

Committee: Cabinet

Date: 10th November 2014

Wards: ALL

Subject: South London Waste Partnership – Procurement of Waste Collection and Related Environment Services

Lead officer: Chris Lee, Director of Environment and Regeneration

Lead member: Councillor Judy Saunders, Cabinet Member for Street cleanliness and Parking and Councillor Andrew Judge, Cabinet Member for Environmental Sustainability and Regeneration

Contact officer: Cormac Stokes, Head of Street Scene and Waste

Recommendations:

Cabinet is recommended to:

- A. Agree the proposal to jointly procure through London Borough of Croydon these services set out in Section 1.1 below, as part of the South London Waste Partnership, using the competitive dialogue procurement route.
 - B. Agree to delegate authority to the Chair of Management Group in consultation with the Management Group, Strategic Steering Group, the SLWP Legal Lead and members of the Joint Waste Committee to deselect bidders and agree the specification at each stage up to and including the invitation to submit final tender.
 - C. Receive a report in spring 2016 recommending Preferred Bidder and subject to approval, recommend that the London Borough of Croydon as lead procuring authority award the contract.
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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. This report provides a summary of the outcome of the South London Waste Partnership exploration into the potential for entering into a joint procurement exercise for the delivery of a range of environmental services. It is proposed to procure an integrated contract for waste collection, street cleaning, winter maintenance, commercial waste and vehicle maintenance as the main group of services (LOT1), with a separate lot for Sutton and Merton only for grounds maintenance (including parks, arboriculture and grass verges) (LOT2). The report also outlines the proposed timescales and recommended approach to procuring these services.

2 DETAILS / BACKGROUND

- 2.1. As a result of the economic downturn the current government has initiated policies aimed at reducing the public sector deficit, principally through reductions in public expenditure. As a result Councils have had significant reductions in their funding from government grants. At the same time the councils are facing increasing demand for services due to demographic

pressures and the consequences of other national government policies such as welfare reform.

- 2.2. The London Borough of Merton is no different from other Councils. The Council has faced a significant reduction to its Government funding since 2010 and to address this, the Council has consistently identified savings through its Medium Term Financial Strategy.
- 2.3. Despite this, further funding and grant reductions are expected from national government over the medium term with a funding gap of £32m projected by 2018/19. To address this funding gap, the Council initiated a service transformation programme to drive through the transformation of council services and deliver savings.
- 2.4. The South London Waste Partnership was formed in 2003 and has a proven record of providing improved and more cost-effective waste management services through the procurement of complex waste disposal treatment, recycling and Household Reuse and Recycling Centre contracts. The success of the Partnership was recognised in 2013 when it received the International Public Private Sector Partnerships award for its Residual Waste Disposal Project, where an innovative contracting structure saved over £200m against existing budgets and was praised for its 'optimum risk transfer'.
- 2.5. The South London Waste Partnership has two key objectives:
 - (i) To manage waste in a way that is more sustainable and causes less damage to the environment.
 - (ii) To manage waste in a way that is more cost-effective, for the benefit of council tax payers.
- 2.6. As part of the drive for even greater efficiency, SLWP Officers have been exploring the opportunities for future delivery of a range of high quality environmental services. An options analysis has been undertaken to assess the merits of procuring services in partnership, as opposed to each borough procuring alone, or retaining existing arrangements. It is important to note that procuring in partnership does not necessarily require that all partners need or receive the same service.
- 2.7. The four SLWP boroughs have made an assessment of delivery and procurement options and modelling savings based on joint procurement by all boroughs. The modelling suggests service savings in the region of 10% could be achieved on waste collection alone, excluding potential increased revenue from recycle materials. The Partnership's advisers, who have experience of negotiating similar integrated collection contracts around the country, suggest that further savings could be achieved on other services when included in an integrated contract.
- 2.8. Approach Taken
- 2.8.1 Each of the partner boroughs have different collection regimes and frequencies, including weekly and fortnightly collection of residual waste and recycling material, chargeable and non chargeable green garden waste and various types of containers. A breakdown of these services can be found at Appendix 1

- 2.8.2 The Partnerships Strategic Steering Group (which is chaired by a Chief Executive from the boroughs) reviewed an outline business case in December 2013. The business case assessed the merits of a number of delivery options for waste collection and other environmental services. It concluded that a joint procurement approach was the preferred option. To supplement this, a detailed procurement strategy needed developing.
- 2.8.3 The procurement strategy development included further officer and advisor workshops, research gathering and a second Soft Market Testing Exercise. This work concluded that the competitive dialogue method of procurement be used and the scope of the procurement defined as follows:
- (i) LOT 1 - Waste collection and recycling, commercial waste, street cleaning, winter maintenance and vehicle maintenance.
 - (ii) LOT 2 - Parks, ground maintenance, for Sutton & Merton only.
- 2.9. Findings - Research (Local Partnerships and Eunomia)
- 2.9.1 In 2013 the Partnership commissioned 'Local Partnerships' (an organisation jointly owned by HM Treasury and the LGA that provide commercial expertise on matters of infrastructure, legal and contractual complexity) to analyse existing borough collection regimes, with a view to identifying areas where efficiencies could be achieved. This analysis was reviewed by the Partnership's technical consultants Eunomia and formed the basis of the business case. This research concluded that on waste collection services alone there is the potential for substantial savings.
- 2.9.2 Eunomia modelled 12 different collection regimes, using standardised assumptions for staff, vehicles, materials revenue and economies of scale for management and depots. These 12 scenarios suggested that there was a varying amount of savings to be achieved depending on which collection model was adopted and the degree of harmonisation of services across the partnership.
- 2.9.3 The modelling work outlined above does not take account of the additional savings that may be achieved through a strong negotiating strategy and bidder's appetite. The Partnership intends to test the assumptions of the modelling work during the competitive dialogue process, using the information as a basis to drive down costs during commercial discussions with bidders.
- 2.10. Competitive Dialogue
- 2.10.1 The chosen procurement route for the project is Competitive Dialogue. This process involves pre-qualifying bidders and then de-selecting bidders through iterative stages, which are shown in the flow diagram at Appendix 2. The key determinants of the decision to use Competitive Dialogue are:
- The complexity of the requirement and the need to explore various options and service developments with bidders;
 - The costs of the services which is estimated to be in the region of [£50m] per annum, and the requirement for skilled negotiation to take place with bidders, particularly given the scale of spend and that making significant savings is a core requirement of the project.

- At the Soft Market Testing events prospective bidders confirmed they favoured this approach.
- 2.10.2 The timetable for the competitive dialogue process for these services can be found at Section 5. It is anticipated that contract award will be in September 2016 with contract commencement in April 2017.
- 2.11. Soft Market Testing (SMT) Findings
- 2.11.1 The Partnership undertook two SMT events the first in July 2013 and a further one in August 2014 based on the Lot structure at 2.3 above
- 2.11.2 Through SMT Discussions potential bidders told us a long term opportunity for a broad scope of services would be attractive to the market. Views from the market were in favour of the proposed contract length of between 21 and 25 years given this would provide scope for innovation and the capital investment required to deliver savings. The scope and duration of contract was attractive with the indication that a contract of this size would enable bidders to spread their risks, reducing profit margins and provide time to integrate any introduction of harmonised services.
- 2.11.3 The market view was in favour of revenue sharing on materials and for openness and transparency with regard to the pricing mechanisms for the value of materials. This would allow for the alignment of Council and contractor interests in achieving best prices for materials.
- 2.11.4 The market suggested that a sub-regional approach to waste collection and associated services in London would be extremely attractive. It also indicated the market would give a higher priority to the sub regional approach than that for individual boroughs, particularly ones which are still delivered in-house.
- 2.12. Economies of scale
- 2.12.1 As evidenced in previous procurements for waste disposal contracts a key advantage of working in partnership is the potential for economies of scale. Opportunities exist in the following areas:
- Consolidation of recycle tonnages across the partnership resulting in more competitive prices
 - Routing and vehicle efficiencies, including fuel savings;
 - Depot efficiencies
 - Staffing and management efficiencies;
 - Reduced procurement costs;
 - The integration of services both within boroughs and across the partnership
 - Enhanced resilience across the partner boroughs
- 2.12.2 The potential benefits of a joint procurement and the economies of scale were explored with the attendees of the soft market testing day and they agreed that these could be achieved only through a partnership approach to procuring these services give the opportunities in 2.22.

2.13. Savings potential

- 2.13.1 One of the Partnerships objectives is to manage waste in a way that is more cost effective for the benefit of council tax payers. As a minimum, the Partnership expects to deliver annual revenue savings of at least 10% or c£5m across the four boroughs, based on 2013/14 budgets. This represents a net present budget saving of £116m over a 25 year contract period with a payback of procurement costs in the first 4 months. Merton's share of this saving would be in the region £909k per annum.
- 2.13.2 The overall savings figure and the precise breakdown of savings across the four boroughs will be agreed by all partners and the successful contractor, as a result of detailed discussions during the Competitive Dialogue process.

3 ALTERNATIVE OPTIONS

- 3.1. Each of the boroughs have different options for the future provision the services included in LOT 1, these are set out below in the table below.

	Sutton	Croydon	Merton	Kingston
Option 1	Procure alone	Re-procure alone	Procure alone	Re-procure alone
Option 2	Do nothing – services remain in-house	Explore shared service/joint procurement outside SLWP	Do nothing – services remain in-house	Extend existing contracts
<i>Option 3</i>	<i>SLWP Procurement</i>	<i>SLWP Procurement</i>	<i>SLWP Procurement</i>	<i>SLWP Procurement</i>

- 3.2. As only Merton and Sutton are interested in pursuing LOT 2 the three options illustrated in the table above remain relevant for those two authorities. Croydon and Kingston have indicated that they will remain with their existing contractors. However the OJEU Notice will provide sufficient scope for the other partner boroughs to joint the contract at a later stage should they wish to do so.
- 3.3. Although each of the partners has a number of potential routes in which they can provide these services in the future it was concluded that a joint procurement of a single, integrated contract using competitive dialogue is the preferred option for the partnership. This is for the following reasons
- Joint procurement would allow for aggregation of valuable materials, producing a high volume tonnage into recycle markets.
 - Procurement efficiencies derived from procuring a range of services across four boroughs

- SLWP commissioned commercial expertise, derived from significant previous commercial negotiation with the providers within these markets
 - A single contract across a range of services allows the partnership to benefit from the economies of scale
 - Contractors are able to achieve savings across staff, depot, vehicles, routing and new software.
 - The attendees at the soft market testing event indicated that a sub-regional approach to waste collection and associated services in London would be extremely attractive and they would make this their top priority.
- 3.4. While efficiencies may be achievable by individual authority procurements a number of these might would not be realisable if an individual authority procured alone. This was confirmed by the market that a higher priority to the sub regional approach is given than that for individual boroughs, particularly ones which are still delivered in-house.

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. Residents

4.1.1 The nature of consultation will depend on individual borough's approach to public consultation and its current service arrangements. Public consultation will be designed in such as way as to inform the dialogue process and the service specific solution. Merton's approach will be to engage with residents through various means including existing channels, My Merton, Community Forums, social media and special events as necessary.

4.2. Members

4.2.1 Members of the JWC will be consulted continually and at the natural points in the procurement process, when proposals and potentially prices will be available. It is proposed for an initial workshop in December 2014 at which the specification principals and evaluation framework will be presented. These are key documents which will be prepared prior to going out to procurement, and the views of members on this committee will be key in shaping future service outcomes, and the method by which bids on each Lot will be evaluated as the procurement is progressed.

4.2.2 Further member consultation will be programmed in to the project timetable at key points shown in 5.0 below. This will allow the opportunity to track the progress of negotiations and shape services through the course of the dialogue process, and to agree the approach to public and staff consultation as applicable to each borough. This is intended to provide engagement through what will be a lengthy process.

4.3. Scrutiny

4.3.1 It is recognised that there is a role for the Sustainable Communities Overview and Scrutiny Panel with respect to providing an independent view of the process and potential outcomes as they are shaped through the dialogue process.

4.3.2 Subject to the approval of the Sustainable Communities Overview and Scrutiny Panel, it is anticipated that the Panel will be consulted at regular intervals throughout the process, particularly at key decision points as outlined in the timetable in Section 5 below. In order to ensure that the timetable is adhered to it may be necessary to consult with the Chair of the Panel to arrange any special meeting that may be required.

4.4. Staff

4.4.1 It is vital that staff have the opportunity to assist in the shaping of future service provision in these areas given the impact of the proposal. It is therefore planned to carry out a series of consultation exercises with staff across the affected services. These will supplement the staff briefings already held. It is proposed that these consultation exercises will run in tandem with the sessions for members.

4.4.2 Monthly updates on the progress of the procurement process will be provided at the Departmental Consultative Committee to ensure the unions are engaged throughout the process.

4.4.3 Officers are currently working with both the HR and Communications teams to develop both the ongoing informal engagement processes and the formal consultation processes that will be required leading up to any potential transfer of staff under TUPE regulations.

5 TIMETABLE

The table below illustrates the proposed activity for the stakeholder engagement

Activity	Date
Borough Decisions on Procurement Strategy	January 2015
OJEU Notice Issued	January 2015
Outline Solutions Dialogue Stage	March – May 2015
Outline Proposals shared with Members of the SLWP Joint Waste Committee	May 2015
Detailed Solutions Dialogue Stage	June – October 2015
Detailed Proposals shared with Members of the SLWP Joint Waste Committee	October 2015
Final Tender Dialogue Stage	November 2015 – February 2016
Final Tender Proposals shared with Members of the SLWP Joint Waste Committee	March 2016

Executive Decisions on Preferred Bidder	May 2016
Contract Award	September 2016
Contract Commencement	April 2017

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. The cost of the proposed procurement exercise is estimated to be £1,635,360 over a 3 year period, with each borough contributing £408,840.

Resource Type	2014/15	2015/16	2016/17	Total cost
Internal resources	£65,100	£70,500	£15,750	£151,350
External advisors	£467,650	£605,500	£138,300	£1,211,450
Contingency	£106,550	£135,200	£30,810	£272,560
Overall Total	£639,300	£811,200	£184,860	£1,635,360
Cost Per Borough	£159,825	£202,800	£46,215	£408,840

- 6.2. The SLWP, through the London Borough of Merton, has applied for funding support through the Government's Transformation Challenge Award programme. If this application is unsuccessful, or does not provide sufficient funding for the project, the council is committed to contribute its share to the procurement process through funding already set aside for transformation projects of this kind held in the Council's reserves and to be agreed by the Merton 2015 Board.
- 6.3. There will be potential opportunities for the rationalisation of the 4 boroughs depot and transfer stations leading to both direct and indirect savings. Currently each of the boroughs depots are located geographically to suit the individual borough, giving scope for optimisation. This will be achievable as the bidders would be able to view the 4 authorities as one area as opposed to 4 separate collection areas.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. The partner boroughs are currently bound together by an Inter Authority Agreement (IAA) for its existing activities relating to the delegated functions of the Joint Waste Committee, notably waste disposal functions. A further legal agreement will be put in place prior to commencement of the procurement exercise to incorporate these services. The Phase C IAA is currently being developed by the South London Legal Partnership on behalf of Merton council which is the lead authority with respect to governance matters.
- 7.2. Once approval to progress is finalised by each partner borough this agreement will be put in place alongside the existing IAA, binding the

partners to the procurement exercise based on the principles set out in the current IAA.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. A preliminary integrated impact assessment has been completed for these universal services.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1. None specific to this report

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1. In order for the boroughs to realise the potential benefits associated with this joint procurement a firm commitment is required from each partner in order for the partnership to progress to OJEU stage. Each of the partners is seeking that approval to commence procurement through their appropriate decision making processes. It is anticipated that this approval will be finalised in January 2015.
- 10.2. A risk register for the procurement exercise will be established and monitored by Management Group Officers on a monthly basis and reported to the Strategic Steering Group. This risk register will initially capture the risks in 6 categories, strategic, commercial, financial, legal, technical and engagement activities.

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

Appendix 1 –Existing services provided by partner boroughs

Appendix 2 – Competitive Dialogue Flowchart

12 BACKGROUND PAPERS

- 12.1. Held by Cormac Stokes, Head of Street Scene and Waste

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