

23. BUDGET IMPLICATIONS FROM THE RETENDERING OF THE AMENITY CLEANING CONTRACT

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Corporate Plan Output: Information and advice to Council	

The purpose of this report is to detail the budget implications coming from the retendering of the Amenity Cleaning Contract and to recommend changes to the 2001/02 budget.

INTRODUCTION

As reported elsewhere in this agenda the recommended tenderer for the Amenity Cleaning Contract is Metallic Sweeping (1998) Ltd.

In addition to the tender price there are other costs that need to be considered for the amenity cleaning budgets. One relates to extra costs associated with managing the new contractor. The other costs relate to items that would be required regardless of who the recommended tenderer is.

The Metallic Sweeping tender price is very low, and in some areas artificially low, and possibly not sustainable in the long term. As a consequence of this the budget provision needs to allow for extra costs in managing this contract and for a contingency to cover possible claims when extra work is required. This will ensure the budget provision remains at a realistic level for future years.

The unsuccessful tenderer submitted an alternative tender that proposed the use of a special cleaning machine for the cleaning of the inner city pavers. This machine will remove chewing gum and will restore the pavers to close to their original surface cleanliness. The use of this machine should be considered.

Proposed increased dumping charges for 2001/02 will impact on this contract. The tenders were based on the 2000/01 charges. Budget provision for this increase will need to be made.

COMPARISON OF THE NEW CONTRACT PRICES WITH THE 2001/02 BUDGET

Output	Contract Price	2001/02 Budget	Difference
Street Sweeping	\$1,483,005	\$1,886,804	\$403,799
Litter Collection	\$101,251	\$244,693	\$143,442
Litter Bin Emptying	\$263,376	\$553,875	\$290,499
Inner City Cleaning	\$322,953	\$1,120,634	\$797,681
Inner City Refuse Collection	\$85,000	\$170,000	\$85,000
		Gross Saving	\$1,720,421
		Net Saving	\$1,668,331

The street sweeping portion of this contract is subsidised by Transfund. The net figure above takes into account the reduction in subsidy.

FACTORS TO CONSIDER

For the term of the contract there are some issues and additional costs that need to be considered. These are costs associated with managing the new contractor, enhanced cleaning and removal of chewing gum by taking advantage of a specialist machine, and increased dumping charges.

Costs Associated with managing a new Contractor

1. Extra Resources to Manage the New Contractor

The tender evaluation team valued the risk of accepting Metallic Sweepings tender due to their lower relevant experience at \$170,000 over three years. This was based on the Council needing more resources to manage the contractor until they gained the necessary experience. The \$170,000 was based on 1 auditor for 2 years and extra administration/customer service support for the first six months.

We now believe that this assessment may be too light because of the low tender price. The contractor will be keen to make up some of the lost ground and there will be pressure to claim for all extra work. We have assessed that in addition to the above, extra contract management resources will be needed for the duration of the contract.

The extra resources required are as follows:

- One full time auditor
- 0.5 contract manager
- 0.5 administration/customer service support

The cost of these extra resources is \$110,000 per year.

2. Contingency to Cover Extra Claims

It would be prudent to allow a sum of \$250,000 per year (approx 10%) to cover possible contract claims. While we believe the contract documents are clear and unambiguous, the nature of the work is such that changes and extra work will be required. These changes and extra work are likely to cost more due to the low base tender price. While the extra staff mentioned above will ensure unnecessary extra costs are not paid, there is a risk that some extra costs will occur. It is noted that this is a contingency sum and will only be used if absolutely necessary.

ENHANCED CLEANING AND REMOVAL OF CHEWING GUM FROM INNER CITY PAVING

The tender documents specified a level of cleaning in the inner city similar to the existing contract, but with a higher frequency. Because of past problems with the removal of chewing gum this was not specifically included and it was intended that the options be left open as to how this is dealt with.

City Care submitted an alternative tender that proposed the use of a special cleaning machine for cleaning the inner city pavers. This machine will remove chewing gum and will restore the pavers to close to their original level of cleanliness. City Care has exclusive rights for this machine in the South Island. City Care's alternative tender proposed the use of the special machine together with a reduced level of normal cleaning. Their alternative tender price was \$356,135 (\$118,711 per year) more than their 'complying' tender.

We believe that there are major benefits in using this machine and if it was used three or four times a year the pavers would be retained in a very clean condition. This would be in addition to the specified cleaning frequency. The estimated cost is \$150,000 per year. This cost can be put into perspective by noting that in a trial last year it cost \$10,000 over a two month period to remove the chewing gum from the Square alone.

INCREASED DUMPING CHARGES

The contract puts the risk of increased dump charges on the Council and this applied to all tenderers. This is reasonable as the Council sets the charges. The draft 2001/02 budget includes a 24% increase in dump charges for 2001/02 and similar increases in 2002/03 and 2003/04. This will add \$250,000 to the contract for 2001/02. Increases in future years will need to be added to future budgets. These increases over the draft 2001/02 budget are \$450,000 in 2002/03, \$650,000 in 2003/04 and beyond, and an additional \$200,000 in each of the 2002/03 and 2003/04 years.

EFFECT ON THE BUDGET

As detailed above the net saving, when comparing tender prices with the budget, is \$1,668,331.

The 'extra' costs detailed above are:

1. Costs required due to the new contractor:

- Extra resources - \$110,000
- Contingency - \$250,000

It may be possible to reduce the contingency and resources in future years when it is known how the new contractor is performing. This will be monitored and factored into future budget rounds.

2. Costs required regardless of who the contractor is:

- Enhanced cleaning and chewing gum removal - \$150,000
- Increased Dump Charges - \$250,000 in 2001/02

Total - \$760,000

Therefore, the saving on the budget is \$1,668,331 less \$760,000 or \$908,331 for 2001/02.

CONCLUSION

The retendering of the Amenity Cleaning Contract has produced significant savings for the Council. Because the contractor is new and the prices submitted are low a cautious approach needs to be taken in reducing the budget too far. Extra resources will be needed to manage the new contractor and a contingency sum will need to be included.

The tender process also provided an opportunity to introduce a new cleaning machine that will remove chewing gum and restore the inner city pavers to a clean condition. It is recommended that this machine be used three or four times a year.

Increased dumping charges will also add significant costs and these need to be allowed for.

Recommendation: That the following adjustments to the Draft 2002 Financial Plan and Programme be recommended to the Strategy and Resources Committee.

- (i) That budget provision of \$110,000 per year for the extra resources referred to above be approved.
- (ii) That a contingency sum of \$250,000 per year be allowed for while the performance of the new contractor is assessed.
- (iii) That budget provision of \$150,000 per year be approved for the use of the special cleaning machine offered by City Care in their alternative tender to clean the inner city pavers three or four times a year.
- (iv) That budget provision of \$250,000 be allowed to cover increased dump charges in 2001/02 and an additional \$200,000 be allowed in each of the 2002/03 and 2003/04 years.
- (v) That the reduction of \$908,331 for 2001/02 be identified as a saving.

Chairman's

Recommendation:

- 1. That the above recommendation be adopted.
- 2. That the Council note that the effect of the saving in costs is to reduce the 2001/2002 rate increase from approximately 2.2% to 1.5%.