

6.4 Financial Reports

6.4.1 Variation of contract 21-032 Environmental Health Shared Service

Responsible GM: Owen Hardidge
Author: {author-name-do-not-remove}

Recommendation(s)

That Council note the contents of this report and approve the variation to the contract 21-032 for Environmental Health Services to increase the Year 3 contract price to be \$1,441,504 (excl GST). [Text - Refer to reference document]

Attachments

Nil

Executive Summary

Text - Refer to Reference Document

Background

In Dec 2021, Council resolved to award the tender and enter a shared service contract with Bass Coast Shire Council and Casey City Council (member councils), to use a common provider of Kernow Environmental Services Pty Ltd (Kernow) for the above-mentioned Contract. This was established through a previous collaborative procurement tender process in June 2021 where Kernow was selected as the preferred tenderer.

The total Contract is for an initial period of 3 years with an option to extended 2 + 2 years. The current Contract expiry date is 30 June 2024.

The contract has not been previously varied.

On the 16 January 2023, Kernow wrote to member councils requesting a contract variation with issues concerning the adoption of a shared IT system. On the 17 February 2023 member councils meet with Kernow representatives who highlighted many unforeseen financial challenges that were not known at the time of providing their original tender price:

- High inflation impacting consumables,
- Significant wage growth levels,
- Major fleet and insurance increases,
- Unprecedented Environmental Health Professional workforce shortages

Further, Council staff and Kernow representatives recognise that the “shared service” model is a novel arrangement in Victoria, and that there was an inherent level of uncertainty in Councils offering, and contractors replying to, the tender.

Following negotiations between member councils and Kernow representatives, where the justification for the variation was interogated, Kernow have agreed with the member council’s proposal to vary the **total** contract price for the 2023/24 period (i.e. year 3) of \$210,929 (GST

exclusive) with this cost to be shared *across the shared service contract*. This variation will make the year 3 prices the same as Year 2. The year 3 price (i.e., the discounted price) will be deferred until such time an IT solution is in place.

As such, the variation impacting Cardinia Shire Council is proposed to increase the contract price by **\$83,147** (excl GST), bringing the total annual price to \$1,441,504.

Pending Council approval, this variation has been anticipated in the proposed 23/24FY budget.

Table 1: Contract Variation History

A. Original Contract Value (23/24 FY)	\$1,358,357 (excl GST)
B. Value of Variation/s to Date (if any)	\$0
C. Value of any Extension/s to Date (if any)	\$0
D. Value of this Proposed Variation	\$83,147
E. Proposed Revised Total Contract Value	\$1,441,504

Text - Refer to Reference Document

Policy Implications

This variation does not impact any previously adopted policies. Text - Refer to Reference Document

Relevance to Council Plan

5.1 We practise responsible leadership

5.1.2 Manage our finances responsibly and leave a positive legacy for future generations.

Climate Emergency Consideration

The initial tender included consideration of environmentally sensitive practices, but otherwise there is limited impact on Climate Emergency considerations. Text - Refer to Reference Document

Consultation/Communication

In keeping with the Shared Service approach, the request for contract variation was addressed to all member Councils to consider, and negotiations were undertaken together. The recommendation (to increase the contract cost) is consistent with Shared Service Councils, who have also supported increases to their 3rd year contract term. Text - Refer to Reference Document

Financial and Resource Implications

The increase to the contract cost will be \$83,147 for a total annual price of \$1,441,504. This increase has been anticipated in the proposed 23/24FY operational budget, subject to Council approval. Text - Refer to Reference Document

Conclusion

Due to a range of factors impacting contract costs, the 3rd year price of the contract is recommended to be increased. The proposed increase represents a negotiated figure following detailed analysis of the variation proposal, and is relatively modest (because the cost increase is spread across all member Councils).

It is therefore recommended that the contract variation be approved. Text - Refer to Reference Document