

REPORT FOR: **CABINET**

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| Date of Meeting: | 19 July 2012 |
| Subject: | Materials Recycling Services Framework Contract |
| Key Decision: | Yes |
| Responsible Officer: | John Edwards, Divisional Director Environmental Services |
| Portfolio Holder: | Councillor Phillip O'Dell Portfolio Holder for Environment and Community Safety Councillor Thaya Idaikkadar, Deputy Leader and Portfolio Holder for Property and Major Contracts |
| Exempt: | No |
| Decision subject to Call-in: | Yes |
| Enclosures: | None |

Section 1 – Summary and Recommendations

This report sets out the establishment of a Framework for the procurement of Material Recycling Services for the disposal of materials collected by the Council's refuse collection services that are suitable for recycling.

Recommendations:

Cabinet is requested to agree

1. The inclusion of the following organisations on a four year framework for a service to commence on 1 September 2012:

Biffa Waste Services Limited
Bywaters (Leyton) Ltd
Viridor Waste Management Limited

2. To delegate to the Head of Corporate Procurement and the Divisional Director of Environment, in liaison with the Portfolio Holder for Property and Major Contracts, to undertake and award annual E-auctions or mini-competitions under the framework terms and conditions.

Reason: (For recommendation)

To enable the cost effective disposal of materials collected by the Council that are suitable for recycling.

Section 2 – Report

Background

The Council's 4-year framework contract for dry recyclable material collection and processing expired in April 2012. An extension was requested and agreed to 1st September to allow for the re-procurement process to take place. The current contract is continuing to provide good income levels (£36 per tonne plus 100% profit share above the set basket sell on value baseline of £78)

The Council recycled 50% of its household waste in 2010/11. Residents are provided with Blue Bins for the collection of co-mingled recyclable materials – collected fortnightly. Collected Blue Bin waste is deposited, by the Council's in-house waste collection service, at the Council's Civic Amenity Site in Forward Drive, Wealdstone, HA3 8BR. A Service Provider to the Council collects the Blue Bin waste (i.e. co-mingled, recyclable material) from the Civic Amenity Site and transports it for processing and disposal/sale to one or more Materials Recycling Facilities, which are operated entirely independently of the Council. On average, 350 tonnes of Blue Bin waste is deposited per week at the Civic Amenity site.

This is currently a 'services concession contract' (as defined by the Public Contracts Regulations) in which the Provider derives their income / payment from re-sale of the processed waste collected from the Council. The Service Provider also pays the Council a price per tonne collected and also a profit share if the sales value exceeds a set limit. Last years total material tonnage collected was in the region of 19000 tonnes and the income to the council was in excess of £900,000

Procurement Strategy

Harrow was one of the first Councils in the country to adopt an income generation model for the processing and sale of dry recyclable waste.

The recent tactics/strategies of using annual mini-competitions to award contracts under the existing framework is considered to have been financially and operationally successful. It was proposed and agreed at the Strategic Procurement Board (SPB) that a similar 4-year framework would be let including a minimum of 3 framework participants. A similar annual mini-competition approach would be used to the current framework.

As the income opportunity (over £900,000 this yr) is significant and the marketplace has proven to be competitive, we also recommended the option of using Reverse E-auction for the mini-competitions to maximise benefit to the Council.

This approach was adopted when Procurement and the service department identified the following opportunities in the marketplace.

- The (sales) value of processed recyclate had been steadily increasing since 2008 (when the framework had originally been let)
- Many of the Material Recycling providers had invested in advanced sorting technology and new facilities
- Some agile (younger) suppliers are actively seeking the profit share model to win contracts and tonnage from the more established suppliers
- Competition and demand for dry recyclable material had increased (mainly due to factors explained above)

In 2010/11 the Council took advantage of the opportunity and the terms of the Framework by requesting the framework providers to compete for the right to collect 100% of the Councils' material for the following 12 months. This approach resulted in the Council moving from a position of paying for the recyclable waste to be collected to "selling" it.

The Council is developing this approach further in the new Framework by introducing E-Auctions, to maximise the potential benefit to the Council and exploit market opportunities. The framework participants will get the opportunity to compete with each other in "real time" for our "tonnage", thus producing the best possible market price.

Alternative approaches

The market has been explored for alternative approaches. As Harrow is one of the first to achieve an income generating recyclable waste collection service, there are not any other suitable models to compare. We have however allowed for bidders to also submit a variant bid, which allows them to suggest an alternative approach.

Framework and Contract term

The framework agreement is for 4 years (the maximum length allowed by the public contracts regulations). Each call off contract will be for 12 months following the annual E-Auction.

Framework participants

3 suppliers will be appointed to the framework for optimal competition.

Local suppliers

There are no local (Harrow) suppliers with Material recycling facilities of the scale and suitability to service this contract.

Tender Process

A restricted procedure was adopted for the procurement process in which we invited expressions of interest. We invited interested parties to complete a Pre-Qualification Questionnaire (PQQ), to determine their financial, technical and professional capability.

6 organisations expressed an interest in bidding originally and all demonstrated sufficient financial, technical and professional capability and were invited to tender.

3 organisations submitted a final bid to be included on the framework. All 3 companies have been assessed as meeting the requirements.

Procurement Timetable

| Event | Date |
|--|-------------------------------|
| Issue ITT | 13 th June 2012 |
| Deadline for receipt of clarifications | 26 th June 2012 |
| Target date for responses to clarifications | 28 th June 2012 |
| Deadline for receipt of Tenders | 3 rd July 2012 |
| Evaluation of Tenders | w/c 2 nd July 2012 |
| Recommendation of Framework award to Cabinet | 19 th July |
| Call in period | 1 week |

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| Proposed Notification of Framework award decision | 27 th July |
| Reverse E-Auction (Year 1) | w/c 13 th August |
| Target service commencement date | 1 September 2012 |

Tender Evaluation

Technical evaluation:

A summary of the evaluation criteria and sub criteria set by corporate procurement and the service department are set out below. Where % figure is highlighted this is the overall weighting for that particular criteria. The sub-criteria scores total 100.

Stage One

Quality assessment of Tenders undertaken – to proceed to Stage 2, Tenderers must score over 60% in the Quality / Technical questionnaire

NB Tenderers that score zero in any Quality criteria will not pass the Stage 1 Quality assessment.

Stage Two

All Tenderers that pass the Stage 1 Quality assessment will then be assessed on the Price criteria and the highest scorers will be appointed to the Framework.

| Evaluation criteria | Weighting |
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| Quality | |
| Recycling Rates <ul style="list-style-type: none"> • Support the Council to increase material recycling levels and reduce waste going to landfill from LBH | 10% |
| Work Methods | 50% |
| Logistics <ul style="list-style-type: none"> • Collection & haulage including <ul style="list-style-type: none"> ○ Vehicle type ○ Weighing of material ○ Bulk haulage schedule (example) | (15%) |
| Processing <ul style="list-style-type: none"> • Processing Capacity • Material Sales • Markets Portfolio | (20%) |
| Compliance and Audit Trails | (5%) |

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| <ul style="list-style-type: none"> • Compliance to legislation and best practice • Internal and external audit <p>Health & Safety</p> <ul style="list-style-type: none"> • Process to protect safety and wellbeing of employees, LBH staff and the general public <p>Educational and Promotional Support</p> <ul style="list-style-type: none"> • Propose and support local education and awareness initiatives | <p>(5%)</p> <p>(5%)</p> |
| <p>Reporting & Data</p> <ul style="list-style-type: none"> • Providing monthly Input Analysis report including: <ul style="list-style-type: none"> ○ Details of loads collected and weight ○ Material split (%) ○ Contamination levels ○ Price tracker • Material destination report | <p>20%</p> <p>(15%)</p> <p>(5%)</p> |
| <p>Sustainability</p> <ul style="list-style-type: none"> • Equality and Diversity • Sub-contracting and supply chain opportunities • Training / apprenticeships • Environmental Sustainability | <p>20%</p> <p>(2%)</p> <p>(4%)</p> <p>(4%)</p> <p>(10%)</p> |
| <p>Price</p> | <p>100%</p> |
| <ul style="list-style-type: none"> • Gate Fee Rebate • WASV Baseline • Profit share % | |

Commercial Evaluation

Potential Providers were invited to submit a pricing proposal based on the following three elements;

“Gate fee rebate”

This is a fixed fee per tonne paid by the Service Provider, to the Council, for co-mingled dry recyclable material collected from the Council’s Civic Amenity Site

“Baseline Weighted Average Sell-on Value (WASV)”

Tenderers were asked to set an annual WASV (weighted average sell on value) baseline above which there will be an opportunity for tenderers to offer the Council a WASV profit share percentage. The WASV will be tracked using “letsrecycle.com” Mid Point UK Domestic Mill prices

www.letsrecycle.com/ prices provides the range (minimum and maximum) of monthly UK domestic mill prices for the following materials and their sub-groups; glass, metals, paper/ cardboard, plastics and textiles.

The “Mid Point” UK Domestic Mill price is simply the mid point of this range. The collective WASV figure is compared to the “Baseline WASV” each month.

“Percentage Profit Share above baseline WASV”

Tenderers will be asked to propose a profit share percentage for any sell on value achieved above the agreed baseline WASV.

Proposed framework award recommendation

It is the evaluation teams recommendation to award the following contractors a place on the framework:

Biffa Waste Services Limited
Bywaters (Leyton) Ltd
Viridor Waste Management Limited

Their technical response met with our criteria and passed the technical threshold set.

The commercial bids received were competitive and will represent a suitable starting point for the annual E-Auction / mini-competition.

E-auction Process (delegated authority)

The purpose of the mini competition E-auctions:

- Increase the price per tonne that we receive,
- Decrease the contractors minimum WASV resale value
- Increase the LBH profit share of resale value that is achieve above the threshold

This should occur naturally in the “real-time” competitive environment of an E-auction.

The cost of an E-auction is £5517.00 – hosted by our E-tendering supplier (Bravosolution) this cost will be covered by the increased savings/income achieved from the process. If market conditions suggest that we will not

achieve sufficient benefit to warrant the E-auction cost, we can revert to a standard mini-competition process.

Once the framework participants are awarded a place on the framework, there will be a further competition annually for the award of the Council's Dry Recyclable Material (100%) for the following 12 months. This is likely to be in the form of an E-auction but the Council also reserves the right to undertake this via email or e-tendering if deemed appropriate.

The values submitted in the tenderers initial bid will form the starting price for the E-auction. The values will be entered into 4 example Price trackers (taken from "actual" harrow material Input Analysis reports).

The winning bid will be the one that generates the best income level for the Council when applied to the 4 x Sample Price trackers and multiplies by the monthly tonnage estimate.

During the E-auction Tenderers will be able to amend all 3 inputs as follows:

- a) Gate fee Rebate – by increments of £1
- b) WASV baseline - by increments of £0.50
- c) Percentage Profit Share – by increments of 5%

E-auction details, training and support will be provided.

Delegated Authority

Council officers from corporate procurement and Public Realm Management request delegated authority to undertake and award annual E-auctions or mini-competitions under the framework terms and conditions on behalf of the Council, in liaison with the Portfolio Holder for Property and Major Contracts.

The award criteria is simply "best price wins" as all framework participants will have already passed the council's quality and technical assessment to be awarded a place on the framework.

Financial Implications

The cost of disposing of household waste materials collected by the Council's Refuse Service is included in the budget set for Environment Services.

In recent years it has been possible to achieve an income for the materials that can be re-sold as recycleable and this is incorporated into the current

budget. The volatility of the market does present a risk to the income stream and it is imperative that the most competitive prices possible are achieved.

In addition to the potential for income, the Council's high collection rate for recyclable materials means that the materials do not have to be sent to landfill, which would incur both a cost of disposal and a tax liability.

Performance Issues

The contract includes the following key performance indicators that will be managed and monitored by the service department:

- Daily collections from the Civic Amenity site
- Daily phone call for guidance on loads for following day
- Supply of agreed Management information
- Supporting the Council to increase material recycling levels
- Supporting the Council with proposals to increase annual tonnage

If, on two consecutive months, service failures total 5 points or more then the Service Provider will be advised that a recovery plan must be agreed to and implemented. Failure to achieve 2 service failure points or less for the following month may result in termination and the tonnage being switched to another provider on the framework.

Environmental Impact

The proposal supports the Council in facilitating the cost effective disposal of materials that are suitable for recycling and so makes a significant contribution to the Council's Climate Change strategy by avoiding the need for waste to be disposed of through landfill.

Risk Management Implications

The current contractual arrangements have reached an end and failure to agree a new framework would place the Council in a position of non-compliance with respect to procurement legislation.

The market for recyclable materials is volatile and dependant on global demand for materials. Demand and consequently price is currently relatively high, but there is a risk that the prices will fluctuate and this would impact on income. This risk is identified in the current Environment Division risk register.

Equalities implications

An Equality Impact Assessment was carried out and the equalities impact on Harrow residents and employees was assessed as low. This contract concerns the sale and processing of materials.

Corporate Priorities

Please identify which corporate priority the report incorporates and how:

- Keeping neighbourhoods clean, green and safe.

Section 3 - Statutory Officer Clearance

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| Name: Kanta Hirani | <input checked="" type="checkbox"/> | on behalf of the Chief Financial Officer |
| Date: 9 July 2012 | | |
| Name: Stephen Dorrian | <input checked="" type="checkbox"/> | on behalf of the Monitoring Officer |
| Date: 9 July 2012 | | |

Section 4 – Performance Officer Clearance

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| Name: Alex Dewsnap | <input checked="" type="checkbox"/> | Divisional Director Partnership, Development and Performance |
| Date: 9 July 2012 | | |

Section 5 – Environmental Impact Officer Clearance

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| Name: John Edwards | <input checked="" type="checkbox"/> | Divisional Director (Environmental Services) |
| Date: 9 July 2012 | | |

Section 6 - Contact Details and Background Papers

Contact: John Edward, Divisional Director Environmental Services

Tel: 020 8736 6799

Background Papers: None.

**Call-In Waived by the
Chairman of Overview
and Scrutiny
Committee**

NOT APPLICABLE

[Call-in applies]