

CORRESPONDENCE

**1. BRIGHTON/BROMLEY PARKS MAINTENANCE CONTRACT NO 97/98-151
AND PAPANUI PARKS MAINTENANCE CONTRACT NO 97/98-255**

The following letter has been received from PAE (New Zealand) Ltd:

“We wish to express our concern at what are considered to be totally unrealistic prices submitted by the Christchurch City Council Works Operations Business Unit for the above two contracts. We also request that this letter be attached to the agenda paper covering the awarding of contract 97/98-255 - Papanui Parks Maintenance Contract for your Council meeting on 25 March 1998.

PAE (New Zealand) Ltd has recently tendered for both contracts. A table of the tendered prices is attached to illustrate our position.

PAE accepts that it is a competitive market, but when the Works Operations' prices are so much less than all other tenderers, they clearly cannot fulfil their contract obligations without subsidising from other contracts and/or reducing standards.

For the Brighton/Bromley Parks Maintenance Contract, the Works Operations' basic contract price of \$316,000 is only 69% of the next lowest price of \$455,000. This price is from a local authority trading enterprise. Works Operations' price is only 63% of what is considered to be a very competitive price of \$500,000. As we have the present contract, we are aware that their price is less than half the present contract price, when considered on an 'apples for apples' basis.

For the Papanui Parks Maintenance contract, which is on the agenda of your Council meeting on 15 March 1998, the situation is even worse. The Works Operations' price of \$104,000 is only 65% of the next lowest price. This again is a price from a Council LATE. Our price of \$195,000 is extremely competitive. As you can calculate, the Works Operations' price is basically only half our price, and indeed only half the Christchurch City Council officer's estimate. This is clearly unrealistic.

PAE (New Zealand) Ltd has over the last four years demonstrated a commitment to Christchurch City Council. We have set up an operation and invested in staff, machinery and equipment. We have consistently performed to high standards, as evaluated by your staff. In return, it is not unreasonable that PAE could expect a fair process for tendering. Clearly with such a large discrepancy in prices, either the standards achieved will not be in accordance with the contract documents, or the contracts will be subsidised from other contracts directly negotiated with the Council.

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To allay concerns that Works Operations is using unfair methods of pricing to secure contracts, I suggest you request your officers to compare rates of these recently tendered contracts with the negotiated rates. I am confident there will be a large discrepancy. Assuming this is the case, we believe a fair process would be to re-tender the latest contract.

I also seek your assistance that your business unit is pricing contracts on a fair basis, and is not subsidising them from other negotiated work. Such a practice is not in the medium term interest of ratepayers."

The decision of the Parks and Recreation Committee regarding the Papanui Parks Maintenance Contract is referred to in clause 15 of the Committee's report to the present Council meeting.

The Works Operations Manager has confirmed what was stated at the time of the Brighton/Bromley Parks Maintenance Contract. That is, that all direct and other applicable costs have been taken into account in preparing the tender.

The Works Operations Manager has also advised that the price for the Papanui Parks Maintenance Contract has made allowance for a small profit margin over and above all expected costs.

Full return on capital is achieved through the rents set for Works Operations' premises and the hire rates fixed for plant used by Works Operations.