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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 update the Committee on discussions with Wellington City Council's (WCC) officers relating to an extension of the Water Services Agreement (WSA).

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

The WSA is the new contract with WCC that engages The Water Group in providing a variety of water supply services in Wellington City. These include:

- Planned and unplanned maintenance and repair of the reticulation system and pump stations.
- Managing the water flows and reservoir levels.
- Providing the maintenance of engineering drawings and counter service for new connections and enquiries.

- Providing subdivision review and advice on town planning policy.

In addition, because of in-house expertise, we provide a component of WCC's water supply related capital works design and contract supervision.

This agreement replaces the previously named Facilities Management Contract. The term of the contract is for one year and expires on 30 June 2001. Wellington City Council agreed to this new short-term arrangement last year pending the outcome of the water integration initiative.

With decisions on whether the water integration proposal will proceed now seeming unlikely to be made until early June, WCC advised their wish to roll the current contract for 4 – 5 months pending the outcome of the Councils' deliberations on water integration proposals. This paper also outlines WCC's current thinking, should water integration not proceed. Should water integration proceed then the status quo would remain. The Trust then would make changes it saw fit from within an integrated environment.

4. **Issues**

This highlights again the question of our long-term strategy in relation to the Network activity and indeed how we should address the short-term requirements if water integration does not proceed.

In responding to WCC's request for a short-term roll of the WSA, we have considered the following issues:

- WCC has asked for a short-term roll. How long should we seek?
- Should we simply roll for same conditions and dollars or seek changes to conditions and/or dollars?
- What is the capital expenditure impact? (i.e. plant and equipment, plus vehicles required within the Network operation).
- Considerable staffing morale issues have developed in the Network Section over the last three months. How would we propose to handle these issues?
- What, if any, difficulties arise with the Engineering Consultancy Group (ECG) should the contract be rolled?
- How do we handle the pipeline lease arrangement?
- Impact on other divisional staff, in particular the Distribution Section.

5. **Internal Perspective and Analysis of Issues**

In our view from a long-term point of view without integration, we struggle to justify the Water Group being a contractor to WCC for this particular activity. Our business is not that of a contractor and we have essentially continued in this activity to retain the integrated management of the wholesale and Wellington City retail part of the business. If we owned or had total control of the assets then our position would be quite different.

However, it would be clearly inappropriate to pull out at this stage.

The business is profitable and we believe under current terms and conditions we would expect to make a profit of between \$100,000 and \$200,000 for the full year from 1 July 2001 to 30 June 2002. If the period required was shorter, we would expect the dollars required would exceed that which is in the current contract.

We have had some cost increases in terms of staff, fuel, and some material cost increases with the NZ dollar exchange rate. However, these increases have been offset against savings generated from fewer staff and the move to Mabey Road. It is anticipated that capital expenditure in the Network Section would be minimal over the next 12 months.

We do though have some significant staffing issues amongst the Network Group to deal with and that will take some managing to ensure productivity is maintained, or at least does not reduce. To date we are meeting or exceeding targeted performance standards.

In terms of the ECG, the current arrangements with the WSA are working generally satisfactorily and it is making a small contribution to the bottom line (forecast to be \$15,000 profit for the year). The area that does give us some concern is the project work we do on WCC's capital programme. The work is pretty much hand to mouth and we have no idea what may or may not be coming up. We would be seeking more certainty of work and some sort of estimate of the available WCC capital programme, prior to the beginning of the new financial year.

The pipeline lease is of course separate and funded from wholesale water, but obviously related. This was part of the package that we offered to encourage WCC to extend the contract for a further year. To date the agreement has not been signed and sits with the WCC awaiting comment. We have paid no money – although full accruals have been made in the accounts to date. We would propose to roll pipeline lease for 12 months but not a shorter term.

Distribution Section staff would continue to provide system management and pump station maintenance.

6. **Current Position**

To this point we have suggested to WCC that a 12 month roll, under current terms and conditions, would be the best way forward at this stage. The case we have put to WCC has been advanced along the following lines:

- Provides orderly time span to transfer Network activities.
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- Provides opportunity to manage staff issues. A four to five month roll difficult to manage. Difficult to meet standards/low morale.
- Our Collective Employment Contract with some Network staff runs out 30 June 2001 and we need to renegotiate.
- Capital expenditure – need to replace some vehicles, plant, safety equipment, and traffic management signs. Twelve months gives us a return. (We would minimise in reality.)
- Creates difficulties for WRC re overhead allocation in the middle of the financial year.
- We would be prepared to roll for 12 months under current terms and conditions. Could look at modifying some performance standards. Not prepared to roll for shorter period for same dollars. Not prepared to roll pipeline lease for shorter than 12 months.
- We note that we are meeting or exceeding performance standards.

Wellington City Council officers have responded that they do not want to roll current arrangements for 12 months and have said they will meet additional costs of a shorter roll. They also recognise that the monies from pipeline lease will not be available under this arrangement. In essence their options as they see it, in order of preference are:

- (1) Roll Network operations into Citi Ops and transfer ECG activities back in-house.
- (2) Competitively tender aspects of the Network operation and transfer ECG activities back in-house.
- (3) Negotiate long-term contract with us.

If in fact (3) is a serious option for WCC, which I doubt, then we would need to confirm that water integration was a desired outcome for the WRC. Furthermore an appropriate contract of at least three years would need to be developed. If this was not the case or could not be achieved then in our view (1) is probably the best way forward. This may reduce redundancy costs, provide a reasonably seamless and risk free transfer of activities and potentially allow a reasonably manageable interface with the wholesale operations.

Currently this is the state of play. I will update you at the meeting if there has been any further developments since this paper was prepared.

7. **Recommendation**

That the report is received and the information noted.

DAVID BENHAM
Divisional Manager, Utility Services