expectations.

Between 2014 and 2017, Council developed, consulted on, and agreed to the Music Hub concept and this was incorporated into the project objectives to inform re-procurement of a main contractor.

In the lead-up to the formal procurement of a main contractor in 2018, a number of procurement models were considered by Council. The actual procurement model that was utilised was a traditional tender. Of three shortlisted respondents, one withdrew and two submitted detailed tenders. Following evaluation, a preferred tenderer was selected.

Throughout the process, the scope of the construction works has changed as more information was gathered in respect of ground conditions, end use (the Music Hub), heritage/restoration characteristics and construction methods (including temporary works).



Wellington City Council Town Hall project procurement review



## Procurement approach

*The procurement process completed within the model chosen, was robust and consistent with good practice.*

### Procurement model

The procurement plan developed in 2017 recommended proceeding on a traditional open market basis upon completion of detailed design. The interview process indicated that there was a primary focus on achieving cost certainty as early as possible and a view that many of the benefits of ECI had been gained through prior work with Fletcher Construction and the consultant team, hence a traditional approach now being appropriate and preferable.

The procurement approach and documentation led to two formal tenders being submitted, both registering a large quantity of provisions and tags in their tenders. Council correctly concluded that this effectively rendered the tenders as price estimates only due to the number and value of unconfirmed costs.

Council selected a preferred bidder as the higher scoring tenderer (during tender evaluations) to enter a 'post tender clarification' process in an attempt to agree a programme and tender pricing.

The procurement model chosen has likely had little impact on the ultimate outcome. It is likely Council would have encountered the same issues regardless of the procurement model implemented. Given the complexity of the project, other models, such as ECI, may have assisted with clarifying certain risk aspects of the project and assisting with their resolution before construction tender pricing. We note that some components of an ECI approach were present during the early design stages and, to a degree, remain with the current investigations and testing underway by the preferred contractor with regard to piling.

The procurement process completed under the traditional approach was robust and consistent with good practice.

### Key documentation

Some documentation was not as comprehensive as it could have been; however, this improved as the process was carried out. An example is risk identification and controls, which were lightly touched on in the procurement plan, but developed more once the procurement process was underway.

### Team and advisors

Council brought together an experienced and multi-faceted project team. The combination of internal and external team members provided expertise in the requisite areas of property construction, procurement, construction, legal and project governance.

### Capability

Of the wider construction market, only a subset has expertise in a specialist heritage re-strengthening and restoration project of the Town Hall's scale. Due to this, capacity and capability in these trades to deliver a project like the Town Hall will inevitably lead to a limited procurement response and associated higher costings.

Procurement processes need to consider this limited market capability. If components, such as risk allocation, are not well thought through and applied, then potential tenderers in an already limited market may opt not to respond or may respond but later withdraw.

### External factors

The Town Hall project was approaching the construction market during peak pressure on capacity. This is indicated in the charts on page 12, from the MBIE Construction Pipeline Report 2018, where research figures show the market expecting to deliver a high volume of work during 2018 and 2019 especially. Given typical delays, these projects are potentially likely to continue into 2020 and 2021.

This pressure on capacity is likely to have contributed to higher costings, although this is not possible to quantify.





## Project costs

*Project cost estimates have evolved predominantly due to progression of the design and the resulting improved knowledge of the required works and a construction market experiencing unparalleled demand.*

### Comparison between preliminary design estimate and tender price

The project budget has increased from \$97.4m (including \$23.4m contingency) in June 2017 to \$112.4m (excluding contingency) post tender. The higher tender price for the construction component, whilst based on a competitive market process, does reflect several crucial factors:

- Greater understanding of the complexity in the methodology required to complete the seismic upgrade and heritage restoration elements.
- Further development of design, particularly around acoustic resilience and tenant requirements.
- The increased construction timeframe from 33 months to 48 months significantly impacted the Preliminary & General cost of the project.
- A 'heated' construction market with capacity constraints.

The mid-2017 \$97.4m (including \$23.4m contingency) project budget was prepared when the Town Hall Music Hub was only at preliminary design. The increase in construction costs includes significant uplift in on-site overheads, temporary works, demolition, steelwork, metalwork/glazing, solid plaster, tiling and stonework.

### Cost components of 2017 preliminary design estimate and 2018 construction tender price

Component	2017 preliminary design estimate	2018 construction tender price
Construction	\$51.5m	\$88.8m
Design fees	\$12.1m	\$14.1m
Insurance, organ & consent	\$2.9m	\$5.7m
<b>Construction Cost</b>	<b>\$66.5m</b>	<b>\$108.6m</b>
Contingency	\$23.4m	To be assessed
<b>Sub-total</b>	<b>\$89.9m</b>	<b>\$108.6m</b>
Furniture, fixtures & equipment	\$3.8m	\$3.8m
Associated music hub costs	\$3.7m	Nil
<b>Project budget</b>	<b>\$97.4m</b>	<b>\$112.4m</b>

*Figures adapted from Council provided costings*



## Project costs (cont'd)

*Project cost estimates have been impacted by the 'heated' construction market, a complex project with significant uncertainties, and contractor capacity issues (especially in specialist re-strengthening and restoration trades).*

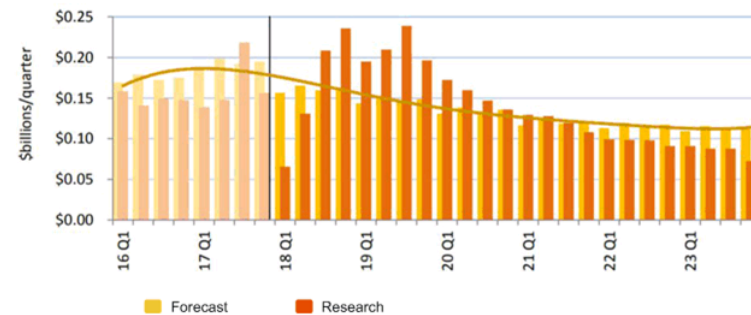
### Market assessment

A combination of using an open-market procurement process and a reputable QS advisor on the project means the tender result is a fair representation of the market, based on the process and documentation used.

A 'heated' national and Wellington construction market has seen an increase in new non-residential projects and the failure of, and challenges faced by, large contractors. This market has seen increased demand on construction trades across the country, with Wellington projected to have a 9% growth in demand for construction-related employees to 2022<sup>1</sup>.

The MBIE charts below show the high activity levels of non-residential construction from 2016/2017 to the present, this period coinciding with Council's latest tender approach to the market. The orange Research figures refer to construction project intentions data which is extensive, though not complete. The yellow Forecast figures smooth the intentions by removing optimism bias in the short term.

### Non-residential construction activity for Wellington<sup>2</sup>



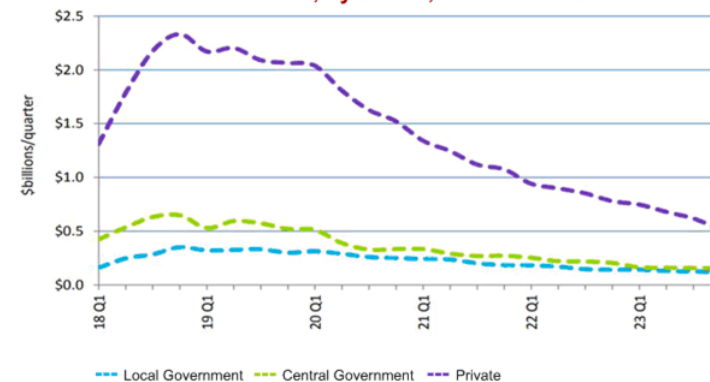
Wellington City Council Town Hall project procurement review

We also note that since December 2013, when Fletcher Construction submitted its tender, the Capital Goods Price Index for non-residential buildings has increased by circa 23%. This index is based on a national average and therefore is likely to understate the increase in major centres such as the Wellington market.

Project budgeting for the Music Hub and the adopted figures in Council's LTP have all been estimates only. Accordingly, they have had to address unknown elements and uncertainties including the then state of design and consultants' views on methodology, heritage requirements and a rapidly changing market.

Even now, having completed detailed design and tendered the construction cost, there remains significant uncertainties for the Town Hall project, particularly in respect of the ground floor slab and below.

### Non-residential intentions, by sector, across New Zealand<sup>2</sup>



<sup>1</sup> MBIE - Future demand for construction workers

<sup>2</sup> MBIE - National Construction Pipeline Report 2018



## Risk profile

*Whilst the nature of the project means that uncertainty in some areas will only be resolved during the build process, the additional design work undertaken prior to the formal tender process was a sound mitigation strategy. Given the materially changed market conditions, the transfer of certain material risks to the contractor as part of the procurement process was unachievable. However, our discussions indicate that the parties involved are prepared to seek innovative and collaborative solutions to maximise the outcome from both a cost and delivery perspective.*

### Design development for procurement purposes

A key objective noted in Council's strategy and planning documents in respect of the project was to minimise cost uncertainty. To achieve this, it was decided that the tender process would be based on fully developed design and scheduled quantities (Detailed Design).

Given the complexities of the project, undertaking additional design work prior to going to market is considered a positive and reasonable risk mitigation strategy. The beneficial impact of this is one of the matters identified during our high level analysis with regard to prior pricing obtained for the works.

### Contractual risk transfer

Acceptance by contractors of risks such as ground/existing building conditions and cost escalation had been common prior to the commencement of preparations for the procurement process for the project (2016/2017).

However, pressures in the sector were becoming more prevalent and market conditions were rapidly changing. In February 2018, Fletcher Building announced substantial losses forecast to be incurred on large commercial construction projects, citing programme delivery management, cost escalation, cost contingencies and risk allocation as key issues. In mid-2018 a large apartment project in Auckland suffered delays and a change of contractor amidst a dispute over unforeseen ground conditions. These and other events have resulted in widespread discussion on appropriate risk allocation practices and a markedly increased reluctance by contractors to accept certain risks.

### Tender risk allocation

Although Council recognised the altered market conditions and sought to include tailored solutions in the tender contract documentation, all shortlisted tenderers noted issues with risk allocation and sought amendments to clarify that certain risks must remain with Council, particularly in respect of cost escalation, heritage components and ground/existing structure conditions. We also note that, had those risks been accepted, it would likely have crystallised a material further cost increase in the tender. An extract from one of the tenderers' submissions included the following statements:

*"Ground conditions remain a discussion point, the integrity and actual make-up of the building fabric will remain uncertain until work progresses far enough for these to be assessed properly. The ability to accurately scope the works is therefore limited, despite everybody's best efforts....In general terms, the work below the ground floor is the hardest to quantify with certainty."*

Based on our discussions with the parties involved and review of associated documentation, the initial tender documentation may have sought to place too much risk on the contractor given the complexities of the project, and having regard to market conditions, i.e. a very active construction market and associated resource capacity issues. Key contractual issues for which certain components remain under discussion include:

- Cost escalation methodology
- Process relating to unforeseen physical conditions
- Schedules of quantity and pricing variations, and
- Basis for extensions of time.



## *Best approach to progress the project*

### *Options for the way forward*

#### **Task**

*To assess the options available to progress the project, including:*

- 1. stopping/deferring the project*
- 2. proceeding with the project as proposed and accepting current risk profile (including additional budget)*
- 3. proceeding with the project (but scaled back scope)*
- 4. proceeding with the project but considering how the proposed contract may be modified to incentivise contract service providers and manage risks borne by Council*
- 5. not awarding the contract, instead considering alternative contracting arrangements (e.g. single source)*

*An option also considered was to undertake minimum works, and then mothball the building.*

*Advice on how Council can best manage the identified risks, if proceeding with the current contract.*



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## Approaches that could be applied

*If Council elects to proceed with the project, it should seek to better understand the risks and related contingency allowances and amend the contract to incorporate a more collaborative approach to management of costs/risk.*

### 1

#### Stop or defer the project

Stopping or indefinitely deferring the project would require a conscious decision to undertake no further works and leave the building vacant in its current closed state.

Under new deadlines introduced via the Building (Earthquake-prone Buildings) Amendment Act 2016, strengthening works may need to be completed prior to the end of 2024. The current programme for the project is approximately 4 years.

*Option 1 does not appear feasible as it would leave an unmaintained building unsuitable for any use, and subject to ongoing structural damage risk, and comprise an unproductive asset for Council.*

*Strong public support for the Music Hub concept was expressed during the consultation process. The benefits of progress to-date including agreements reached with NZSM and NZSO and design development could be lost under a deferral scenario.*

### 2

#### Proceed with project as-is

Proceeding with the project as-is means maintaining the current scope (i.e. including the Music Hub), appointing a main contractor and proceeding with works pending Council approval of the project costs.

With regard to risks, this option simply notes acceptance that there are ongoing risks, assumed to be managed using the contingency allowances and in accordance with the contract conditions as altered under the tender process.

*Option 2 would result in a restored and utilised heritage asset for Council and Wellington City. This option would be aligned with the strong public support for the Music Hub and approved business case.*

*However, given the degree of risk and uncertainty remaining, the absence of an innovative proactive response to managing the ongoing risk and uncertainties, this option could result in further unforeseen cost increases.*

### 3

#### Proceed with project but reduce the scope to strengthening only

This would involve appointing a main contractor and proceeding with works pending approval of the project costs, however, with a reduced scope, only undertaking strengthening works. There would be no provision of a Music Hub.

Upon completion, the Town Hall would potentially be utilised for one-off events, but would not have any permanent regular use and its acoustic and heritage qualities would not be optimised.

*Option 3 would deliver a safe asset suitable for limited use, however, would not optimise its productivity or add any significant value to Wellington City.*

*The strengthening works represent the majority of the project costs, hence reducing the scope to strengthening only may not significantly reduce the project costs.*

*The project would also be significantly delayed as the design would require amendment and the procurement process potentially revisited.*



## Approaches that could be applied (cont'd)

*Option 4 is the most pragmatic approach under a decision to proceed with the project.*

### 4

#### Proceed with enhanced risk management approach

Proceeding with the project with an enhanced risk management approach would entail (at least) renegotiation of aspects of the draft contract terms with the preferred contractor to potentially better incentivise contractor performance and manage ongoing risks.

If the scope of change to draft contract terms is substantial and could have impacted tenders, there may be a requirement to re-tender the works and provide the market a new opportunity to bid, under the revised arrangements.

*Option 4 may provide the highest potential for mitigating ongoing risk and uncertainty for the project. There are a number of unresolved terms in the contract which could be amended to incorporate a more collaborative approach to management of costs/risk. This approach could be further clarified as the project progresses.*

*Given that all shortlisted tenderers noted an unwillingness to take allocation of the key material risks, it is unlikely that any requirement to re-tender would be triggered. Council should confirm this view with its solicitors.*

### 5

#### Do not award contract, consider other contracting approaches

This option would mean Council elects not to execute the works contract and would 'go back to the drawing board' to consider other approaches. For example, a Package Based approach where a construction manager is engaged and packages of works are individually let out.

*Option 5 would result in additional project delays and, while a different approach may provide some opportunities, these would not be understood without significant further analysis.*

*Based on current knowledge, this option could delay the project significantly and may not assure any additional benefits. Furthermore, the project risks would be subject to further cost escalation.*

### 6

#### Mothball, having undertaken the bare minimum works

This entails undertaking the bare minimum strengthening works to ensure public safety, protect weathertightness and minimise future degradation of the building and then mothball it, closing it for use and undertaking ongoing minimum compliance as a vacant building.

*Option 6 would result in a Council asset, in a high profile location in Civic Square, sitting vacant and unproductive and would still come at substantial cost, with the strengthening aspects being one of the material uncertainties of any works commenced.*

*While public safety requirements would be met, this option would not be considered to be a successful outcome for Council and would not be aligned with public support to date for a Music Hub and the agreements reached with NZSM and NZSO.*



## *Risk management of the existing modified contract*

*Incorporation of a stated intent and principles for working collaboratively, including separate agreement on incentivisation strategies, could be included in the contract. This could foster a culture of trust and cooperative risk mitigation.*

### Overview

Council has established risk registers for the project, although we note that the primary register appears to have been last updated in June 2018.

As with any construction project, there are inherent risks, especially in respect of the following aspects:

- **Physical risk**  
Health and safety, impact on surrounding structures.
- **Personnel/team**  
Retention of key expertise, experience and knowledge.
- **Financial**  
Cost escalation, variations, design.

Although it may be difficult to alter the construction contract conditions given the stage of procurement, we note from the documentation provided that some aspects remain under negotiation. Incorporation of a stated intent and principles for working collaboratively to maximise the outcome for both parties remains possible, including separate agreement as to specific incentivisation strategies. These could be developed over a short period as the final terms of the contract are negotiated.

Whilst there will always be the option for either party to revert to strict contract compliance and enforcement if disputes arise, a culture of trust can be developed and maintained through a focus on cooperative mitigation. This approach could also be applied across the supply chain to some extent, including consultants and sub-contractor involvement where appropriate.

### Physical

Physical risks will be managed through a traditional methodology and well established practices. This formed a key part of the tender response requirements.

### Personnel/team

Key members of the construction team have been identified through the tender process and the preferred tenderer included confirmation of their availability for the duration of the project, subject of course to their remaining in employment with the contractor. Council could consider a bonding requirement for key personnel.

Key Council and consultant team members have also been identified. Given the complexity of the project, it will be essential to put in place mechanisms to ensure that institutional knowledge is retained and, where possible, recorded for reference purposes. Given the length of the project, in order to prepare for any personnel changes, transition plans should be established at an early stage to ensure continuity of knowledge.

Transition planning should incorporate factors such as notice or notification periods, targeted sharing of existing knowledge with alternative team members and the composition of the project governance structure and project control group. To assist with this process the skill sets of the ongoing monitoring team should be mapped to identify key areas of reliance and any additional expertise that might be required. Transition planning for essential areas will be vital to capitalise on internal knowledge of team members who have had significant involvement with the project to date.





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## Risk management of the existing modified contract (cont'd)

*One option to manage risk related to provisional sums and estimated allowances is to pause and engage the preferred contractor to further develop and cost items such as the temporary works methodology. However, ultimately the cost will be the cost and a different outcome is unlikely. Maintaining momentum and promoting a partnership approach to development of solutions as the project progresses may provide a better outcome.*

### Financial

Based on the documentation provided and discussions held, the financial risk and uncertainty profile of the project currently comprises four key areas:

1. Fixed price components with cost escalation risk;
2. Provisional sums and estimated allowances;
3. Timeframe (programme); and
4. Contingency allowances.

### WCC Town Hall Project Budget Components

#### \$ in 000s

<i>Construction</i>	
Priced trades	63,231
Provisional sums	4,045
P&G and margin	20,544
Allowance for testing/geotech investigation	1,000
	<b>88,820</b>
<i>Other</i>	
Design and Consultants fees	14,100
Insurance	2,500
Fitout	2,100
Organ	1,100
FF&E	3,800
	<b>23,600</b>
Project cost (excluding contingency)	<b>112,420</b>

*Figures taken from Naylor Love Post Tender Clarifications spreadsheet 6 December 2018. We note there may be some minor category/allocation differences with Council's provided costings.*

### Fixed price components with cost escalation risk

Eight key subcontractors were identified in the preferred tenderer's bid for the project. To mitigate the cost escalation risk, initial focus should be on these subcontractors.

There are also a number of quantity-based items within the contract price. Material items in this respect should be monitored with progress towards final volume certainty regularly reported upon.

We note that the original timeframe for tender acceptance has passed. Accordingly, some cost escalation may have already crystallised and this element of escalation should be incorporated into the contract price before the contract is executed.

### Provisional sums and estimated allowances

The bulk of these can be categorised into three areas:

- Temporary works/piling/dewatering
- Heritage aspects, and
- Services.

With regard to the first of these, we understand that piling trials are currently being undertaken with a view to further informing the associated design to mitigate this risk. However, we note that some risk will remain throughout the piling and dewatering process.

One option is to pause and engage the preferred contractor to further develop cost items such as the temporary works methodology. However, ultimately the cost will be the cost and a different outcome is unlikely. Maintaining momentum and promoting a partnership approach to development of solutions as the project progresses may provide a better outcome. It may also avoid further escalation.

We also note that, whilst outside the Town Hall project budget per se, related Council office and NZSO/NZSM tenant fitouts (which are still subject to design) could have an impact as they are intended to form part of the construction contract.



## ***Risk management of the existing modified contract (cont'd)***

*Council should seek to identify key provisional sums and estimated allowances for which a sharing arrangement of both gains and losses may be feasible, including with respect to consultants, and explore opportunities to incentivise early delivery.*

### **Provisional sums and estimated allowances (cont'd)**

As with any project, a key to reducing 'surprises' will be careful and timely management of variations, including clarity as to whether there is an agreed position between the relevant parties on whether there is a cost/time implication and specific reporting on the scale and status of variations/potential variations.

For each provisional sum and estimated allowance, a timeframe for resolution should be established to facilitate clear monitoring and communication of any ongoing uncertainties and provide early clarification of final costs where possible. Setting up a clear calendar in this respect will enable prioritisation and more targeted focus on resolution.

As with the cost escalation risk, Council should also seek to identify key provisional sums and estimated allowances for which a sharing arrangement of both gains and losses may be feasible, including with respect to consultants.

### **Timeframe**

The current programme is four years. Although discussions seem to indicate this has been accepted as reasonable, Council should explore opportunities to incentivise early delivery. The draft construction contract already includes standard provision for damages in respect of late delivery (although no specific liquidated damages rates have been set). In setting such incentives, Council should take into account the associated P&G savings in respect of the contractor, potential reductions in consultant costs, and the benefit of earlier access and usability of the site.

### **Contingency allowances**

Typically there are four key contingency allowances - construction, escalation, design and project.

We recommend that for the construction, escalation and design category of allowance, specific indicative allocations be made to material associated uncertainties. This work should be undertaken in conjunction with a detailed review of the project risk matrix. This will not only facilitate the development of potential incentivisation strategies but will also provide a guide to potential timeframes for reducing the overall budget uncertainty and further inform Council as to the adequacy of the allowances.

### **Construction contingency illustration**

This would be analysed by trade, for example, with regard to piling (\$4m trade estimate plus provisional sums), key risks include:

- whether the preferred subcontractor's screw pile methodology will achieve the design requirements;
- whether the founding depth for the piles will be at the currently priced 8m depth, or whether some piles will need to be deeper (14m); and
- general unforeseen ground conditions.

If, following discussion on the above, it is determined that each of the risks have a \$1m, \$0.5m and \$0.4m worst case scenario outturn cost respectively, a target could be set, e.g. 50% of these assessments. If the final cost is 60%, then the additional 10% could be allocated between Council and the contractor. These allocations and associated bands would need to be negotiated on a trade by trade basis.

In addition, or as an alternative where appropriate, a link could be established where contingency type variations attract reduced P&G and margin, on a sliding scale basis, thus creating a disincentive to spend the contingency.





## ***Risk management of the existing modified contract (cont'd)***

*Practical control and open oversight is key to any mitigation of risk. In order to be successful, all parts of the project team (including the executive teams of both the Council and the contractor) must accept and proactively work towards the agreed objectives, which will require communication and information sharing to be as open as possible.*

### **Escalation**

We consider that the escalation risk can be categorised into the following areas:

1. The tenderer's price incorporates escalation only to August 2018.
2. Until the estimated allowances and provisional sums are fixed, they will be subject to ongoing escalation.
3. Some of the fixed elements include specific escalation provisions to deal with cost increases over the four year duration of the project.

In respect of item 1. the contractor should be asked to confirm the position by trade. Items 2. and 3. should be risk assessed during the risk review workshop/s and a strong focus should be placed on closing this out pre-contract execution. We have suggested this workshop occurs to both reassess the risk register and review and allocate the contingency allowances.

To facilitate allocation of the contingency allowance, the index for escalation (in respect of fixed sums) must be agreed.

As noted above, initial focus should be on the eight key subcontractors identified in the preferred contractor's tender response, and could include the following strategies:

- Agreeing timeframes for trade engagement to set milestones and ensuring early commitment where possible.
- Exploring any potential for materials procurement with consideration of storage costs versus potential price inflation.
- Tripartite agreements with the contractor/subcontractor to incentivise greater cost certainty (e.g. Council consultants to identify potential quantum of associated escalation contingency allocated and set a target point to be discussed with the contractor/subcontractor with a view to sharing of both gains and losses).

### **Design**

From our discussions with the consultants and contractors, it would appear that the primary design risks are in relation to:

- Temporary works/piling methodology impacting on structural design.
- Heritage reinstatement issues that cannot be identified until works are underway.
- Completeness of the services design (as evidenced by the degree of provisional sum allowances).

The above categories will need to be confirmed during the workshop process. Once again, they can be explored on a trade basis and allowances allocated. During this process, further clarification of the dependencies and timeframes for these risks could be established which would enable prioritisation and focus on resolution of those with more material impacts.

### **Management and monitoring**

The outputs of any of the above strategies employed should be set out clearly with values, overall timeframes and milestones for resolution, to enable focus and prioritisation through the various phases of the project. This may be separate from the overall project risk register or may form a subcomponent. Establishing this document will also provide a basis for clear communication to the wider Council in respect of progress and increasing certainty levels.

Practical control and open oversight is key to any mitigation of risk. In order to be successful, all parts of the project team (including the executive teams of both the Council and the contractor) must accept and proactively work towards the agreed objectives, which will require communication and information sharing to be as open as possible. It is however, accepted that some information will need to remain confidential and this could include specific contingency allocations (e.g. in the full shared document only record such figures where targets have been set for upside/downside sharing purposes).



## ***Risk management of the existing modified contract (cont'd)***

*In order to be successful, these structures need to be simple, transparent and based on a relationship of trust and a 'no-disputes' culture. There need to be identifiable benefits/rewards for each of the parties and a shared interest in the overall success of the project.*

### **Outcome incentivisation structures**

There are potential opportunities, as identified above to incentivise certain outcomes to manage both the fixing of provisional sums/estimated trade allowances and the spending of contingencies.

In order to be successful, these structures need to be simple, transparent, and based on a relationship of trust and a 'no-disputes' culture. There need to be identifiable benefits/rewards for each of the parties and a shared interest in the overall success of the project.

Key aspects of such a structure are:

- Identifying those parties who are critical for each element, for example, with respect to methodology and programme, this may primarily depend on the contractor, as opposed to piling, where subcontractor 'buy-in' will be essential.
- Clear milestones and agreed processes, particularly with respect to transparency/open-book nature, must be set.
- A fair target outcome needs to be agreed by all parties.
- Agreement on the bands of 'pain and gain' and associated allocations and the actual structure of the sharing would need to be agreed with the contractor (see illustrative example):
  - For variances +/- 10% of target outcome, 50/50
  - For >10% gain, contractor 75%, Council 25%
  - For >10% pain, contractor 25%, Council 75%

All of the above could be addressed at the recommended workshop/s to determine more precisely what is required to implement the agreed strategies and incentives.

A pain share/gain share approach could also be applied to the timeframe analysis as noted previously. The potential for time related costs and issues should not be underestimated and will have a material impact on the outcome of the project.

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### **Overall observations**

There are four key initiatives that should be undertaken prior to commencing works:

1. Update the project risk register and use this as a basis to systematically allocate and confirm the quantum of contingency allowances. Council and its consultants have a deep understanding of the project and are continuing to investigate risk. This base-line will allow issues to be reassessed efficiently.
2. As part of the contract negotiations, endeavour to agree a structure that provides for an incentivised approach to fixing provisional sums and current trade estimates, expending contingency and managing time and time related costs. Elements of the New Engineering Contract may be able to be utilised.
3. Establish a clear reporting and monitoring framework in order to ensure that initiatives 1 & 2 are actively and continuously managed.
4. Build on the work previously undertaken and commissioned with regard to value engineering, and reconsider the merits of material opportunities in this respect to finalise the position with regard to the project.

An appropriate way to take these initiatives forward is through a series of structured workshops which could be commenced immediately. Project knowledge is now held across a wide range of stakeholders, including the consultants and the preferred contractor. Accordingly, to maximise the benefit of a collaborative approach, all parties should participate openly in these workshops. An open approach should inform Council's final decisions on risk and contingency allowances rather than constrain it through having the counterparty present.

In addition, appropriate members of the executive teams of both Council and the preferred contractor should play an active role in supporting the process, through engagement during the proposed workshops and as part of the Project Control Group over the life of the project. Any agreement on incentivisation will have to be a negotiated outcome and the preferred bidder's response cannot be prejudged.

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## Summary of risk management recommendations

*This page summarises our recommendations for Council to consider implementing in order to reduce risk and achieve greater pricing certainty. They include actions to be applied throughout the project which should enable pricing uncertainties and required contingencies to be narrowed over the life of the project.*



### Risk Management

Seek to better understand the risks and related contingency allowances and amend the contract to incorporate a more collaborative approach to management of costs/risk.

Hold a series of structured workshops to advance the following key initiatives:

1. Update the project risk register and use this to systematically allocate and confirm the quantum of contingency allowances.
2. Explore opportunities with regard to cost uncertainties.
3. Establish a clear reporting and monitoring framework.



### Timeframe

Explore opportunities to incentivise early delivery. In setting such incentives, Council should take into account the associated P&G savings in respect of the contractor, potential reductions in consultant costs, and the benefit of earlier access and usability of the site.



### Personnel/team

Members of the executive teams of Council and the preferred contractor should play an active role in supporting the process through engagement during the proposed workshops and as part of the Project Control Group over the life of the project.

The skill sets of the ongoing monitoring team should be mapped to identify reliance/additional requirements and plans instituted to ensure existing internal knowledge is retained.



### Provisional and estimated sums

Establish a timeframe and process to facilitate monitoring of these uncertainties in order to provide early clarification of final costs where possible.

Seek to identify key provisional sums and estimated allowances for which a sharing arrangement of gains and losses may be feasible.



### Escalation

Because the tenderer's price incorporates escalation only to August 2018, the contractor should be asked to confirm the updated position by trade.

During the risk review workshop/s, a strong focus should be placed on exploring strategies to manage escalation risk (e.g. early materials procurement) and agreeing the methodology for calculating escalation outcomes.

The key subcontractors identified in the preferred tenderer's bid for the project should be the initial focus of this workstream.



### Contingency allowance

For the construction, escalation and design categories of allowance, specific indicative allocations should be made to material associated uncertainties. This should be undertaken in conjunction with a detailed review of the project risk matrix to identify and explore opportunities to incentivise the minimum use of these allocations.

This work could also incorporate further development of the value engineering analysis already underway.



# *Improvements to procurement processes*

Ensuring value for future capital projects

## ***Task***

*To provide our view on how Council can continue to improve the way they undertake procurement processes for major capital projects.*



## Opportunities for continued improvement

*While the procurement process completed under the traditional approach was robust and consistent with good practice, there are several areas where Council's processes can be enhanced.*



### Tailored engagement with the market

For complex property projects with significant unknown factors, consider alternatives to standard procurement approaches to best identify and manage the risks and ensure the best outcome.

Do not procure an outcome; procure a partner and work together towards an outcome. An ECI approach can offer greater flexibility and benefits over a traditional procurement approach, whilst also maintaining competitive tension in the bid process.



### Adapt approach to circumstances

Be nimble with regard to risk management; retain flexibility to adapt during the process.

Where appropriate, consider a more partnering/ collaborative based approach, with incentivisation regimes to align each party's objectives.



### Have a clear vision as early as possible

*"Begin with the end in mind"* - Stephen Covey.

Make sure the outcome is driving the process. Develop a business case early in the process to establish options, a preferred way forward, and a clear vision of the end goal.

Define strategic aims and explicitly map the desired project outcomes. Gather stakeholders and the project team to develop a shared understanding about the project.



### Additional commercial acumen

Put more emphasis on understanding the current market, understanding the impacts from allocating risks and setting contract terms that incentivise.

Given the size of Council's construction pipeline, consider building greater internal capacity with experience in large capital projects.



### Bundle programme management

Consider a wider portfolio approach to complex projects requiring specific skill sets such as heritage/restoration.

Consider a panel of construction contractors and advisors for heritage/restoration projects with an understanding of the Wellington market.



### Actively manage risks

Use risk management from the beginning of the project and actively use it to manage risks throughout the duration of the project. Rather than a passive or ad hoc approach, track the root causes of identified risks and make proactive decisions and actions to mitigate the risks.

We endorse Council's current consideration of a more portfolio based approach to the provision of contingency allowances to manage risk.



## Retaining flexibility in procurement

*Procurement processes need to retain flexibility to consider and appropriately respond to the situation, risks being managed, the market, and project requirements, while also providing assurance for senior stakeholders of probity, market pricing, strategic direction and risk management.*

Procurement in complex and high profile projects can be difficult and contentious, especially in engagement with the market.

With capital projects like the Town Hall, it is crucial to strike the right balance of ensuring risk management and probity with flexibility to procure the right result from the market.

If risk management and probity assurance is the predominant focus, the procured outcome risks being compromised. Conversely, if flexibility to procure an outcome is too heavily focussed on, it can lead to unacceptable risks and impacts for senior stakeholders and the organisation.

A common way of achieving this balance, and in turn a successful procurement outcome for the project, is to apply a two-stage procurement process. One example of this is outlined in the Government Rules of Sourcing: *Planning Construction Procurement, A guide to developing your procurement strategy*, available on [www.procurement.govt.nz](http://www.procurement.govt.nz).

This two-stage approach to procurement for complex projects seeks first to establish requirements, an agreed strategy and overall delivery model. This provides an agreed 'playing field' and tolerances within which detailed procurement planning then has flexibility to consider the best approaches to market, contract management strategies and ways to optimise contract pricing mechanisms to best incentivise the selected provider.

This avoids locking down the procurement process such that it becomes a low-value box ticking exercise. Procurers retain the adaptability to consider the situation, risks, market, requirements etc. and apply appropriate procurement processes to get the best outcome, while senior stakeholders can be confident substantive risks are managed within agreed strategies and tolerances.

### Stage 1: Procurement Strategy

- Project and procurement objectives
- Analysis of requirements and risks
- Review of Council and market capabilities
- High level timing and sequencing
- Responsibilities for contract management
- Opportunities to bundle or unbundle work and contracts
- High level procurement-related budget and tolerances
- Analysis of delivery models, and identification of a recommended model.

**Goal:** Senior stakeholders agree on delivery model, procurement method, and strategic path and provide tolerances for project to work within.

### Stage 2: Procurement Plan

- Governance arrangements
- Roles and responsibilities of key procurement stakeholders
- Budget scope, approved tolerances, and management responsibilities
- Options and recommended approach to market
- Options and recommended optimal delivery model and pricing mechanism
- Tender deliverables and evaluation methodology
- Detailed timelines and milestones
- Communications plan overview
- Probity arrangements.

**Goal:** A detailed understanding of intentions and approval of intended activities.



## *Appendices*

- *Glossary*
- *Interviews conducted and documents referred to*
- *Disclaimer and limitations*



## Glossary

### Terms

#### Capital Goods Price Index

The CGPI is a Stats NZ measure that provides a measure of the price level changes for physical capital assets purchased by producers of goods and services throughout the economy.

#### Design - Concept/Preliminary/Developed/Detailed

As defined in the New Zealand Construction Industry Council Guidelines.

#### ECI

Early Contractor Involvement can be used to get early advice and involvement from a contractor on the buildability and optimisation of design. ECI is suited for large and complex contracts as it allows an integrated team time to gain an early understanding of requirements, thereby enabling innovation and value for money.

#### IL

The Building Code defines the significance of a building by its importance level (IL) which relates to the consequences of building failure. There are five levels of importance, by the importance of the building to society (Level 1 is low importance and level 5 is high importance).

#### NBS

The New Building Standard (NBS) measures a building's seismic resistance capacity.

#### Package Based procurement model

Package Based delivery models allows an earlier start on site and enables the tender process and construction to overlap with the design. They have evolved to provide faster project delivery times while still allowing the client to retain control over the design and therefore quality. Management methods break down a project into small packages that can be let for tender as-and-when the design for each package is complete - *MBIE, Planning Construction Procurement, Types of Delivery Models*.

#### Lump Sum Contract

A contract under which the Council would agree to pay a contractor a specified amount for completing work without requiring a cost breakdown.

#### LTP

The Long Term Plan sets out the projects and initiatives Council intends to invest in over a 10 year period.

#### P&G

Preliminary and general costs, also referred to as on-site overheads, include the contractor's project supervision (e.g. QS, Project Manager, Site Manager, Foreman), site establishment/disestablishment, site accommodation/amenities, plant/equipment and other non-trade expenditure incurred over the course of the project.

#### Provisional Sum

An allowance inserted into tender documents for a specific element of the works that is not yet defined in enough detail for tenderers to accurately price.

#### QS

Quantity Surveyor

#### ROI

A registration of interest or expression of interest is generally used to request information from suppliers that may be used to identify potential suppliers before seeking tenders or proposals.

#### RFT

A request for tender is a formal means of seeking price submissions for goods or services. An RFT is often based on technical, highly prescribed specifications. This method is often used in the construction industry.

### Entities

#### MBIE

Ministry of Business, Innovation & Employment

#### NZSO

New Zealand Symphony Orchestra

#### RLB

Rider Levett Bucknall

#### VUW/NZSM

Victoria University of Wellington/New Zealand School of Music



Executive summary | Brief and approach | Procurement process | Best approach | Improving procurement | **Appendices**

## *Interviews conducted and documents referred to in our review*

### **Interviews conducted**

- Wellington City Council
- External Procurement Advisors
- Naylor Love
- Hawkins
- RLB
- Athfield Architects
- Beca
- Holmes Consulting
- LT McGuinness
- Tonkin+Taylor
- Bell Gully.

### **Council documents referred to in our review**

- Background - seismic strengthening material, Music Hub business case, previous Council papers
- Procurement plans
- Risk registers
- Project costs and financials
- ROI documents - response forms, evaluations, minutes
- RFT documents - response forms, submissions, evaluations, minutes
- Post tender documents - provisional sums, post tender clarifications, form of contract, tags.



## *Important notice - disclaimer and limitations*

This Report has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose. We accept no liability to any party should it be used for any purpose other than that for which it was prepared.

We acknowledge that Council intends to make our report publicly available. PwC and its partners and staff accept no liability or responsibility of any kind, nor owe any duty of care for the consequences of any person (other than Council) acting or refraining to act in reliance on our report or any part thereof or for any decisions made or not made which are based on our report. If you do wish to rely on any information contained in our report, you do so at your own risk and you should independently verify that information.

Anyone reading this report acknowledges:

- The terms on which it has been made available
- That our report was prepared at the direction of Council and may not include all procedures deemed necessary for your intended purpose

To the fullest extent permitted by law, PwC Advisory Services (PwC) accepts no duty of care to any third party in connection with the provision of this Report and/or any related information or explanation (together, the "Information"). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not independently verified the accuracy of information provided to us. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this report are based on information available as at the date of the report.

We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

This report is issued pursuant to the terms and conditions set out in our engagement letter of 17 January 2019 and the Terms of Business.

In addition, the following should be noted:

- Certain numbers included in tables throughout this report have been rounded and therefore may not add exactly.
- Unless otherwise stated all amounts are stated in New Zealand dollars.

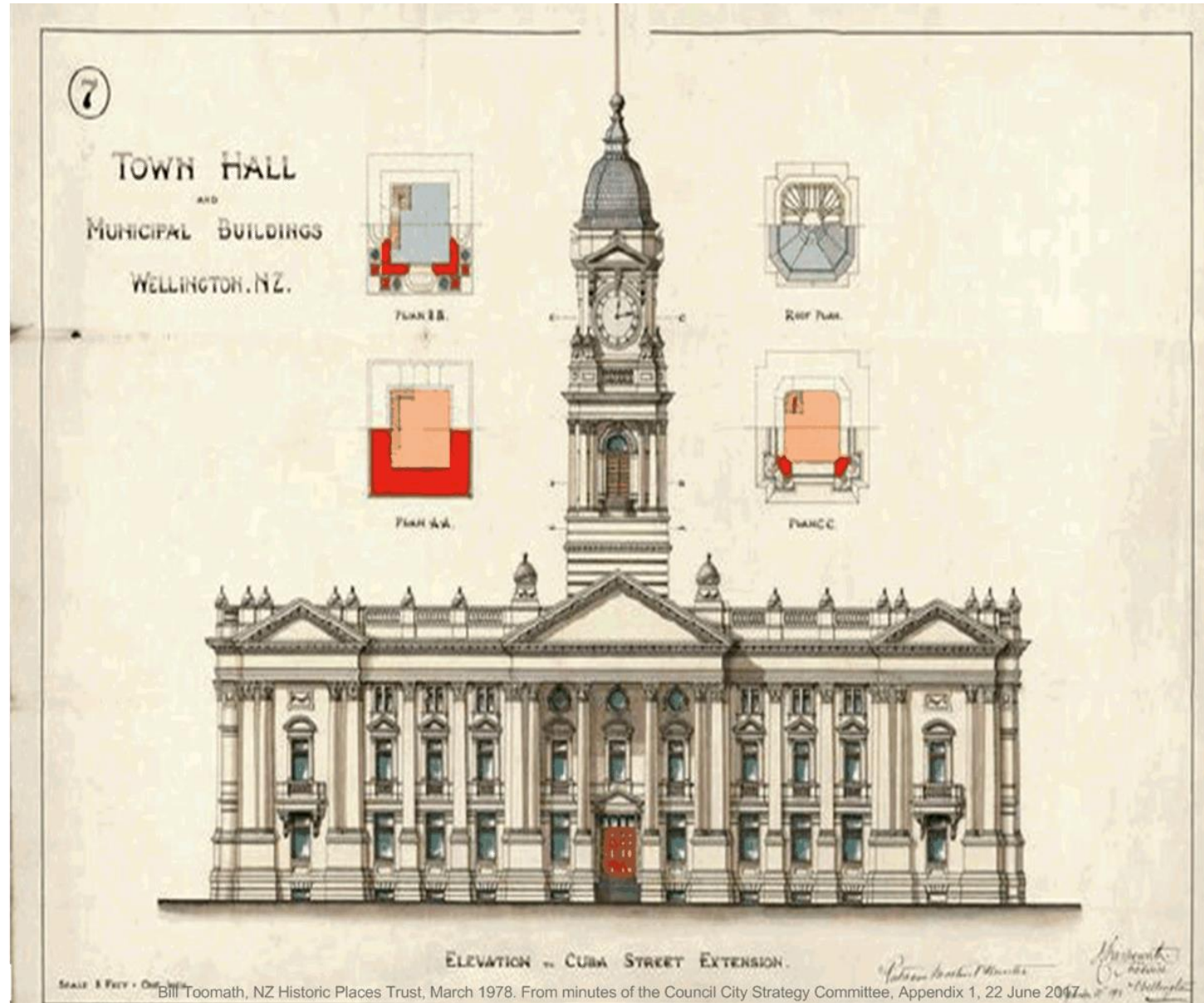


*Thank you.*

*We look forward to discussing this further with you.*

Wellington City Council  
Town Hall project review

PwC Advisory Services  
PwC Centre  
10 Waterloo Quay  
Wellington











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### **3. Committee Reports**

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## **REPORT OF THE REGULATORY PROCESSES COMMITTEE MEETING OF 13 FEBRUARY 2019**

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**Members:** Mayor Lester, Councillor Calvert, Councillor Calvi-Freeman, Councillor Lee, Councillor Sparrow (Chair).

#### **The Committee recommends:**

#### **A. PROPOSED ROAD STOPPING - LAND ADJOINING 42 VIEW ROAD, HOUGHTON BAY**

##### **Recommendation/s**

That the Council:

1. Agrees that approximately 85m<sup>2</sup> (subject to survey) of unformed legal road land in View Road, Houghton Bay, shown outlined red on Attachment 2 (the Land), and adjoining 42 View Road (being Lots 7 and 8 DP 4221 CFR WN425/24) is not required for a public work and is surplus to Council requirements.
2. Agrees to dispose of the Land.
3. Agrees that approximately 1m<sup>2</sup> (subject to survey) of unformed legal road land in View Road, Houghton Bay, highlighted blue on Attachment 2 and adjoining 42 View Road (being Lots 7 and 8 DP 4221 CFR WN425/24) is not required for road, and can be stopped for use as an isolation strip.
4. Delegates to the Chief Executive Officer the power to conclude all matters in relation to the road stopping and disposal of the Land, including all legislative matters, issuing relevant public notices, declaring the road stopped, negotiating the terms of sale or exchange, impose any reasonable covenants, and anything else necessary.

#### **B. ROAD STOPPING AND LAND EXCHANGE - LEGAL ROAD IN MANSFIELD STREET ADJOINING 3 ROY STREET, NEWTOWN**

##### **Recommendation/s**

That the Council:

1. Agrees that approximately 29m<sup>2</sup> (subject to survey) of unformed road land in Mansfield Street, Newtown, shown outlined red on Attachment 1 (the Land), and adjoining 3 Roy Street, Newtown (Lot 1 DP 8332 ROT WN480/107) is not required for a public work and is surplus to Council requirements.
2. Agrees to dispose of the Land by partial exchange and/or sale for approximately 6m<sup>2</sup> of the owners adjoining land currently part of 3 Roy Street, Newtown (Lot 1 DP 8332 ROT WN480/107) shown outlined blue in Attachment 1 (the Applicant's Land).
3. Agrees to acquire the Applicant's Land.

4. Delegates to the Chief Executive Officer all powers necessary to conclude this transaction including all legislative matters, negotiating the terms of sale and exchange, imposing any reasonable covenants, and anything else deemed necessary.

### **Attachments**

Nil

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## 4. Public Excluded

### Recommendation

That the Council:

1. Pursuant to the provisions of the Local Government Official Information and Meetings Act 1987, exclude the public from the following part of the proceedings of this meeting namely:

General subject of the matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
4.1 Public Excluded Report of the Environment Committee Meeting of 11 February 2016	7(2)(b)(ii) The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.
4.2 Town Hall Strengthening Project Risk and Contingency Management	7(2)(b)(ii) The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.