

3 Waters Operations and Maintenance Contract 798 Extension

Meeting: Kaipara District Council
Date of meeting: 24 June 2020
Reporting officer: Donnicks Mugutso, Waters and Waste Manager

Purpose/Ngā whāinga

To request Council to decide on the contract extension by one year, of the 3 Waters Operations and Maintenance contract (Contract 798).

Executive summary/Whakarāpopototanga

Council manages the operation and maintenance of its water, wastewater and stormwater assets through a term maintenance contract (Contract 798). This contract now includes the operation and maintenance of the Mangawhai Community Wastewater Scheme (MCWWS).

In 2016 Kaipara District Council's (Council) awarded its 3 Waters Operations and Maintenance Contract (Contract 798) to Broadspectrum Limited (BRS). The contract was for a 3-year term with a provision to extend for two years and a further one-year subject to performance.

The extended two-year term ends on 30 June 2021. Under the contract Council has the right to extend the contract for another 12 months and inform the Contractor by 30 June 2020.

Recommendation/Ngā tūtohunga

That the Kaipara District Council

- a) Approves Contract 798 - 3 Waters Operations and Maintenance Contract extension by 12 months from 01 July 2021 to 30 June 2022 for a nominal amount of \$2,263,432.92 (excluding GST).

Context/Horopaki

Due to the risks associated with committing the Council to contracts, the decision to appoint, award and extend certain contracts lie outside the delegation of Council staff. The 3 Waters and Operations and Maintenance Contract 798 is one where the decision to extend such a contract lies with Council. Contractually, the Contractor must be informed of the decision by 30 June 2020. The evaluation of the Contractor's performance over the last 5 months, the highlights, the low points, the overall performance over the term and the level of confidence in the plans setup formed the basis of the recommendation in this report.

Discussion/Ngā kōrerorero

The decision to extend the contract is primarily influenced by performance, however it is also noted that the Three Waters Review could significantly influence how Council operates its 3 waters going forward. There is limited appetite to go the market now (noting that the procurement process for any new contract would need to be starting immediately) given the uncertainty.

Financially, the contract has provided a significant financial saving which allows for more operational budget to be invested in the system itself.

BRS have improved performance over the the current two-year term including engaging senior leadership coming to spend time on the ground. The Contract Manager has been changed and we have seen some positive changes in the way of reporting and submission of claims.

A major success is that BRS achieved a high standard in management of water treatment where all our water supply schemes are compliant with the Drinking Water Standards. The only exceptions are the current non-compliances in Te Kopuru and Kaiwaka which predate Broadspectrum and the work to rectify is the responsibility of the Council.

Plant Operators have largely been kept as a core team since the contract began and the successful transfer of three Operators at Mangawhai Wastewater Scheme from the previous contractor Trility to the BRS team has ensured that the transition was as smooth as possible. The successful upgrade of the wastewater treatment plant can be attributed to this continuity.

BRS have been improving during the term from July 2019. In the recent evaluation to May 2020 BRS scored 50% up from 39% in December 2019. This year we introduced a Project Management Board which has seen a significant change in attitude and responsiveness.

On balance we recommend that the current operations and maintenance contract be extended by a further one year as we are satisfied that performance will continue to improve and there is little value to be gained in procuring a new contract whilst the 3 waters review is underway.

Options

Option 1: The Council approves the extension of the 3 Waters Operations and Maintenance Contract 798 by a further 12 months to 30 June 2022

Option 1 Advantages:

1. The benefits of continuity of operations with a contractor and staff familiar with our systems.
2. No significant variability in price – current escalations are CPI indexed.
3. Gives Council time to see the direction of the 3 Waters Review and align with any new contracts that will be formed.

Option 1 Disadvantages:

1. Council would not benefit from the alignment of a new contract with the start of a new LTP.
2. No opportunity to test the market.
3. No opportunity to revisit the contract and add new KPIs.

Option 2: The Council does not approve the extension of the 3 Waters Operations and Maintenance Contract 798.

Option 2 Advantages:

1. Rewriting the contract to add any new procurement strategy outcomes pertinent to Council.
2. An opportunity to find new ideas and approaches from a new contractor.
3. An opportunity to change the delivery model and consider models like taking the 3 waters operations function inhouse.

Option 2 Disadvantages:

1. There is a risk, especially evidenced in water supply, that contamination risk is higher whenever there is some sort of change. The new contractor will take time to familiarise with our systems.

2. Council will not have time to prepare for a full section 17a assessment and tender.
3. A new contractor would have to be appointed within one year and they will not have time to prepare for the new contract.

The recommended option is **option 1**.

Policy and planning implications

None

Financial implications

Budgets have been provided in the Long Term Plan 2018/2018 for this contract.

Risks and mitigations

1. The Council can choose to go to the market for an open tender. This will mean that there is alignment with the new LTP years. However, there will be less time for a new Contractor to setup and start well at the start of the financial year in July 2021. There is another time constraint to prepare and complete a robust procurement for a contract as large as the 3 waters operations and maintenance contract.
2. The Council can choose to extend the contract. It is also prudent for Council to extend the contract considering the costs to retender, benefits of continuity, the risks associated with a new contractor familiarising with our systems and the uncertainty of obtaining favourably priced tenders.
3. The current review by central government of how 3 Waters services should be provided nationally is envisaged to be completed within the next one to one and half years and the one-year rollover period aligns well with this programme. A scenario where the 3 waters operations are managed within the provincial regions would easily align with inhouse water supply operations or a new regional infrastructure group.
4. Generally, the 3 Waters contract has provided value for money for Council especially after incorporating Mangawhai Wastewater Scheme

Approximate 3 Waters Contract 798 vs 10-year Mangawhai Community Wastewater Scheme (MCWWS) Deed (excluding escalation and GST) in \$ millions (\$m)

Contract Term	Nominal Value	Paid	Average Cost /Year
3 Waters O & M Contract 2016-2019	\$5.7m	\$5.0m	\$1.7m
2 year 2019-2021 (incl. MCWWS)	\$4.5m	\$1.64m	\$2.3m
1-year 2021- 2022 (incl. MCWWS)	\$2.3m	N/A	\$2.3m
10 Year MCWWS Deed 2009-2019	\$9.3m	\$11.0m	\$1.1m

There is a current saving of approximately \$0.5m derived from combining incorporating the MCWWS into the current contract.

5. There is a risk that BRS could refuse to accept the extension of the contract in which case the Council will have to go to the market. In this case, in order to reduce the risk of poor procurement processes due to the short 1-year timeframe, the procurement will be more expensive as more resources will be directed towards it.

Significance and engagement/Hirahira me ngā whakapāpā

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda on the website.

Next steps/E whaiake nei

The Chief Executive informs the Contractor of the Council decision and make the decision publicly available.