

<b>ORDER 9</b>	<b>MUNICIPAL VALUATIONS CONTRACT NO. 0946 - 2 YEAR OPTION EXTENSION</b>
<b>LOCATION/ADDRESS:</b>	
<b>EXECUTIVE DIRECTOR:</b>	<b>SALLY CALDER, EXECUTIVE DIRECTOR, ORGANISATION SYSTEMS &amp; SUPPORT</b>
<b>PREPARED BY:</b>	<b>DAVID GRAFFEN, PROPERTY COORDINATOR</b>
<b>FILE NO.:</b>	<b>14/01/0946</b>
<b>ATTACHMENTS:</b>	<b>CONTRACT PRICING SCHEDULE (CONFIDENTIAL)</b>

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## **1. PURPOSE**

- Council is responsible for valuing all properties within the municipality for rating purposes every two years, including managing the delivery of and paying the cost of valuation services.
- The Council currently contracts Westlink Corporation Pty Ltd (Westlink) to provide municipal valuation services. The contract was for an initial term expiring 31 January 2009 and provides for a two year extension. As the initial term with two year option was the subject of a tender process, no further tender process is required in order to exercise the option.
- This matter has come to the Council for decision because the value of the contract extension exceeds the delegation to officers.
- Where contractors have performed satisfactorily and it is not anticipated that retendering would deliver additional cost savings or improved performance, it is common practice to exercise the contract option.

## **2. RECOMMENDATION**

That Council resolve to:

- extend the operation of the Municipal Valuation Service Contract No 0946 for a period of the further term of two years in accordance with Clause 2.2.2 and Annexure 1 of Part 6 of the contract with Westlink Corporation Pty Ltd.

## **3. BACKGROUND AND CONTEXT**

In accordance with the Valuation Act 1960 and the Local Government Act 1989, Council is responsible for valuing all properties within the municipality for rating purposes including managing the delivery of and paying the cost of valuation services.

Revaluations are conducted every two years. The 2008 General Revaluation has been completed this year and the valuations are now being used for rating purposes.

Council must now ensure that it has the resources available to conduct the 2010 General Revaluation. The revaluation must be undertaken in accordance with the Valuer General Victoria's "best practice guidelines" and it must eventually be declared as "generally true and correct" by the responsible Minister before being certified for use by rating authorities.

In the consideration of this report it is of significant importance to note that the State Government has recently announced a proposal to relieve all Victorian municipalities of the responsibility for conducting rating valuations. If the proposal is approved, the Victorian Valuer General's office will undertake this function following the completion of the 2010 General Revaluation (2 years hence).

### 3.1 Contract Specification and Performance

Following a tender process, Council, at its meeting on 4 December 2006, awarded a two year contract to Westlink with an option for a further term of two years. At that time, a new computer valuation system (Vic Vals) was being established at Port Phillip. Westlink's tender submission contained the following features;

- Westlink being a large company specialising in municipal valuations provides a solid resource backing
- Through other municipal contracts, Westlink is established as the leading practitioner in the use of the VicVals
- Westlink retained the services of the personnel that held the previous contract and therefore retained experience and knowledge of the existing database as well as the service standards and performance expectations of Council
- Westlink offered a competitive price

The contract awarded contains a comprehensive specification for the services required. The specification includes timelines for the completion of each of the stages of the 2008 General Revaluation as follows;

Stage 1 - Preparation and statistical analysis	28 Feb 2007
Stage 2 – Preliminary Rural and Residential Valuations	31 Oct 2007
Stage 3A – Specialist Properties Valuations (final)	31 Aug 2007
Stage 3B – Commercial and Industrial Valuations (final)	31 Dec 2007
Stage 4 – Final Rural and Residential Valuations	28 Feb 2008
Stage 5 – Valuation and data Return	31 Mar 2008

The specification contains requirements for each stage that relate to matters including methodology, level of inspection and interrogation, inspection regime, formatting of data and statistical tolerance. Each stage is submitted to the Victorian Valuer General for approval.

The specification also contains the following requirements;

- Preparation of Supplementary Valuations
- Administration and management of all inquiries, objections and appeals
- Maintenance of property and valuation records including consolidation with Council's rates database
- Consolidation and maintenance of Council's computerised valuation system
- Preparation of Council asset valuations for Council's financial reporting and insurance purposes.

- Other valuation services which include – administrating street numbering, providing valuations for compensation, open space contributions and miscellaneous valuations.

The contract requires that all services are provided in an accurate and timely manner and that the contractors comply with Council policies and all relevant legislation.

The contract contains provisions about how to deal with non-performance including deficiencies, payment deductions, termination, dispute and use of the performance security bond. No notices have been issued to the contractor in relation to any of these matters during the initial contract period. Progress of all aspects of contract performance was monitored in monthly meetings.

It is considered that Westlink's performance in undertaking its contractual obligations over the original term of the contract has been better than acceptable under difficult circumstances. The following is offered as evidence;

- Westlink completed the various stages of the 2008 General Revaluation in accordance with the Victorian Valuer General's "best practice guidelines" culminating in a submission of the last stage (5) in a timely manner.
- The Minister has declared the revaluation as being "generally true and correct" and Section 7A (Valuation Act 1960) certificates have been issued for all stages of the 2008 General Revaluation.
- Council was able to adopt a rate and issue rates notices on 25th July 2008 (one of the first in the State to do so).
- Westlink successfully converted the existing valuation database and established the VicVals computer valuation system. The system is not known for its ease of use or functionality but is a preferred system as it is a module of an existing Council core application (Pathway) and therefore has integration advantages. The system has been prone to software and functional issues especially in the early part of the initial contract term. Westlink has always resourced software development issues without further claim for payment.
- Westlink has efficiently generated about 6,000 supplementary valuations over the past two years working cooperatively with Council's rates department. An example of this, is the July 2008 Supplementary Rates Notices which was combined with the General Rates Notices to generate supplementary rate revenue of more than \$900K while avoiding the additional printing and postage costs that would be incurred if the processes were separate.
- Westlink is in the midst of attending to formal valuation objections. Following the issue of Rates Notices this year, 312 formal objections to property valuations have been received. This higher than normal number of objections is due to the decline in the property market since the valuation date of 1<sup>st</sup> January 2008. Westlink are able to resource this unforeseen workload.
- Westlink has enthusiastically engaged in general Council operations and management development programs over the past two years. Examples of this are listed below;

- Regularly contributes to the overall use and development of Pathway by participating in regular fortnightly meetings
- Contributes to property data, policy and procedure development eg Property Creation Process
- Is consulted on Council software development eg Decko, Council's new GIS application
- Participated in the development of Council management reporting and in particular departmental KPIs and metrics
- Participated in the development of Departmental Action Plans

#### **4. CONSULTATION AND STAKEHOLDERS**

Westlink has advised that it is keen to take up the option.

#### **5. DISCUSSION**

##### **5.1 OPTIONS**

It is considered that it would be appropriate to agree to the contract option extension for the following reasons;

- Performance – Westlink has performed well during the contract term, complying with the “best practice guidelines”, achieving timelines and meeting KPI and metric targets
- Fees – The contract contains a competitive fee arrangement
- Consistency and continuity –
  - There would be no business interruption or transitional arrangement
  - Westlink are best placed to continue software development and has an excellent grasp of Council computer systems and applications
  - Westlink will continue to manage a large number of current valuation objections most of which will not be able to be finalised before the end of the initial contract term
  - The community will be able to communicate with the same personnel

Alternative options for the provision of valuation services are not considered to be feasible and could cause unnecessary difficulties in a specialized service industry that is subject to potential structural changes.

##### **5.1.1 TENDER**

The market was tested for this service two years ago but the service could be re-tendered. Although it is theoretically possible that this option could result in lower fees it is not favoured for the following reasons:

- It is unlikely that Westlink would tender a lower fee.

- If another tenderer is preferred due to cost savings there will be risks associated with the quality of service as follows:
  - Known performance vs. promised performance
  - Loss of consistency and continuity in software development, contacts with personnel and caused by the necessary transitional period

If tendered, there is no guarantee that cost savings would be achieved – indeed, a tender could result in higher cost. Westlink may tender a higher price than that currently provided for in the existing contract.

There is also a risk that Council receives no tenders. In this event it is unlikely, but possible that Council would have to commence the 2010 General Revaluation without valuation personnel. The Stage 1 of the 2010 General Revaluation is due to be submitted to the Victorian Valuer General by 28 February 2009.

Finally, with the seasonal break, there is insufficient time available to complete a tender process by the contract expiry date.

Overall, it is considered that any possible benefits of re-tendering are unlikely to be significant enough to outweigh the risks.

#### 5.1.2 IN-HOUSE RESOURCING

Council could consider employing valuers to undertake the 2010 General Revaluation. In Victoria, four municipalities complete revaluations entirely in-house while a further nine municipalities complete revaluations in-house with the assistance of contract staff.

At a time when the state government has announced a proposal to take over responsibility for rating authority valuations at the end of the 2010 General Revaluation it makes little sense to move to in-house staffing for a potentially interim two year period.

#### 5.2 POLICY IMPLICATIONS

A decision by Council is required pursuant to Council's Purchasing Guidelines as the value of the contract option exceeds any delegated limits.

The contract was tendered in accordance with Section 186 of the Local Government Act 1989.

#### 5.3 FINANCE / RESOURCE IMPLICATIONS

The contract costs are budgeted on an annual basis. Council recoups about half of the costs of valuation services through the sale of valuation data to the State Revenue Office and South East Water.

#### 5.4 LEGAL & RISK IMPLICATIONS

It is considered that there is no legal implication associated with the recommended option or the alternative options. It is considered that there are risks associated with the alternative options that relate to the quality of valuation services that are to be provided.

## 5.5 SUSTAINABILITY ASSESSMENT

### *SOCIAL EQUITY*

Municipal valuations are used as the basis for rates and land tax. Governments have established these forms of property based tax as the fair and equitable means of generating income to pay for community services.

The recommended option will ensure that current staff is retained and therefore community and industry contacts will be able to expect the same reliable service. This is particularly relevant for those who have already engaged with Westlink in the valuation objection process.

### *ECONOMIC VIABILITY*

The contract price was assessed in the tender for the original contract. At the time, Westlink was the only tenderer and therefore the tendered fee was assessed against the previous contract and contracts that were current in other municipalities. Westlink's fee was assessed as "competitive" and the fee for the option period contains only a minimal rise. About half of the fees will be recouped through the sale of valuation data to the State Revenue Office and South East Water.

### *ENVIRONMENTAL RESPONSIBILITY*

It is considered that there are no elements associated with this proposal that have relevance to environmental responsibility.

### *CULTURAL VITALITY*

It is considered that there are no elements associated with this proposal that have relevance to cultural vitality.

## **6. IMPLEMENTATION STRATEGY**

### 6.1 TIMELINE

Council officers will immediately implement the resolution of Council by exchange of letters.

### 6.2 COMMUNICATION

Both Council and Westlink are required to implement the option extension by agreeing formally in writing.