

Joint Scrutiny Panel of Somerset Waste Board meeting 08 March 2018

Recycle More & Collection Contract Procurement: Update

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Summary:	This report summarises progress in procuring a new collection contractor (and hence Recycle More) since the Somerset Waste Board agreed to end its kerbside waste and recycling collections contract with Kier 18 months early (now ending in March 2020).
Recommendation:	It is recommended that the Joint Waste Scrutiny Panel notes the progress made in developing the procurement strategy for a new collection contract – informed by soft market engagement and input from our commercial and technical, legal and procurement advisors.
Reasons for recommendations:	To ensure that the Joint Waste Scrutiny Panel is kept up to date with this major procurement exercise and has the opportunity to shape the approach taken.
Links to Priorities:	The proposal would impact on Task 5.2 within the SWB Approved Business Plan 2018-23 (future collection arrangements).
Financial, Legal, Equalities and HR Implications:	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 is evident from the soft market testing that all potential suppliers are becoming more risk averse, and the ripple effect of China's restrictions on low quality recyclate imports is creating uncertainty in the market. A robust procurement process will be necessary to realise these benefits, enable potential suppliers to develop innovative solutions to meet our environmental and financial objectives, and ensure that risks are shared appropriately. Staff will TUPE transfer to the new contractor, and SWP aims to proactively engage with staff throughout the procurement process.
Risk Assessment:	The risks related to the procurement of a new collection contractor and Recycle More are set out in the updated risk register and were reviewed by the Strategic Management Group in January 2018.

1. Background

- 1.1.** In February 2017 all partner authorities agreed to adopt Recycle More – adding more materials to our weekly kerbside recycling collection and freeing up refuse capacity so that we only need to collect residual waste every 3 weeks. During the course of negotiating implementation of this with our current collections contractor (Kier) the originally expected environmental and economic benefits were not realisable, and the risk profile of migrating to the new service under the current contract changed.
- 1.2.** Accordingly, on Friday 3rd November the Somerset Waste Board agreed to end its kerbside waste and recycling collections contract with Kier 18 months early. Ending this contract in March 2020 rather than September 2021 enables Somerset Waste Partnership to implement Recycle More as requested by all partner authorities, and align the contract start with the procurement of a new fleet of vehicles. The board thoroughly reviewed the alternative approaches, and concluded that procuring a service provided by an external waste services contractor would represent the best value for Somerset, while carrying lowest risk of service disruption and overspends. Developing a Local Authority Owned Company remains a contingency plan should proposals from the market not meet with our ambitions. The Board established a New Service Task and Finish Group consisting of one SWB member from each partner authority and the chair of the Board, in order to provide close member oversight of the project and to provide advice and guidance where required.
- 1.3.** There remains significant public demand for additional recyclable materials to be collected at the kerbside (especially plastics). However, we will not be able to roll-out Recycle More until we have a new collections contractor in place, have procured a new fleet of recycling vehicles and have ensured our depots are suitable for the new fleet, new service and the additional amount of recyclable materials. 2020 therefore remains a very significant year for Somerset Waste Partnership – as we will reinvigorate the totality of Somerset's waste services with a switch from landfill to energy from waste for the refuse that remains.

2. Progress to date

- 2.1.** SWP has a full suite of advisors engaged in the project. Eunomia Research and Consulting have been retained to provide commercial and technical advice throughout the procurement process. Procurement, legal and financial advice is being provided by relevant experts from SCC (SWP's administering authority). Together with SWP officers and Adrian Gardner (SDC), these form the project team. The Strategic Management Group (one senior officer from each partner) is acting as a project board, with a Member New Service Task and Finish Group providing a political steer. The project timetable remains on track but, as previously indicated, it remains very tight.
- 2.2.** SWP held a number of one-to-one soft market engagement sessions in November and December in order to gauge the likely level of interest from the market, seek their views on our proposed approach, and to understand any specific areas of concern or complexity which we may need to explore through the dialogue phases of the procurement procedure. These sessions proved incredibly valuable, and give SWP confidence in the likely level of market interest and the approach we propose (for example validating our assumption that local authority financing of assets is

likely to deliver best value), but also highlighted a number of challenging areas we will have to work through in the process. It also helped us better understand what we can do in order to secure best value from suppliers (e.g. undertaking a participation survey to demonstrate the quality of kerbside sorting in Somerset, and updating our waste composition analysis). As previously highlighted to the board, the number of suppliers with the scale and experience to achieve what SWP requires is limited, and numerous other procurements happening on a similar timescale to ours. Whilst the soft market engagement confirmed that our contract is attractive to the market, it also highlighted the need to ensure that we use the procurement process to work through these challenging areas to ensure that we develop solutions that are acceptable to SWP and to potential suppliers, that we manage the process in a way that encourages innovation from the market, and that we do not impose restrictions at too early a stage in the process which would prevent us from exploring these challenging areas with the market. Challenging areas include:

Managing Risk on recycle

The board are already aware that the market has changed substantially since our current contract was let, and that suppliers are no longer willing to accept 100% of the risk on recycle income (estimated to be worth around £3m per annum currently). This income is a product of:

- the price that recyclable materials fetch (which is very volatile and driven by international markets and is essentially outside of our control),
- the quality of recyclable material (which our kerbside sort system maximises meaning our recycle is more likely to be in demand, more likely to be used in a 'closed loop' process, and which attract higher prices than lower quality material),
- the amount of recycle collected (which we fully expect to increase when we introduce Recycle More, but cannot predict yields with absolute certainty).

In soft market engagement SWP set out to the market that that our view is that risk should be allocated to the party that can best control it, which was welcomed. Our starting position was that this should be shared 50/50 with suppliers, as both the actions of SWP and the actions of our supplier impact upon the level of this income, but that neither of us is able to control recycle commodity prices.

It is clear that the recycle market is in a substantial period of uncertainty at the moment. The impact of China's restrictions on recycle imports have spread much further across the market than initially expected, and prices of recycle are even more volatile than usual. This uncertainty is leading suppliers to be more risk averse and less willing to share risk, but also means that individual suppliers are adopting different positions, and that their positions are changing as they respond to market changes.

As SWP expected, this will be a crucial area for us to work through in the dialogue stages with suppliers. Because each potential supplier is taking a different view on this, there is no single change we could currently make to our approach which would be acceptable to us and all potential suppliers. Instead our approach is likely to involve discussing this through dialogue, seeking formal submissions from suppliers, setting a benchmark risk share to ensure that we can evaluate all bids at

the ISDS stage on a like for like basis, using the submissions from suppliers to finalise the approach to risk sharing ahead of requesting final tenders.

Service Specification

SWP remain very clear that a crucial element of our procurement is to secure a supplier who will roll out the Recycle More service to achieve the environmental and financial benefits we believe that this will drive:

Recycle More	<p>Carry on collecting current kerbside collection materials – Paper; food & drink cans; glass bottles & jars, foil; cardboard; plastic bottles; textiles; shoes</p> <p>Carry on collecting separated food waste every week</p> <p>Add new materials to recycling collections every week—plastic pots, tubs, trays, packaging, food and drink cartons, small electrical items & batteries</p> <p>Free up refuse capacity and reduce the frequency of refuse collections to every three weeks so collections are only needed every three weeks.</p> <p>Help where there is a genuine need, for example people using nappies and adult hygiene products.</p> <p>Enhanced services (e.g. cardboard and mixed plastics) for people with communal bin stores, such as flats and communal properties</p>
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As the panel are aware, there are a limited number of potential suppliers with experience of this model. Whilst any supplier who proposes to bid for our contract must submit a bid that is compliant with this model, we believe that it is prudent to allow suppliers to submit variant bids that may vary specific elements of our specification – around the containment, frequency and materials collected. Whilst we remain confident that Recycle More will prove to deliver the greatest environmental and financial benefits, allowing this flexibility will allow the market an opportunity to demonstrate its innovation in achieving best value and environmental impact, whilst retaining control.

3. Next Steps

3.1. Two crucial related pieces of work are also underway:

Contingency plan: local authority company: The board noted that a Local Authority Company remains a contingency plan should suitable bids not be forthcoming from the market. SWP have commenced work to further explore this option, but the risk profile of the project means that a competitive dialogue procurement approach is still the recommended approach to achieve the board's objectives. As previously indicated to the board, this will be kept under review at key milestones in the project.

Securing additional depot options: Potential suppliers will be offered use of the depots that our kerbside collection services are currently primarily delivered through: 3 main depots (Bridgwater, Taunton, Evercreech) and 2 satellite depots (Roughmore in Williton and Lufton in Yeovil – refuse only). SWP believe that there may be efficiencies from operating services for the west of the County from a single

depot rather than continuing to use separate Bridgwater and Taunton depots. SWP are currently working closely with partners to assess a number of sites which may be potentially suitable. In order to achieve best value for all partners it is crucial that we have clarity on a centralised depot in the initial dialogue stage (June 2018), though we will not have certainty whether such a facility is required until we have received final tenders.

The next phases of work are:

Phase	Time	Comments
Document preparation	Nov– Mar 2018	To prepare all procurement documents (including the service specification, evaluation methodology, data room) and to undertake additional work which will ensure SWP are best placed to secure best value (e.g. by evidencing participation in kerbside sort)
Pre-qualification	Apr – May 2018	This is a mandatory phase and will ensure that a maximum of 5 suppliers with sufficient capability to deliver our requirements progress through to the resource-intensive dialogue stage
Dialogue on proposed solutions	June 2018 – end of Aug 2018	Focussed conversations on key issues: <ul style="list-style-type: none"> • Technical and operational (including service specification, transition to Recycle More, technology, behavioural change) • Commercial (affordability & risk share) • Legal (how we reflect what we learn in dialogue in final documents)
Evaluation of proposed solutions	Oct 2018	Scoring and evaluation of compliant bids and consideration of variant bids and proposed risk-share mechanisms – fed back to potential suppliers and to inform final tender specification.
Dialogue on final tenders	Nov – Dec 2018	Focused conversations on commercial, legal and waste technical matters identified to improve outcomes.
Final tenders	Feb 2019	Includes, evaluation, governance (ahead of pre-election period for DC elections in 2019) and standstill period. Contract award at February 2019 SWB meeting.
Mobilisation	May 2019 – end March 2020	New provider gearing up to commence service. Note that a phased transition to Recycle More will be required from April 2020 onwards.