



Report for:	Cabinet
Date of meeting:	26 April 2016
Part:	1
If Part II, reason:	

Title of report:	Recycling Contract
Contact:	<p>Cllr Janice Marshall, Portfolio Holder for Environmental and Regulatory Services.</p> <p>Author/Responsible Officer : David Austin , Assistant Director Neighbourhood Delivery</p>
Purpose of report:	To seek authority to enter into a consortium arrangement with selected members of the Hertfordshire Waste Partnership (HWP) for a joint procurement of a MRF processor for the bulk receipt and processing of mixed dry recyclables.
Recommendations	1. That Cabinet agree to Dacorum Borough Council joining the new consortium arrangement for the procurement of a MRF processor for the processing of mixed recyclables commencing in 2017.
Corporate Objectives:	<ul style="list-style-type: none"> • Safe and Clean Environment • Dacorum Delivers
Financial Implications:	<p><u>Financial</u></p> <p>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.</p>
'Value For Money Implications'	<p><u>Value for Money</u></p> <p>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.</p>
Risk Implications	Dacorum Borough Council has to sell its collected recycling material in a free market. It is not possible to predict the future value of the material at the time of the tender or how

	<p>commodity markets will act to market conditions in the future, so there is a potential risk of higher costs or lower revenue streams to the Council. A shared risk/reward approach with the MRF processor will need to be built into the specification and contract to ensure we mitigate the impact of these potential risks.</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 writing the specification and the contract so that each Authority is responsible for the quality of the material collected in their respective areas.</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.
Monitoring Officer/S.151 Officer Comments	<p>Monitoring Officer: No comments to add to the report.</p> <p>S.151 Officer No comments to add to the report.</p>
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. The processing value of the current contract is circa £75,000 in addition the associated haulage costs are currently 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 October 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, i.e. in excess of the market influencing amount suggested through market-testing, there could be a longer-term benefit for Dacorum of laying the foundations 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' recycling was below that of our own, effectively contaminating 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 of joint procurement 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 lead partner arrangement has worked well with previous consortia, and the fee for doing this is already included in the HWP annual subscription and so will not result in an additional cost to Dacorum.

2.16 In effect, the contractual relationship will be between Welwyn Hatfield and the winning bidder. There will be separate, formal agreements between Welwyn Hatfield and each of the other three Authorities. The agreement between Dacorum and Welwyn Hatfield will be subject to due diligence by Procurement and Statutory Officers from both parties.

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)	1st February 2017
(Dacorum Joins)	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.