



AGENDA ITEM:

SUMMARY

Report for:	SPAЕ Overview and Scrutiny Committee
Date of meeting:	12 April 2016
Part:	1
If Part II, reason:	

Title of report:	Recycling Contract
Contact:	Cllr Janice Marshall, Portfolio Holder for Environmental and Regulatory Services. Author/Responsible Officer : David Austin , Assistant Director Neighbourhood Delivery
Purpose of report:	To seek comments from this Committee on a proposal for Dacorum Borough Council to enter into a consortium contract with selected members of the Hertfordshire Waste Partnership (HWP) for the bulk receipt and processing of mixed dry recyclables.
Recommendations	<ol style="list-style-type: none"> 1. That Committee note the contents of this report. 2. That any comments from this Committee are passed to the Portfolio Holder for consideration.
Corporate Objectives:	<ul style="list-style-type: none"> • Safe and Clean Environment • Dacorum Delivers
Financial Implications:	<u>Financial</u> As detailed in this report, there has been a significant decline in market values for recyclables over recent years which has resulted in the Council currently incurring a gate fee for the processing of mixed recyclables. Clearly with either a consortium or individual approach to securing a new contract the Council will be subject to the same market conditions and possible cost volatility.
'Value For Money Implications'	<u>Value for Money</u> The approach to collecting mixed recyclables as opposed to the material being collected separately at the kerbside has previously demonstrated that the current approach with wheeled bins provides the best value for money for the residents of Dacorum.
Risk Implications	Dacorum Borough Council has to sell its collected recycling material in a free market. It is not possible therefore to predict the value of the material at the time of the tender or future commodity markets so there is a risk of higher costs to the

	<p>Council.</p> <p>The other main risk could have been around the quality of material. Dacorum Borough Council has traditionally supplied material of high quality which is clearly important in a market which is often in a state of oversupply. The risk therefore could have been that our recyclables may have been 'contaminated' by the other consortium partners leading to potential financial implications. This however has been prevented by officers as part of the clauses in the specification of the contract so that we are individually responsible for the quality of the material collected in Dacorum.</p>
Community Impact Assessment	This has not been carried out as the proposals set out in this report will not require a policy or service change.
Health And Safety Implications	There are no health and safety implications to this report.
Consultees:	Ben Hosier, Group Manager for Procurement James Deane, Corporate Director (Finance & Operations) Duncan Jones, Hertfordshire Waste Partnership Development Manager
Background papers:	Cabinet Report – Waste Strategy (11 th Feb 2014)
Glossary of acronyms and any other abbreviations used in this report:	MRF – Material Recycling Facility, a facility that separates and processes recycling collected at the kerbside.

1. Background

- 1.1 The Authority's current contract for dry recycling is with Viridor Waste Management based at Crayford in East London and involves the bulk receipt and processing of approximately 15,000 tonnes of mixed recyclables per annum. The location of the Viridor MRF necessitates that Dacorum's recyclables are bulked at Cupid Green before delivery to the reprocessing facility at Crayford. This bulking and haulage operation costs Dacorum in the region of £200,000 per year.
- 1.2 The mixed recyclables contract expires in October 2017 which means a new procurement process to secure arrangements from November 2017 onwards needs to commence in 2016.
- 1.3 As part of an early review of options, it became apparent that the contracts of neighbouring authorities were also coming to an end in 2017. Given the changes in market conditions over recent years it was sensible to investigate whether the option of entering into a consortium arrangement with Three Rivers, Welwyn Hatfield and Watford Councils would result in a stronger negotiating position for Dacorum.
- 1.4 With regards to market conditions, there have been significant changes in recent years, with an over-supply of recycled materials leading to a global drop in selling prices. This shift has impacted on a number of local authority contracts, including Dacorum, causing the disposal of recyclates

to stop being an income generator (i.e. through the sale of materials) and to start becoming an actual cost in the form of a gate fee (i.e. paying for the disposal of the materials).

The risks of entering a group contract rather than lone contract

1.5 As referred to in paragraph 1.2, the Council's contract for commingled recycling expires in November 2017. Whether the Council lets the next contract jointly or individually it will face market risk determined by the market conditions at the time of the procurement exercise. As a result, this section focuses on addressing only the additional risks that arise purely as a result of entering into a *joint* contract.

2. Financial Risk

2.1 The obvious potential benefit of a consortium contract is that the combined tonnage of the consortium enables it to influence the market in a way that each individual member would be unable to do on the basis of their own, lower tonnage.

2.2 Dacorum currently generates around 15,000 tonnes per annum of commingled recyclates, whereas the proposed consortium would generate a combined 40,000 tonnes per annum.

2.3 Dacorum Waste and Procurement officers carried out soft market testing to specifically address the key question of whether 40,000 tonnes would achieve the critical mass needed to influence the market and therefore drive price benefits for individual consortium members.

2.4 Feedback from operators within the market was that a combined tonnage of around **80,000** tonnes would be required to drive material pricing benefits for the Council. On this basis, Dacorum is likely to attain the same pricing when going out as part of a group, as it would if going to tender individually.

2.5 However, the market testing did indicate that the rationale of forming a consortium to increase tonnages and reduce pricing was sound. Given that the total available recycling tonnage across Hertfordshire is currently around **100,000** tonnes per annum, way in excess of the market influencing amount suggested through market-testing, there could be a longer-term benefit for Dacorum of laying the basis for a larger county-wide consortium that will deliver savings in the future.

2.6 On this basis, Dacorum will not be financially worse off by increasing its tonnage as part of the proposed consortium and there could be some longer-term benefits that would not accrue from a lone tender.

Contamination Risk

2.7 The primary risk to Dacorum of entering into the consortium is around the quality of the combined recyclates, and whether Dacorum would face financial penalties if the quality of other members' was below that of our own and effectively contaminated our materials.

2.8 The quality of the material collected in Dacorum is currently very good for a variety of factors. These include socio-economic reasons; our previous

source separated collection system for recyclables and because we operate our own licensed waste transfer facility. With this new contract, there will still be individual checking of recyclates by Authority so we cannot be adversely affected if there are poorer quality loads delivered by Partner Authorities.

2.9 On this basis, the contamination risk to Dacorum is eliminated and does not therefore offset the benefits identified in the previous section.

Procurement Risk

2.10 Potential bidders for a tender will only undertake detailed work on a contract as part of their bid submission once the procurement exercise has formally begun. Consequently, although soft market testing has already been undertaken by the Council, there is a risk that on further, more detailed work the bidders' final submissions will have identified a previously unforeseen complication of entering into a joint contract.

2.11 Members should note that the Council is not contractually committed to a joint approach merely by virtue of a joint procurement exercise. As a result, if final bid submissions were to identify new, unacceptable risks each of the councils involved retains the right to withdraw from the process without penalty.

2.12 Given the due diligence already undertaken, this outcome is considered low risk. Withdrawal from the process should be considered a last resort as it may necessitate a further procurement exercise for any councils that wished to remain within the consortium.

2.13 The procurement exercise will be designed, and all submissions evaluated, jointly and equally by Procurement and Waste Officers from the four councils. This will ensure that all risks and rewards are accrued equally by all members.

Lead Authority Risk

2.14 It is currently proposed that Welwyn Hatfield will act as the lead authority on this procurement exercise and on the subsequent management of the contract.

2.15 This is the arrangement has worked well with previous consortia and the fee for doing this is already included in the HWP annual subscription. In effect it means that the contractual relationship is between Welwyn Hatfield and the winning bidder with an agreement between Welwyn Hatfield and the other three Authorities including Dacorum.

3. Timescales for procurement and new arrangements

3.1 Taking into account current arrangements, and subject to Member approval, the intention is to let a joint contract covering Dacorum, Three Rivers, Welwyn Hatfield and Watford Councils. Officers are recommending that the contract be let for a period of 7 years with an option, by mutual agreement, to extend for 3 years subject to market testing at the time. The contract will be awarded and managed by Welwyn Hatfield on behalf of all consortium members.

3.2 The anticipated timeline for the procurement of the new contract is noted below and has been structured to allow maximum time for tender submission, tender evaluation and internal reporting:

Table 1 – Anticipated Procurement timetable	
STAGE	Date
Tender (OJEU) Advert	April/May 2016
Last date / time for questions relating to the tender	TBC
Tender Return	Mid July 2016
Assessment and agreement by Partner Authorities	End of August 2016
Partner Authority Approvals process	End of September 2016
Lead Authority Cabinet – tender decision	Early Nov 2016
Standstill period	Mid Nov 2016
Contract(s) award	End Nov 2016
Contract start (intended) (Dacorum Joins)	1st February 2017 1st November 2017

4. Summary

4.1 The contract for the processing of comingled recyclate has to be tendered as our current agreement expires next year. In retendering, the Council has a choice as to whether to go to the market ‘alone’ or as part of a consortium.

4.2 As highlighted in this report, there are no potential disadvantages of retendering as part of a consortium – given we retain control of any issues with contamination of recyclable material collected in the Borough – so it would be sensible to proceed on this basis. This could set a foundation for further benefits from future joint working on a larger scale as part of the Hertfordshire Waste Partnership.

4.3 Further background information with regards procurement of this contract is included as Appendix A.

APPENDIX A – Procurement Background Information

1. Financial Implications

1.1 When assessing the likely financial implications of a tender for the bulk receipt and processing of mixed dry recyclables 3 key elements need to be considered. These include:

- the 'basket value' of a commingled tonne of mixed dry recyclables;
- the processing cost per tonne – often referred to as the 'gate fee';
- for those authorities that cannot direct deliver the cost of any bulk haulage arrangements.

Basket Value

1.2 The basket value of a commingled tonne is the total value of each component part as measured by an agreed index multiplied by the percentage that the component makes up of the whole.

1.3 Table 2 illustrates how this works in practice. The figures quoted are for illustrative purposes only based on the latest average prices available from Letsrecycle.com for September – November 2015. Letsrecycle.com is the index officers will be specifying for use in the new consortium:

1.4

Part 2 – Income share – basket value calculation				
Column A	Column B	Column C	Column D	Column E
Component Material	Letsrecycle Price Index	Composition (as of %age of 1 tonne from section X)	Mid Point Price	Value per tonne
Paper (mixed)	Mixed Paper	50.55%	£48.50	£24.51
Glass	MRF Glass	26.67%	-£20.33	-£5.42
Plastics (mixed)	Mixed plastic	8.51%	£54.17	£4.61
Steel Cans	Steel cans	4.72%	£21.50	£1.01
Aluminium	Aluminium cans	1.18%	£686.67	£8.10
Soft plastic (non target)	None specified	4.15%	---	---
Prohibited	None specified	4.23%	---	---
Sub Total...		100%		£32.82

- 1.5 In the example noted above the value of 1 tonne of commingled material works out at £32.82 per tonne with those component parts which either have a significant value and / or make up a large percentage key to the overall value.
- 1.6 Therefore in terms of managing such a contract prices and related issues to watch would include things such as packaging targets and market prices for aluminium, glass, newspapers and magazines. The example shown also reflects current negative prices (charges) for mixed glass which act to reduce the basket value.
- 1.7 Whilst markets for recyclables are cyclical in nature they also differ fundamentally from markets for virgin materials in that supply cannot be switched off or even significantly reduced to match economic cycles.
- 1.8 For example whereas a mining company can scale back the production of raw materials when economies dip, this is not something that can happen with dry recyclables sourced from domestic and commercial waste streams. As a consequence this can exacerbate market fluctuations and other disruptions.

Gate Fees & Risk

- 1.9 The processing fees charged by a MRF relates to costs associated with processing 1 tonne of mixed dry recyclables and covers both fixed and variable costs including, labour, power, maintenance, capital financing costs etc. Such fees are commonly referred to as gate fees.
- 1.10 Each year the Waste Resources Action Programme (WRAP) carries out a survey of gate fees reported by local authorities across the UK. The 2015 report found that the median gate fee in the 2015 survey was £6 per tonne, down from £10 per tonne reported in 2014.
- 1.11 However, the survey also noted that both years included MRF gate fees for on-going contracts, with some of these starting as far back as 1995. The inclusion of such contracts has the effect of dampening the impact of gate fees in more recent contracts as older contracts were signed when commodity prices were significantly higher.
- 1.12 Such a wide variation will be related to a number of factors including:
 - contract length and commencement date;
 - the level of tonnage - this can have a very significant impact on the level of cost incurred or income earned;
 - different levels of sophistication and cost associated with the MRF technologies being employed – more modern MRFs are capable of sorting more materials creating better income streams but inevitably such capability also costs more;
 - linked to the ability to sort - different prices for sale of materials; i.e. mixed plastics from a MRF with lesser sorting capabilities will earn less than better sorted plastics available from a more technological advanced facility;

- composition of incoming material – mixed dry recyclables with higher value contents and lower contamination levels will be worth more than mixes with lower value materials and higher contamination levels.
 - different ways of apportioning materials revenue risk between the MRF operator and the local authority – in other words how much risk are the client authorities asking potential bidders to assume based on the specification detailed in the contract.
- 1.13 The majority of local authorities (65%; 99 authorities) who answered questions on future trends thought that MRF gate fees would increase. The factors that local authorities identified as being most likely to influence future gate fees are commodity prices for secondary materials and the quality of input material. A study carried out by the HWP in 2014 suggested gate fees of £55 per tonne for fully commingled material.
- 1.14 These issues combine to create significant risks which need to be understood both by potential bidders as well as the client authorities who need to structure the tender and bidding process in such a way as to minimise the level of risk that all parties are exposed to.
- 1.15 Historically, especially with older contracts, the gate fee element of any contract was largely funded through sharing income between the MRF provider and the client local authority.

Bulk Transport costs

- 1.16 The final cost element to consider is the cost of delivering bulk recyclables from the Cupid Green depot to the successful bidders MRF. As noted above this element currently costs the authority £200,000 per annum which is equivalent to an additional cost of circa £13 per tonne and reflects the lack of close by facilities which the Authority could ideally deliver directly too
- 1.17 Previous HWP procurements have looked to include this element as part of the contract with prices sought for both delivered and collected material. However, the 2014 investigation conducted by the HWP identified a strong preference for keeping bulk transport needs separate to the main processing contract.
- 1.18 However, at the same time we need to be careful how this issue is handled at the tender evaluation stage as financially advantageous bids could be received from MRFs located at considerable distance with any such gains negated by excessive transportation costs.
- 1.19 Therefore following discussion among the 4 client authorities it has been agreed to deal with bulk transport needs separately to the main processing contract. As such the specification will include a note for bidders highlighting that whole service costs will be taken into account as part the evaluation process with costs related to bulk transportation specifically highlighted.
- 1.20 It is anticipated that such a statement in combination with any queries during the tender submission stage should prevent bids for MRFs that

may be able to offer a good combination of gate fee / basket value for the material but are in a location that would entail excessive costs.

Recommended pricing approach

1.21 Taking the above into account and focusing on the need to reduce risk throughout the process the pricing aspect of the tender will be structured as follows.

- The specification will require individual materials to be priced based on a 3-monthly average value as detailed on the Letsrecycle.com index as demonstrated under paragraph 6.3.
- The composition of a single tonne of commingled material in the first year will be set by the client authorities with all 4 tonnage sources combined to form a single composition. From year 2 onwards composition will be derived from MRF Regulation testing carried out on all materials coming into the plant.
- Bidders will be asked to submit a gate fee calculated to cover the cost of processing a tonne of fully commingled material. This should significantly de-risk the process by reassuring bidders that the cost of accepting and processing consortium material is not dependent income from selling the materials once processed.
- The bidders will be asked to specify what share of the basket value will be given to the HWP with a range set by the HWP of between 25% - 100% of the basket value. At the time of tender this will allow officers to better forecast the range of likely outcomes.

1.22 When combined these 2 elements will give an effective likely net cost per tonne derived from subtracting any income share from the gate fee's proposed by the bidders.

1.23 In turn once the net costs are known these will be considered under the context of projected bulk transport arrangements and costs to determine which is the likely best overall economic result.