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Report to Policy and Finance Committee
from Dan Roberts, Group Manager Operations

Water Supply Network Maintenance Services, Northern and Southern Areas Contract Numbers W1059 and W1060

1. Purpose

This report has been prepared to assist in the decision making process as to whether to submit a formal tender in respect of the Wellington City Council Water Supply Network Maintenance Services Northern and Southern Areas Contract Numbers W1059 and W1060. These contracts will run for 12-month periods from 1 December 2001 plus the possibility of rollover for a period of 12 months.

2. Background

The decision made by Wellington City Council (WCC) to seek tenders for the above contracts has resulted in our receiving copies of the contract documentation.

The contracts have been formulated around NZS3910 [‘Conditions of Contract for Building and Civil Engineering Contractors’] and are measure and value contracts. The previous Water Services Agreement (WSA) was a performance based lump sum contract which included the “carrot and stick” principles whereby the contractor could earn extra payments for good performance and receive penalties for failure to meet the performance requirements of the contract.

The proposed contracts only allow for the contractor to receive financial penalties for failure to meet the performance criteria.

The actual performance requirements in the proposed contracts have been increased compared to the previous WSA and the terms and conditions are in my view draconian. In my view some of the performance standards required would be difficult and very costly to achieve.

Tenders close 23 October 2001.

3. **Operational Difficulties**

The WCC have subdivided the city into North and South areas with the expectation that separate contractors will be awarded contracts to encourage competition to reduce costs. It is not I believe a realistic aim, as the individual contracts will obviously duplicate management, supervision, administration and depot costs. This in my view will result in higher costs especially in the Northern area where it is anticipated that a fewer number of work activities will be undertaken. The required performance targets will necessitate duplication and inefficient utilisation of staff.

The contracts are more suitable for contractors who will be able to randomly direct staff to carry out the required work on demand and during periods of low activity direct staff onto other work or alternative contracts.

Because the Wellington Regional Council (WRC) does not operate alternative contracts we would only be able to operate efficiently if we were awarded a contract covering both areas and were able to direct staff from one area to another. Based on the wording in the contracts it is unlikely that one contractor would be awarded both contracts.

4. **The Future**

The WRC has now to take a decision as to whether it should continue to operate a contracting unit carrying out maintenance of assets which it does not own. Over the past few years the purpose in continuing to operate this contracting unit has been part of the overall strategy of retaining the existing integrated management of the bulk system with the Wellington City system. This is now being totally separated by WCC and it is believed that the Water Group should now concentrate on its core business of collecting, treating and distributing water to the four cities and activities directly associated with these functions.

During one of the recent consultative meetings with staff the Network Section were informed of the latest developments and asked whether they would be interested in WRC submitting a tender for the contracts. The indication received was that the Service Crew in particular were not interested in the Water Group submitting a tender. This opinion was apparently influenced by WCC's decision to establish the contract period for only 12 months.

Several of the Network staff have already been offered employment outside the WRC. In the event that we proceed with the submission of a tender and are successful then it might be difficult to identify staff of a suitable calibre to ensure full commitment to the contract.

5. **Pricing to Date**

The contracts have been closely analysed and the staffing levels required have been identified.

Should it be decided to proceed with submitting a tender there would be considerable work associated with establishing accurate costs for approximately 700 line items included in each of the separate contracts. The rate for each item will be different for each of the contracts and should it be decided to submit a price for both contracts combined then the rates would again be different.

However, ballpark figures have been determined for each contract.

It should also be noted at this stage the two proposed contracts together involve 7,181 work activities where in the WSA we carried out 9,000 work activities during the 12-month period. Effectively the actual cost of the work that we have carried out over the past 12 months could exceed the anticipated tender prices by approximately 20 percent.

A further condition of each contract is for the contractor to have a base within Wellington City, this would impose additional costs on our tender price as we would have to relocate from Mabey Road.

Over the past 18 months we have resisted the temptation to replace the service vehicles. We may be able to squeeze another year out of some of them but probably would have to invest in some new vehicles. This again will be a difficult call given the contract is only for one year.

Furthermore, under the proposed contract type (measure and value) our administrative costs are likely to be considerably higher than we currently incur.

6. **Decision as to Profit and Risk**

Should it be decided that we should submit a price then the only reason to do so would be to make a profit.

In setting the level of profit we would need to take into account that the proposed contracts involve risk in that non-compliance with the required performance standards would result in the payments being reduced, or components of the contract removed. This could be up to 35 to 40 percent of the total contract value.

7. **Conclusion**

In view of the proposed terms and conditions of the contract and all factors outlined above the Water Group proposes to decline the opportunity of submitting a tender for the Water Supply Maintenance Contracts for Wellington City Council.

8. Recommendation

That Wellington Regional Council not submit a tender for the Water Supply Network Maintenance Services, Northern and Southern Areas Contract Numbers W1059 and W1060.

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