

Somerset Waste Board meeting  
14 December 2018  
Report for decision

Recycle More & Collection Contract Procurement: Update

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<b>Forward Plan Reference:</b>	
<b>Summary:</b>	This report summarises progress in procuring a new collection contractor (and hence delivery of Recycle More).
<b>Recommendations:</b>	<p><b>It is recommended that the Board:</b></p> <ol style="list-style-type: none"> <li>1) notes the progress made in procuring a new collection contract, in particular the proposed approach to sharing risk around recycle income</li> <li>2) Agrees the case for applying the exempt information provision as set out in the Local Government Act 1972, Schedule 12A and therefore to treat the attached confidential report and its appendices in confidence, as they contain commercially sensitive information, and as the case for the public interest in maintaining the exemption outweighs the public interest in disclosing that information.</li> <li>3) Subject to the approval of recommendation (2) above, agrees to exclude the press and public from the meeting for the consideration of the attached confidential report and its appendices where there is any discussion at the meeting regarding exempt or confidential information.</li> <li>4) Considers the recommendations contained within the confidential report.</li> <li>5) Subject to approval of the recommendations above, authorises the Managing Director to progress the procurement of a new Collection Contractor.</li> </ol>
<b>Reasons for recommendations:</b>	To ensure that the Somerset Waste Board is kept up to date with this major procurement exercise and has the opportunity to shape the approach taken.
<b>Links to Priorities and Impact on Annual Business Plan:</b>	The procurement delivers Task 5.2 within the SWB Approved Business Plan 2018-23 concerning the implementation of future collection arrangements.

<p><b>Financial, Legal and HR Implications:</b></p>	<p>In addition to delivering the environmental benefits of Recycle More a new collection contract aims to deliver significant savings to all partners, through reduced contract costs, lower disposal costs and additional recycling credits for district partners – estimated in total at up to £1.7m. It has been evident from soft market testing and dialogue that all potential suppliers are becoming more risk averse, and that there is considerable uncertainty in the markets for recycled materials. A robust procurement process has been developed to realise these benefits, enable potential suppliers to propose innovative solutions to meet our environmental and financial objectives, and ensure that risks are shared appropriately. Getting risk share arrangements right will be crucial to securing best value. Staff will TUPE transfer to the new contractor, and SWP aims to proactively engage with staff throughout the procurement process.</p>
<p><b>Equalities Implications:</b></p>	<p>None. An Equalities Impact Assessment was undertaken when the Board approved Recycle More, and SWP updated this ahead of the procurement. It will be updated when the Board are making a final decision on the contract award in February 2019.</p>
<p><b>Risk Assessment:</b></p>	<p>The risks related to the procurement of a new collection contractor and Recycle More have been reviewed and are set out in the updated risk register.</p>

## 1. Background

- 1.1. A progress report on the procurement of a new waste and recycling collection contractor was presented to the Board in November 2018. This report provides a summary of progress since then.

In confidential session on 2 November the Board reviewed the outcomes of the ISDS evaluation and moderation of the Permitted and Variant Bids received from the three Bidders who submitted ISDS Bids. As this feedback has now provided back to Bidders, the conclusions of the Board are no longer commercially confidential and are summarised below:

### **The service methodology (Recycle More) should remain as is:**

The Recycle More service methodology was unanimously adopted by all partner authorities and the Somerset Waste Board as the future service specification in 2016. This was based on anticipated improvement in environmental and financial performance. However, because affordability is a key concern for all partner, we designed a procurement process which allowed suppliers to be able to offer solutions to the dry recycling service that may deliver additional financial improvements. SWP made clear to all Bidders that what mattered was affordability, but also that we would need a high standard of evidence that any proposal will not adversely affect our environmental quality or customer satisfaction. Bidders were

clear that such Variant Bids would be evaluated at the first stage of the procurement (ISDS), and that the Somerset Waste Board would decide whether alternatives to Recycle More were sufficiently compelling (particularly around affordability, but also on environmental and customer experience grounds). On 2 November the Board concluded that the case for allowing service methodologies other than Recycle More was not compelling, and as such that final stage (ISFT) Bids would only be invited on the basis of the Recycle More service methodology previously approved.

### **SWP will not secure an additional depot:**

The Recycle More service requires a new fleet of vehicles, and the type of recycling vehicles we are likely to procure requires a different depot configuration (for example to enable efficient transfer of all recyclable materials). Soft market testing demonstrated that there was a concern that a much larger depot than any of our current depots may be required to service the centre and west of the County (currently serviced from depots in Bridgwater and Taunton). Identifying and securing a new depot site is a major piece of work and purchasing/leasing a new depot was likely to incur significant costs, so we needed to be assured that this was necessary and offered value for money. SWP explored this with Bidders during dialogue, and the procurement process at the first stage of the procurement (ISDS), was designed to identify whether an additional depot was necessary and whether it offered better value. The procurement process clearly demonstrated that an additional depot was not necessary for Recycle More, nor did it offer better value. It remains likely that considerable changes will be made to how we use our existing depots, and some extension of sites and working areas may be required. The final stage of the procurement process will thus proceed without SWP offering up a new depot.

### **The risk share principle of 50/50 should be maintained, but amended to reflect the better value for partners that can be obtained by reflecting proposals from some Bidders (such as for a cap and collar which limits their liability):**

SWP recognise that the value of dry recycling fluctuates over time and that this comprises mostly of unit value changes (commodity markets) but also due to changes in quantities. Ahead of commencing this procurement SWP and the Board were clear that we would need to move to a risk sharing mechanism in the new collection contract – it would simply not be possible to secure a new contractor who took on all dry recycling risk. SWP tested out their ideas through Soft Market Engagement, and this contributed to establishing the fundamental principles we have used in designing the procurement process and a risk sharing mechanism. All District Council partners are aware that managing the fluctuation in recyclate income is likely to require some form of equalisation reserve to minimise the risk of a significant fluctuation in budgets from year to year.

SWP required that all Bidders to submit an ISDS Bid on the basis of our proposed risk-share mechanism. However, we recognised that Bidders may be able to deliver better value to SWP through changes to this mechanism. We have discussed this area intensively during dialogue, and the procurement process allowed (but did not require) Bidders to submit a Variant bid– i.e. a different approach that was acceptable

to SWP but offered better value to partners. Bidders are also aware that it would be very difficult for us to robustly evaluate different risk share mechanisms at final tender stage, so we need to create a consensus mechanism. ISDS submissions demonstrated that better value is likely to be obtained for all partners if we adapt our current mechanism to reflect key elements from Bidders ISDS submission, in particular some form of cap and collar mechanism on the contractor's risk exposure. On 2 November the Board accordingly authorised the Managing Director of the SWP, in consultation with the New Service Task and Finish Group and partner s151 Officers, to finalise a dry recycle risk share mechanism consistent with a 50/50 risk sharing principle.

## **2. Progress to date**

- 2.1.** A number of dialogue sessions are being held with all Bidders in this stage of the procurement to feedback on their ISDS Bids (and hence provide Bidders with the information necessary to improve their Bids), feedback on the key issues around service methodology and depots, and to agree a consensus recycle risk share mechanism which is consistent with the 50/50 risk share principle but reflects some of the proposals from Bidders that will enable SWP to realise better value (such as a cap and collar mechanism). This stage of dialogue is also crucial to ensure that Bidders proposals are robust and to secure the best value for money solution possible.

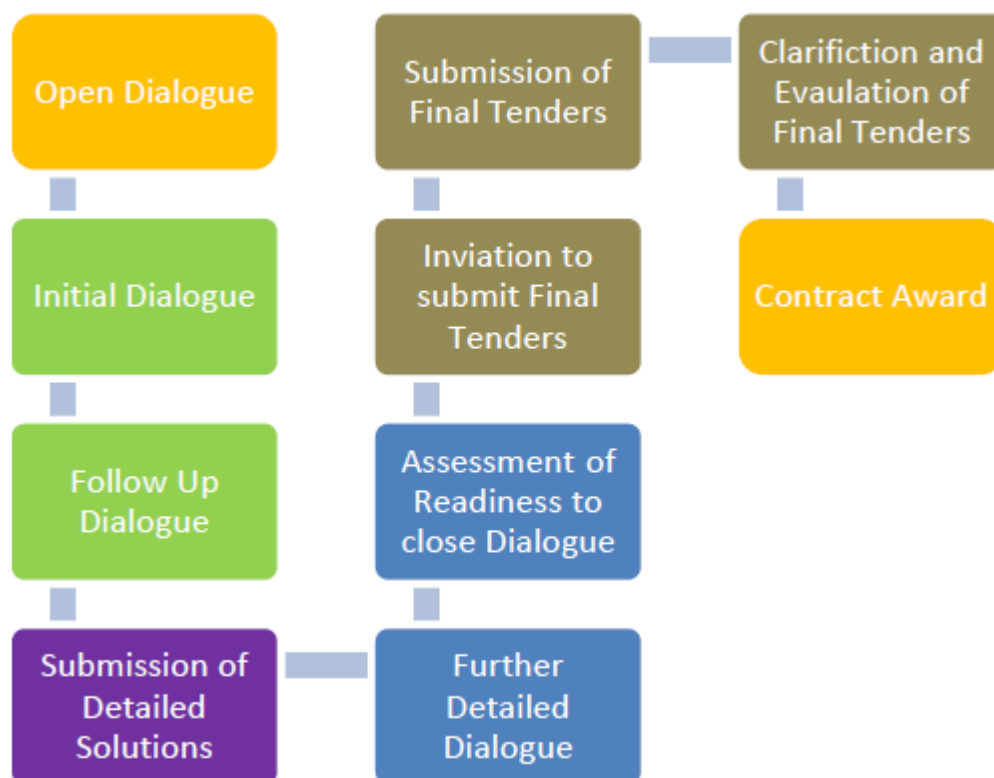
Other progress includes refining the contractual and procurement documents to reflect feedback from Bidders and the learning from the ISDS stage of the procurement process. This aims to ensure that the procurement process is optimised to deliver the best value solution to partners.

## **3. Issues to be addressed in confidential discussion**

- 3.1.** In confidential session the Board will be updated on the progress in the dialogue SWP have been having with Bidders, and also on the outcome of dialogue on a revised risk share mechanism.

## 4. Next steps

- 4.1. The flowchart below shows the whole procurement process. By 14 December we anticipate having completed ‘further detailed dialogue’ and have undertaken the ‘assessment of readiness to close dialogue’.



An outline of the remaining stages of the procurement process following the Board meeting on 14 December is provided in the table below:

Phase	Time	Comments
Invitation to submit final tenders (ISFT)	4 Jan 2019	Publication of final specification reflecting the previous stages of the process
Submission, evaluation & moderation of final tenders	4 Feb – 29 Feb	This includes all activity necessary to identify the most economically advantageous tender, including meeting with SMG (project board)
SWB decision to award contract	14 Mar 2019	A decision by SWB to award is followed by a statutory standstill period before it is made public.
Mobilisation	May 2019 – end March 2020	This is the period in which the new provider gears up to provide the services including procurement of vehicles, plant and equipment, and close engagement with staff.
Service Commencement	28 March 2020	The first collections by the new provider will be on Monday 30 March 2020.
Complete roll out of Recycle More	End of March 2022	The specification requires that Recycle More must be rolled out in 5 phases within 2 years of commencement, including a bedding in period of 3 months and allowing for a period of learning and reflection in March and April 2021.

## **5. Contingency plan: Local Authority Company (LAC)**

- 5.1.** As previously reported SWP have commenced work to explore this option as a contingency. However, with strong Bidders competing to win the SWP Contract it is not currently considered necessary to escalate the contingency plan beyond the research phase.

## **6. Background papers**

- 6.1.** Report to SWB "Recycle More" 16<sup>th</sup> December 2016.
- 6.2.** Report to SWB "Contractual Negotiations for Recycle More" 30 June 2017, Confidential Report to SWB "Contractual Negotiations and Procurement Strategy for Recycle More" 3 November 2017.
- 6.3.** SWP Business Plan 2018-23 Approved by SWP on 15<sup>th</sup> December 2018.
- 6.4.** Report to SWB "Recycle More & Collection Contract Procurement: Update" 23 February 2018
- 6.5.** Report to SWB "Recycle More & Collection Contract Procurement: Update" 29 June 2018
- 6.6.** Report to SWB "Recycle More & Collection Contract Procurement: Update" 28 September 2018
- 6.7.** Report to SWB "Recycle More & Collection Contract Procurement: Update" 2 November 2018, Confidential Report to SWB "Recycle More & Collection Contract Procurement: Consideration of ISDS submissions and approach to final tender specification" 3 November 2017.