

# Public Excluded

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Report to the Utility Services Committee  
from David Benham, Divisional Manager, Utility Services

## Water Services Agreement with Wellington City Council

### 1. Purpose

To outline the new facilities management contractual relationship with Wellington City Council (WCC). The new Contract is for one year and expires at 30<sup>th</sup> June 2001 and is now to be known as the Water Services Agreement.

### 2. Exclusion of the Public

Grounds for exclusion of the public under section 48(1) of the Local Government Official Information Act 1987 are:

*That the public conduct of the whole or relevant part of the meeting would be likely to result in the disclosure of information for which good reasons for withholding exists, i.e. to carry on commercial negotiations.*

### 3. Background

After extensive negotiations with WCC staff we are now in a position to sign a new Water Services Agreement for one year to 30<sup>th</sup> June 2001.

This has been rather an unusual process. We had agreed the dollar sum but have since been trying to make significant changes to the Agreement while keeping the dollars in tact. No mean feat!

#### 4. **Changes Sought by WCC**

The current Contract is termed a ‘measure and value’ Contract which essentially means that ultimate cost to WCC (and revenue to Wellington Regional Council (WRC)) is dependent on the amount of work done. WCC wanted to change this to a largely bulk funded arrangement to establish for them more certainty as to annual cost. WCC also wished to introduce an element of ‘penalty and reward’ relating to performance achieved.

#### 5. **WRC’s Response to Those Objectives**

Our response to those objectives was that while we didn’t disagree with those aims we were relatively limited in changes we could allow given that the new price had already been set based on the existing charging methodology. Notwithstanding these limitations we have now achieved an Agreement to both parties satisfaction.

#### 6. **The Broad Basis of the Agreement**

Essentially we now have a bulk funded agreement with an element of unavoidable variable components with a small amount of money at risk on a reward penalty basis.

The Agreement will largely be managed by the performance standards shown in **Attachment 1**. We will be reporting both to WCC and the Committee against these performance targets.

#### 7. **Financial Arrangements**

The new Agreement consists of the following financial components:

	\$	
Fixed Sum	2,845,057	To be paid in 12 instalments of \$237,088 on the 20 <sup>th</sup> of each month after work completed.  Monthly total of work activities to be monitored and WRC paid for any number of work activities in excess of the agreed number. No downward movement in fixed base fee.
Variable Sum	360,000	To be paid in 12 instalments of \$30,000 on the 20 <sup>th</sup> of each month after work completed.  Adjustment made each quarter for greater or lesser sum compared with value of work completed.
Damage Repairs		Invoiced to City for payment 20 <sup>th</sup> month

\$

following.

Retentions	Provision made for a retention of \$80,000 from final monthly payments to cover defective work. No other retentions are included.
Penalty/Reward	Maximum exposure is \$41,000.  Dispute resolution process involved quickly. We undertake to put it right if it is justified.

We are comfortable that we can successfully operate the Agreement within these parameters.

We also believe that bulk-funding methodology (with no retentions) will significantly reduce our administrative workload.

## 8. **Cost Savings to WCC and Impact on WRC**

The following cost savings have been provided to WCC over the current arrangement.

	\$
Network cost reductions	105,000
ECG cost reductions	43,000
Elimination of manifold work	180,000
Pipeline lease (see Report US-PE00.280)	330,000
	<b>658,000</b>

This package of savings has allowed the Agreement to remain for one more year and will enable sensible future decisions to be made in an integrated environment.

If the integration proposal does not proceed then we will assist WCC to outsource the maintenance component of the work if that is their wish next year.

We are confident that under the new arrangements that our Network operation will break-even and hopefully turn a small profit.

## 9. **Risk**

A detailed analysis of work activities carried out during the past three years under the previous Facilities Management Contract has been evaluated and the agreed Fixed Sum (Base Fee) covers a minimum number of work activities for which we will be paid. Any work activities in excess of those figures will be paid for by WCC at an agreed single rate per activity.

Any work carried out under the umbrella of the Variable Sum (Base Fee) will be paid in accordance with an agreed Schedule of Rates. Any subcontractor charges for work will be recovered on submission of invoice.

The reorganisation of the Network Section has resulted in reduced overhead costs with the lease of the Tory Street Depot remaining constant.

It is believed that this Agreement will produce at least a break-even situation with a possible modest contribution to the WRC rate line.

## 10. **Peer Reviews**

Our lawyers and insurers are comfortable with the Agreement as it stands. The General Manager and Chief Financial Officer have reviewed the arrangements and are also comfortable. The Chairman of the Committee also has had a detailed briefing as to the arrangement.

## 11. **Process From Here**

Given a general comfort level by the Committee it is proposed that the new Agreement be signed by the General Manager.

## 12. **Recommendation**

*That the report be received and the contents noted.*

Report prepared by:

Endorsed by:

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