

**Open Meeting**

<b>To</b>	Waikato District Council
<b>From</b>	Jacki Remihana Acting General Manager Service Delivery
<b>Date</b>	5 March 2018
<b>Prepared by</b>	Luke McCarthy Engineer's Representative
<b>Chief Executive Approved</b>	Y
<b>Reference #</b>	CCL2018
<b>Report Title</b>	Contract 46-06-08 Amendments to Approved Contract Sum

**I. EXECUTIVE SUMMARY**

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**Amendment to Approved Contract Sum**

Contract No. 46-06-08 is a Measure and Value Contract for the Waikato Recycling and Refuse Collection and is held by MetroWaste Waikato Limited (MetroWaste). The contract was amended in August 2009 to establish a new final termination date of 28 June 2021, extending the contract for a further seven years from the original termination date of 28 June 2014. There have been a number of changes to the contract some of which have been documented, others have not. The approved contract sum of \$18,850,000 has not been varied since the contract started.

New services have been added, such as the Tuakau Recycling when Franklin District was added to Waikato District, household growth and Consumer Price Index (CPI) has not been accounted for over time, with household growth at about 10%. More recently services were removed and a change in operational procedures with the removal of the Engineering Exception Decision (EED), all of which has added cost to the contract.

Staff have budgeted accordingly in the 2018-28 Long Term Plan to cover known contract costs and request to amend the approved contract sum from \$18,850,000 to \$25,500,000, to cover the above.

**Inorganic Collection**

The inorganic collection for 2017/18 has been approved by Council. Staff are requesting that the collection be undertaken as a variation to Contract 46-06-08 to be undertaken by MetroWaste. Council staff will work with MetroWaste to get the collection completed by 30 June 2018.

## 2. RECOMMENDATION

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**THAT** the report from the Acting General Manager Service Delivery be received;

**AND THAT** the amended MetroWaste contract value of \$25,500,000 for Contract 46-06-08 be approved;

**AND FURTHER THAT** the extension of service to complete the inorganic collection for 2017/18 as a variation under Contract 46-06-08 be approved.

## 3. BACKGROUND

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Waikato District Council entered into Contract 46-06-08 District Recycling and Refuse Collection dated 20 December 2006 (the Contract). Agreed variations to the Contract were agreed on 11 August 2009, 13 October 2010 and 24 August 2012. These variations are documented and signed by the appropriate parties. The Contract also accounts for annual CPI adjustments and changes to household numbers within the Contract boundary.

More recently contract amendments with the removal of services such as the Tuakau collection and the removal of the EED has created additional cost, which has also impacted on the contract value.

The Approved Contract Sum of \$18,850,000 has not been altered since 2006/07, despite these documented changes.

## 4. DISCUSSION AND ANALYSIS OF OPTIONS

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### 4.1 DISCUSSION – QUANTIFYING THE CONTRACT VALUE

The information contained below is from the current payment certificate. As outlined previously, annual charges such as CPI and household numbers contribute the increases. The addition of the Franklin District Council area added to the contract value, noting that 2010/11 was only a part year collection and the service was then removed from the start of 2016/17 (included with Smart Environmental Northern contract).

Date	Refuse	Recycle	Recycle Tuakau	TOTAL	Running TOTAL
2008/2009				\$1,383,750.02	\$1,383,750.02
2009/2010				\$1,457,392.57	\$2,841,142.59
2010/2011	\$1,061,241.58	\$517,699.92	\$28,728.70	\$1,607,670.20	\$4,448,812.79
2011/2012	\$1,149,248.36	\$558,345.88	\$72,961.18	\$1,780,555.42	\$6,229,368.21
2012/2013	\$1,251,652.87	\$650,033.40	\$76,796.16	\$1,978,482.43	\$8,207,850.64
2013/2014	\$1,188,980.66	\$603,817.32	\$80,859.38	\$1,873,657.36	\$10,081,508.00
2014/2015	\$1,253,676.88	\$638,206.22	\$84,173.60	\$1,976,056.70	\$12,057,564.70
2015/2016	\$1,199,554.71	\$609,830.06	\$82,756.90	\$1,892,141.67	\$13,949,706.37
2016/2017	\$1,338,129.67	\$697,922.57		\$2,036,052.25	\$15,985,758.62

Household growth and CPI have also added costs. Household growth since 2010/11 went from 14,371 to 15,965 in 2017/18. On average, the value is in the order of \$120,000 – \$140,000 per annum.

In 2016/17 some fundamental changes to the Contract were made as follows:

1. Termination of the Tuakau Kerbside Collection service as at 1 July 2016. The Engineer to the Contract determined that loss of profits claimed by MetroWaste was fair and reasonable and a sum was agreed to and issued under Notice to Contractor No. 014 which was a lump sum payment of \$20,690 with annual payments thereafter of \$10,602 through to June 2021 when the contract ends.
2. Removal of the annual Inorganic Collection from the Contract effective from the 2016/17 year. The Engineer to Contract determined that loss of profits claimed by MetroWaste was fair and reasonable and a sum was agreed to and issued under Notice to Contractor No. 014 which was a lump sum payment of \$12,125 with annual payments thereafter of \$6,215 through to June 2021 when the contract ends.
3. In May of 2017 it was determined by the Engineer to Contract that the change in operating procedures by the removal of the EED, effectively introducing Left Hand Side kerbside collection only, had consequences for the Contract. Value determined was \$146,400 payable as a lump sum and \$165,000 per annum thereafter pro-rated with the monthly claim. This was issued under Notice to Contractor No. 012.

Council's Payment Certificate currently has an approved contract sum of \$18,850,000. This approved contract sum has not been amended since the contract was varied in 2009 when the contract was extended for a further seven year period. Noting that this is an assumption as the earliest record of payment found was in 2011.

As at January 2018 the value of work to date is \$17,297,466. This leaves a balance to contract end of \$1,552,554. Given that there is still 41 months to run on the Contract, it is evident that the current contract sum is insufficient and requires amendment.

#### **4.2 REQUEST TO APPROVE THE ADDITION OF THE INORGANIC COLLECTION 2017/18**

Staff have received a price from MetroWaste to carry out this year's Inorganic Collection for \$215,000. The collection would take place over a 10 week period, with the intention of being completed by June 2018. For comparison to the 2016/17 collection, Council paid Smart Environmental \$203,878.

From a risk perspective, MetroWaste have previous knowledge of the collection in their contract area and have allowed for extra time in areas such as Huntly and Ngaruawahia.

Costs for the collection for 2017/18 are assessed as follows:

Collection costs	\$ 215,000
Disposal costs	\$ 77,850 (based on 1,000 tonnage)
Communications	\$ 12,000
Consultant	\$ 10,000
<b>TOTAL</b>	<b>\$314,850</b>

The disposal costs could vary based on tonnage collected (last year was 990 tonnage).

### 4.3 OPTIONS

There are two options for Council to consider in relation to the **approved contract sum**:

#### **Option 1: Reduce Level of Service**

If the MetroWaste contract value remained unchanged, there would be only \$653,000 for the remainder of the contract term. To remain within with existing approved contract sum, a significant reduction in level of service (and potentially cessation of service altogether) would be required. This option has not been explored further as Council would be going against our principles in the Waste Minimisation Management Plan and no service would be available to our ratepayers in the more remote areas of our district that competitors are not operating in. In addition to this Council would be in breach of the contract.

#### **Option 2: Amended Contract Approved Value**

Amend the contract approved value (refer 5.1) as budgeted for in the 2019 – 2021 LTP to provide for continuity of service.

This is the preferred option.

There are two options in relation to the request for **inorganic collection variation**:

**Option 1:** Do not approve the variation as requested.

**Option 2:** Approve the variation as requested.

## 5. CONSIDERATION

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### 5.1 FINANCIAL – CONTRACT TOTAL VALUE

The current financial year budget is not sufficient for refuse and recycling operations as a whole and together with the sticker revenue shortfall has been addressed in the proposed 2018-28 Long Term Plan with targeted rate increases for refuse and recycling.

From 1 July 2019, the budget has been based on current projections and is set at the numbers tabled below. The proposed contract increase falls within the budgeted MetroWaste apportionment as per the table below.

	2018/19	2019/20	2020/21	TOTAL
Refuse and Recycling*	\$3.947m	\$4.461m	\$4.677m	\$13.085m
MetroWaste Allocation	\$2.245m	\$2.354m	\$2.467m	\$7.066m

\*Note: includes growth and CPI plus inorganic collection in outer years

### Contract Value Calculations

Value of work to date	\$17.297m	This is as at 31 January 2018
To end of 2017/18 financial year	\$0.900m	Estimated further costs to end of June 2018 excluding inorganic collection
2018-28 LTP budget	\$7.066m	This is the value apportioned to MetroWaste from July 2018 through to end of Contract in June 2021
2017/18 Inorganic collection	\$0.215m	Variation for additional service
<b>New Value</b>	<b>\$25.500m</b>	<b>New contract value to be approved (including \$22,000 rounding)</b>
Current approved value	\$18.850m	Approved and unchanged since 2009
Difference	\$6.650m	Increase in contract sum for approval

Staff are requesting that \$6.650m be added to the existing approved contract sum to provide a new approved contract sum of \$25,500,000.

### Inorganic Collection

Any costs in excess of the 2017/18 inorganic collection budget allocation of \$218,000 will add to the current deficit. This has been previously brought to Council's attention.

## 5.2 LEGAL

There are no legal considerations.

## 5.3 STRATEGY, PLANS, POLICY AND PARTNERSHIP ALIGNMENT

The Waste Minimisation Management Plan (WMMP) is at the heart of Council's drive towards zero waste. Our contracts as much as is possible strive to reduce what eventually ends up in landfill. The inorganic collection is a service that has been in existence for some time and although it provides an opportunity for some diversion, the majority of inorganic material inevitably ends up in the landfill which goes against the auspices of the WMMP.

The Refuse and Recycling service will be reviewed over the next LTP period. The review will take into account the Metrowaste and Smart Environmental Contracts that end in June 2021, and aspirations for diversion.

Extreme Zero Waste have a further five year option for renewal.

## 5.4 ASSESSMENT OF SIGNIFICANCE AND ENGAGEMENT POLICY AND OF EXTERNAL STAKEHOLDERS

Nil.

## **6. CONCLUSION**

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### **Approved Contract Sum Amendment**

The Approved Contract Sum has not been varied since the contract was awarded in 2006, despite the addition and removal of services over the contract period to date. Staff are now requesting the approved contract sum be amended from \$18,850,000 to \$25,500,000 which will take the Contract through to June 2021. Staff have budgeted for the contract over the next LTP period and so are not asking for new money, the service is 100% funded by the Refuse Targeted Rate.

### **Inorganic Collection**

The inorganic collection 2017/18 has been approved by Council. Staff had previously sought quotes from MetroWaste and last year's provider Smart Environmental. Smart Environmental have recently withdrawn their price. MetroWaste's price is higher, however takes into account a 10 week collection period and acknowledges traditionally heavy areas such as Huntly and Ngaruawahia. Staff are requesting a variation to MetroWaste's contract for the value of \$215,000 to carry out this year's inorganic collection.

## **7. ATTACHMENTS**

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Nil