

Committee: Sustainable Communities Overview and Scrutiny

Date: 24 February 2016

Wards: ALL

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

Lead officer: Chris Lee, Director of Environment & 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:

Scrutiny is recommended to:

A. Note the agreed procurement process and key milestones leading to contract award in Dec 2016 for the procurement of waste collection and associated environmental services.

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. This report provides a summary of the progress to date on the South London Waste Partnership joint procurement of the South London Waste Collection and Environmental Services (Phase C) Project.
- 1.2. In November 2014, Cabinet agreed to procure jointly with the Authorities of the South London Waste Partnership 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 contract for Sutton and Merton only for grounds maintenance (including parks, arboriculture and grass verges and Cemeteries) (LOT2).
- 1.3. The report also provides an overview of the procurement process so far carried out and sets out the proposed timescales and approach to completing the procurement of these services.
- 1.4. As the procurement process is still being undertaken there are a number of commercial, technical and financial matters specific to each of the remaining bidders that must remain confidential and cannot be referenced within this report.

2 DETAILS / BACKGROUND

- 2.1. The South London Waste Partnership (SLWP) 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'.

- 2.2. For a number of years local authorities have been facing challenging reductions in central government grants whilst demands and expectations on services have grown. Merton has faced significant financial challenges as a result and has consistently addressed this through its approach to its Medium term Financial Strategy. The council is expected to explore opportunities for efficient processes, effective procurement, commercialisation of services and joint working on a regular and continual basis.
- 2.3. Whilst the SLWP was initially formed to provide improved waste transport, transfer and disposal services and meet the Landfill Allowance Trading Scheme (LATS) targets of the authorities. It was recognised that the infrastructure, experience and successes of the partnership would provide the most effective mechanisms for the Phase C Project.
- 2.4. **Governance of the SLWP**
- 2.4.1 **Joint Waste Committee (JWC)** this is made up of Cabinet and Executive Members from each of the 4 boroughs. Each of the four boroughs has delegated authority to the JWC all functions related to waste treatment and disposal. This includes the operational management of the Household Reuse and Recycling Centres. It is important to note that all key decisions still need to be made by individual boroughs Cabinet process supported by recommendations from the JWC. The Members of the Joint Waste Committee are consulted on the Phase C Project progress at each key stage of the procurement process.
- 2.4.2 **Strategic Steering Group (SSG)**, comprised of the four boroughs' Environment Directors; a representative of the four boroughs' Financial Directors; the Chair of the SLWP Management Group and the SLWP Strategic Partnership Manager. This is chaired by a Chief Executive from one of the partner boroughs on an annual rotation basis. This Group was established primarily to oversee the progress of the Phase C procurement project and to provide strategic advice to the Partnership's Management Group.
- 2.4.3 **Management Group (MG)**. Comprises of Assistant Directors/Heads of Service and Service Managers from the partner boroughs. This is chaired on annual rotational bases and is currently chaired by the Director of Streets (Croydon). This Group is supported by both strategic, contract and project management roles employed by the Partnership.



2.5. Parks Governance Structure

2.5.1 **Parks strategic steering group (SSG)** comprises of the two Environment Directors from Merton and Sutton, the two Assistant Directors from Merton and Sutton, the two Heads of Parks and Grounds maintenance service managers, and the partnership lead. This is chaired alternatively between the two directors. This group oversee the progress and issues associated with Lot 2 procurement exercise.

2.5.2 **Parks Management Group (PMG)**. This comprises of the two Assistant Directors and two Heads of Parks and grounds maintenance service managers from Merton and Sutton, the partnership lead, the project manager and various back office managers as and when required i.e. Head of Property etc.

2.6. The procurement has 3 main objectives:

- Reduce spending and maximise efficiency on services across the Partnership and increase revenues on commercial services
- Maintain a high quality service with high levels of customer satisfaction
- Deliver environmentally sustainable, carbon efficient services with scope for innovation

2.7. The four SLWP boroughs have made an assessment of delivery and procurement options and modelled 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 The Partnerships Strategic Steering 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 has been developed.

2.8.2 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, cemeteries for Sutton & Merton only.

2.9. Findings - Research (Local Partnerships and Eunomia)

2.9.1 In 2013 the Partnership commissioned 'Local Partnerships' (an organisation established jointly 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. The findings from these workshops and recommendations were reported to Cabinet in November seeking approval for the procurement and delegated authority to the Chair of Management Group to formerly deselect bidders as part of the preferred 'competitive dialogue' process.

2.10. Competitive Dialogue

2.10.1 Given the potential scope and complexity of services and supported by feedback from the market, the Competitive Dialogue procurement route was recommended. This view was strengthened in the event that a broader range of services beyond collection needed to be considered as part of the services being procured. This was agreed by Cabinet in November 2014.

2.10.2 The key determinants of the decision to use Competitive Dialogue are:

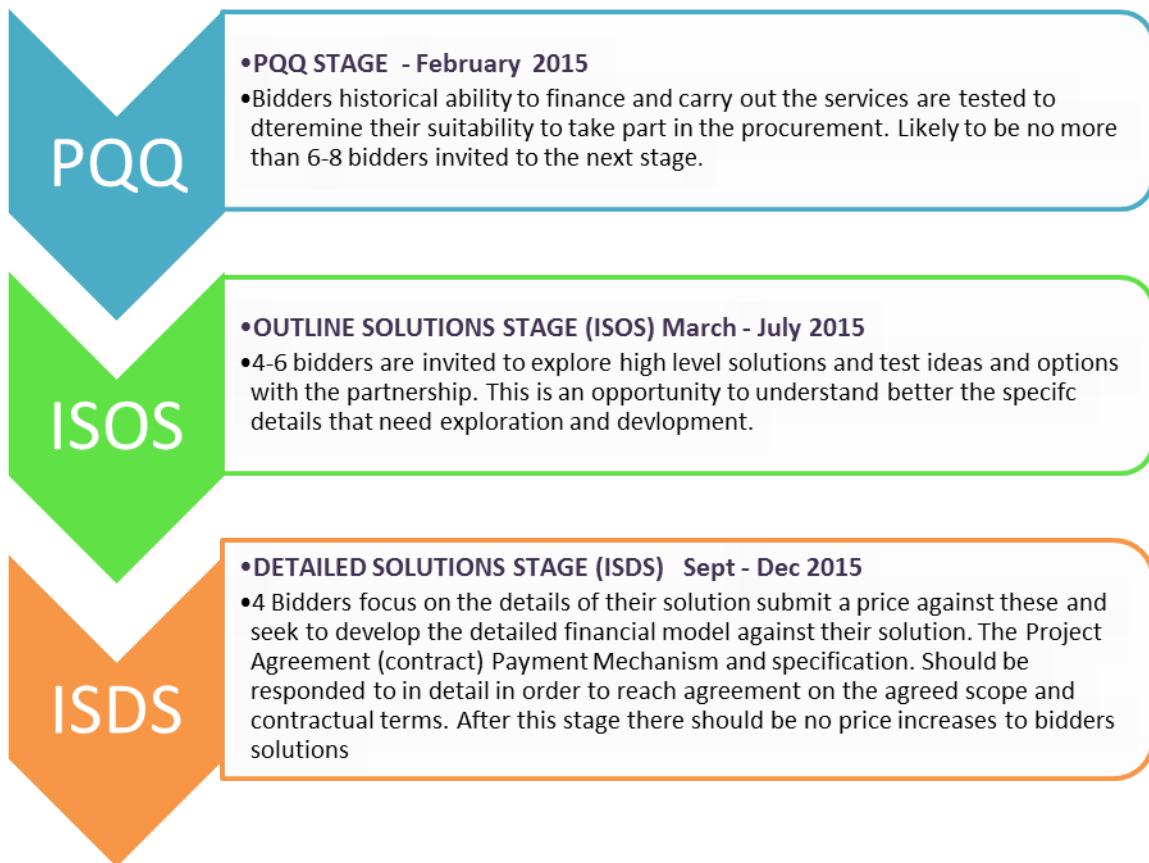
- The complexity of the requirement and the need to explore various options and service developments with bidders;
- The costs of the services which is estimated to be in the region of [£50m] per annum, and the requirement for skilled negotiation to take place with bidders, particularly given the scale of spend and that making significant savings is a core requirement of the project.

2.10.3 At the Soft Market Testing events prospective bidders confirmed they favoured this approach

2.10.4 One of the key benefits of using Competitive Dialogue is that it allows both the Authorities and bidders to enhance and adapt the scope of the requirements and therefore the final specification. It is anticipated that the specification will be finalised in advance of closing dialogue and calling for

Final Tenders. Until such time discussions with bidders of the requirements and specification remain commercially sensitive.

- 2.10.5 The Competitive Dialogue procurement route has highlighted further efficiencies. As part of this process the Partnership has been able to include the benefits of incorporating the administration function for the cemeteries services along with the bookings function for Parks within the scope of the services.
- 2.10.6 In addition, it has been possible for Merton and Sutton to review the time scale and contract start date and seek, in consultation with the bidders, to bring forward the contract start date for Lot 2 services to ensure that the contractor is potentially in place prior to the start of the horticultural cutting season.





2.11. Evaluation Methodology

- 2.11.1 At the end of each stage of the procurement the Partnership has retained the option to deselect bidders based on overall evaluation of their proposed bid.
- 2.11.2 Following the PQQ evaluation 5 bidders were invited to submit outlined solutions (ISOS) for LOT 1 services and 6 bidders were invited for LOT 2.
- 2.11.3 These have been reduced following each stage of dialogue with currently 3 bidders for LOT 1 being invited to tender for final solutions (ISFT) along with 2 bidders for LOT 2. Final submissions are due March 2016.
- 2.11.4 Bidders have been advised of the need for technical submissions to include a Waste Flow Model a Resource Model and an Assumptions Paper containing supporting information. These are deliverables that provide the operational evidence base upon which the financial information will ultimately be based.

2.12. Evaluation process for Final tenders

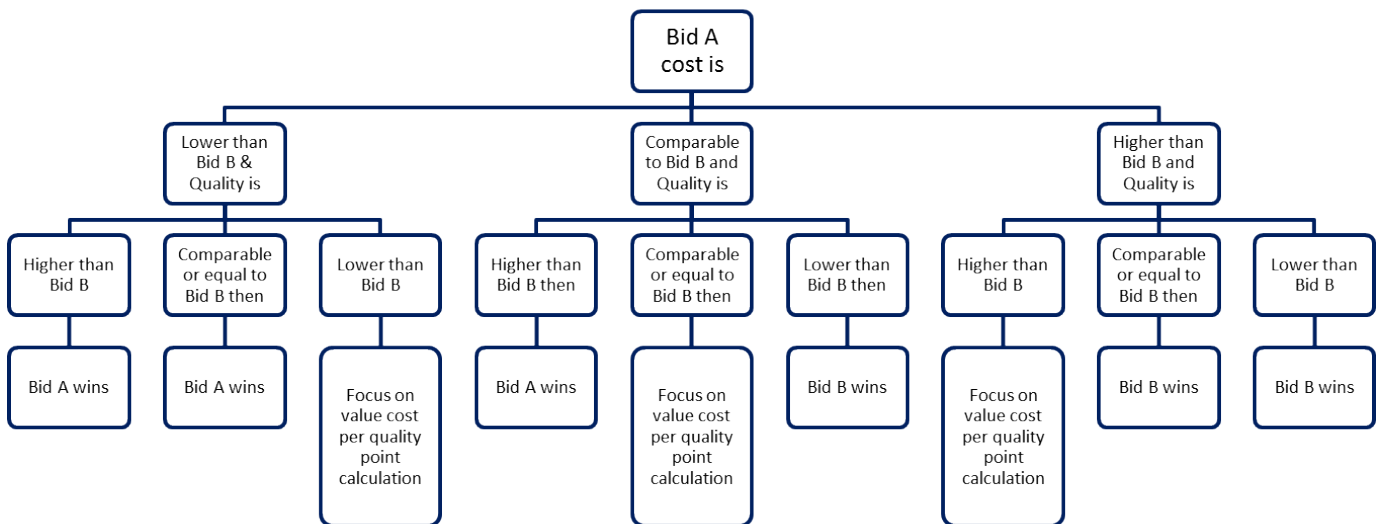
- 2.12.1 The evaluation of bid quality is broken down into four distinct categories
 - Technical (35%). This evaluates bidders approach to service delivery, their technical solutions, their approach to the contract specification and the robustness of their resource plan to deliver the outputs anticipated from the contract.
 - Financial (25%) This evaluates bidders approach to the contract payment mechanism requirements and the robustness of their pricing. It also covers bidders approach to the partnership

requirements for transparency and auditing and the robustness of their approach to financing the contract. This element does not consider the overall bid price which is evaluated separately.

- Legal and commercial (35%) This evaluates the bidders response and approach to the contract as a whole,. A key area for consideration by the partnership has also been to ensure a robust approach to TUPE and pension issues and bidders' approaches are evaluated within this section. In addition to the bidders proposed organisational structure for delivering the service is also evaluated within this section
- Bid coherence (5%) This element of the evaluation examines the bids in their completeness to ensure there is consistency across all of the above elements.

2.12.2 With respect to price of the services, this will be evaluated as a Net Present Value (NPV) of the annual contract payments. This will be calculated in accordance with the Payment Mechanism from the Contract commencement (1 April 2017) to the anticipated first Contract break point. (Year 8) for each of the Lots.

2.12.3 The flow diagram below (Decision Tree) sets out the evaluation process to determine the ranking of each of the detailed bids with regard to ensuring the most economically advantageous tender is identified.



3 ALTERNATIVE OPTIONS

3.1. 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.

3.2. While efficiencies may be achievable by individual authority procurements a number of these might 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. Members

4.1.1 Members of the JWC have been consulted continually and at the natural points in the procurement process, when proposals and potentially prices made available. Workshops with Lead Members across all partnership Boroughs have been undertaken with a focus on developing the specification principals and evaluation framework.

4.1.2 Further member consultation has been undertaken within the individual boroughs at key points in the procurement process.

4.1.3 This has allowed 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. .

4.2. Staff

4.2.1 Monthly engagement and progress up date has been provided to all impacted staff. This has been achieved with by alternate monthly News letters and further supported with by alternate monthly staff engagement sessions with the director of environment.

4.3. Lot 2 – Engagement with staff has been around key milestones with the procurement exercise (Approx. Quarterly), and friends groups every six months to keep them informed of progress around the procurement. The procurement has also been discussed at length at DCC meetings on a monthly basis.

5 TIMETABLE

5.1. The following table sets out the overall timetable for the project.

Activity	Date
Cabinet Report Recommending joint procurement through SLWP using commercial dialogue process.	November 2014
OJEU Notice Issued	January 2015
Competitive Dialogue	Feb 2015 – March 2016
Scrutiny consideration on Procurement process	Feb 2016
Evaluation of Final Tenders	April – May 2016
Pre decision Scrutiny report	June 2016
Cabinet Report Preferred Bidder	July 2016
Contract Commencement	April 2017

5.2. Final tenders are due to be received in March 2016 and following evaluation and moderation the Partnership will recommend its preferred bidder in June 2016. This will be presented to Cabinet in July 16. Depending upon the timing of the final report Scrutiny may wish to consider this at an existing or at an additional special meeting.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. The cost of the proposed procurement exercise for Merton is estimated to be £698k over a 3 year period.

6.2. The SLWP were successful in their application for external funding from the Transformational Challenge Fund and were awarded £1.3m towards the procurement cost. Merton's share of this was £332k reducing the cost of the procurement down to £365k.

6.3. The current annual cost (expenditure) of providing these services is currently £13.5m with Income of £4.0m

6.4. The council is facing increasing demand for services due to demographic pressures and the consequences of other national government policies. In addition to this the Council is facing significant reduction to its Government funding and to address this, the Council has identified savings through its Medium Term Financial Strategy.

- 6.5. The financial savings attributed from this procurement wont be known until the financial submissions have been fully evaluated and the technical solution agreed.
- 6.6. Economies of scale
- 6.6.1 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 recyclate 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

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.
- 7.2. A further legal agreement has been put in place to cover the activities and contract award for this procurement. Merton Council is the lead authority for the Phase C IAA with respect to governance matters.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. A preliminary integrated impact assessment has been completed for these universal services. Prior to contract award and as part of the fine tuning process Equality impact assessments will be undertaken on each of the 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 at each of the key stages of the procurement.

10.2. A risk register for the procurement exercise has been established and monitored by Management Group Officers on a monthly bases and reported to the Strategic Steering Group. In addition to this the Register is reviewed by the Joint waste Committee . This risk register incorporates the six main 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

12 NONE

13 BACKGROUND PAPERS

Held by Cormac Stokes, Head of Street Scene and Waste

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