

Report to: Cabinet
Date of meeting: 7th March 2016
Report of: Client Manager, Waste, Recycling & Streetcare
Title: Recyclable Material Consortium Contract

1.0 **SUMMARY**

- 1.1 Watford's current contract for the reprocessing of its kerbside collected recyclable material is due to end in January 2017. This dictates that a tendering exercise for the future reprocessing of the authority's commingled dry recycling needs to be carried out in 2016 for a start date of February 2017.
- 1.2 After careful examination of options to provide the most attractive package to market, it is suggested that entering a consortium arrangement with selected neighbouring authorities will provide best value to the council, and its potential future partners ,for reasons detailed in this report.
- 1.3 Subject to individual council committee/Cabinet/ Executive decisions the partner authorities are currently proposed to be: Three Rivers, Welwyn Hatfield and Dacorum councils.

2.0 **RECOMMENDATIONS**

- 2.1 That Cabinet agree to the Council being part of a consortium contract to be tendered in 2016 and commencing in February 2017 for the future reprocessing of its commingled dry recycling material.
- 2.2 That Cabinet agree to the associated bulk haulage requirement forming part of another tendering exercise alongside the reprocessing contract.

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Report approved by: Lesley Palumbo, Head of Corporate Strategy and Client Services

3.0 DETAILED PROPOSAL

3.1 The provision of the kerbside recycling services for mixed dry recyclables is a key part of the authority's strategy to achieve targets detailed in Hertfordshire's Joint Municipal Waste Management Strategy as well as current targets in the national strategy and the EU's revised Waste Framework Directive, all of which require 50% of household waste to be recycled by 2020.

3.2 The provision of such services is also now a legal requirement as a result of the separate collection requirements detailed in revised Waste Framework Directive and the Waste England and Wales Regulations 2011.

3.3 The Council's current contract runs out in January 2017. This means a new procurement process to secure arrangements from February 2017 onwards needs to commence in early to mid-2016; especially if, as suggested, the Council is to enter into consortium arrangements with Three Rivers, Welwyn Hatfield and Dacorum councils.

3.4 As part of the Hertfordshire Waste Partnership (HWP), Watford has been participating in a special MRF (Material Reclamation Facility) sub group set up to look at different options for dealing with mixed dry recyclables collected by the Partner Authorities.

3.5 As part of the sub group's deliberations, 4 different procurement options were considered including:

- a service contract – where the HWP simply seeks a price for the processing of bulk dry recyclables with the relevant councils responsible for selling to end markets;
- a design, build and operate contract – all 11 HWP authorities working together;
- sub county contracts involving between 2-4 Partner Authorities;
- a South West Herts Partnership formed out of those authorities keen to work together for a joint solution.

3.6 The arguments for and against each option were previously considered by the HWP's Directors Group. Following discussion it was agreed that the service contract; design, build and operate; and the South West Herts Partnership options would be dropped in favour of concentrating on sub county level contracts.

3.7 It is envisaged that sub level county contracts should consist of between 2 and 4 authorities joining together to secure medium term contracts for the processing of commingled dry recyclables in existing facilities.

3.8 However, long term, the Directors Group agreed that once the new procurement process had been completed the issue of a longer term design, build and operate option could be re-visited.

4.0 CURRENT REPROCESSING ARRANGEMENTS – Watford

4.1 The Council's current contract is with Pearce Recycling who are based in St Albans and involves the transport from Waterdale transfer station, bulk receipt and processing of approximately 7500 tonnes of commingled dry recyclable material per annum.

4.2 The contract commenced on 1st February 2014 for an initial term of one year with two optional extensions of one year to 31st January 2017. This leaves Watford in the final year of the contract's extension period.

4.3 **OTHER LOCAL AUTHORITY CURRENT REPROCESSING ARRANGEMENTS**

4.4 Three Rivers Council's contractual arrangements mirror those of Watford including contract end date. Three Rivers currently generate 8500 tonnes of mixed dry recyclables per annum

4.5 Welwyn Hatfield Council also currently use Pearce Recycling. Due to the location of the Pearce facility in Welwyn Hatfield they are able to direct deliver 6300 tonnes per annum without the need for bulk transfer. Their current contract ends on the 31st January 2017.

4.6 Dacorum Borough Council currently has a contract with Viridor Waste Management in Crayford, East London, which involves the bulk receipt and processing of 16,000 tonnes per annum. The location of Viridor's plant dictates that the material is bulked from Dacorum to Crayford.

5.0 **JOINT PROCUREMENT**

5.1 Historically in Hertfordshire, the Partnership and individual authorities have either let short term contracts or entered into alternative informal arrangements for the receipt and processing of mixed dry recyclables collected at the kerbside.

5.2 Because of this approach, the market is not able to respond with longer term contracts to extract better value from the material as there is not a sufficient contractual infrastructure on which to build. In other words the current approach means contracts are either too short and / or cover insufficient tonnage to support investment in new technology.

5.3 Currently there are a range of different contracts throughout the county with different terms and conditions and end dates none of which have a critical mass of tonnage sufficient to positively influence the market. Consequently there is no strategic direction and no additional value being achieved.

5.4 In turn, if you consider that most modern MRFs now look to handle 100,000+ tonnes per annum the councils need to create contracts that will deliver the following:

5.5 **Critical mass:** At any one time there are a number of local authorities either tendering, or about to tender, for the receipt and processing of mixed dry recyclables. Therefore, new contracts have to stand out to potential bidders. One way to achieve this is to offer contracts with critical mass tonnages, i.e. significantly larger than the normal. In other words would a potential bidder rather tender for 3 separate contracts of 10,000 tonnes or spend a third of the resource bidding for 1 contract of 30,000 tonnes. Clearly the larger contract makes it easier for MRF providers to 'fill' their facilities.

5.6 **Contract length / investment opportunities:** Typically Hertfordshire authorities have let short term contracts of up to 4 years. However, a 4 year contract is not long enough to support on going investment in new technology to improve a MRF's sorting capabilities with a view to enhancing the value of the material once separated. Therefore, to compliment a consortium with approximately 35-40,000 tonnes per annum, the Partner Authorities should look to agree a longer term contract, resulting in lower perceived risk as a result of providing more tonnage over a longer period. Such contracts would also significantly reduce a bidder's on going resource requirements when it comes to bidding for new contracts.

5.7 **Joint working:** One of the main objectives agreed through the Herts Waste Partnership, and recorded as such in the HWP Agreement, is the pursuit of opportunities to work together to develop waste and recycling services. The creation of a new consortium for dealing with a significant proportion of the mixed dry recyclables collected in Hertfordshire is a logical extension of the consortium approach successfully used for newspapers and magazines as well as textiles. These contracts have delivered income levels consistently above what the market demonstrates.

5.8 **Contractual landscape:** Based on the sub county approach approved by the HWP Directors Group it is anticipated that the consortium contract being recommended in this report will be the first of 3 or 4 similar arrangements adopted across the County. Such a change will greatly simplify current arrangements making further long term integration in pursuit of greater added value easier.

5.9 **TIMESCALES FOR PROCUREMENT AND NEW ARRANGEMENTS**

5.10 Taking into account current arrangements, and subject to Member approval, the intention is to let a joint contract covering the requirements of Dacorum, Three Rivers, Watford and Welwyn Hatfield councils. The contract would commence in February 2017 with Three Rivers and Watford and Welwyn Hatfield joining from the start but would specify a November start date for Dacorum to allow for their existing contact arrangements.

5.11 Officers are recommending that following a competitive, OJEU compliant procurement process in collaboration with other local authorities; 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.

5.12 As noted above the phased approach being recommended has previously been used successfully by the HWP in a number of consortium contracts designed to accommodate transition from single authority arrangements and contracts with different end dates to joint contracts for a range of materials including newspapers, magazines and textiles.

5.13 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. This could be subject to minor amends;

5.14

STAGE	DATE
Tender (OJEU) advert	April 2016
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 November 2016
Standstill Period	Mid November 2016
Contract Award	End November 2016
Intended Contract Start	1 st February 2017

6.0

FINANCIAL CONSIDERATIONS

6.1

CURRENT COSTS

6.2

Through Watford's current arrangements, we pay a charge (gate fee) of £16.37 per tonne to Pearce Recycling for reprocessing of our recyclable material. This cost includes haulage from Waterdale transfer station.

6.3

The haulage element of the £16.37 equates to around £8.00 per tonne. However, this can fluctuate and affect the overall gate fee depending on material content. If our material contains heavier products i.e. glass this would positively affect the amount of tonnes Pearce can haul from Waterdale to their site. Should lighter materials be present i.e. plastics, hauled loads would automatically become lighter in weight and higher in volume resulting in more vehicle movements.

6.4

FUTURE CONSIDERATIONS

6.5

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 (i.e. the income obtained from selling the sorted material);
- 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.

6.6

Basket Value

6.7

The basket value of a commingled tonne is the total value of each recycled material that makes up "the basket". The value is measured using an agreed index and multiplied by the percentage of the material that makes up the tonne.

6.8

For example should a more valuable material make up the basket i.e. paper or aluminium cans, this would have a positive effect on the overall basket price as the re-processors would achieve more value when selling the material onwards.

6.9 The market for commingled dry recyclables has become volatile and presently shows no real significant sign of an upturn in material values, therefore affecting the “basket price” that all councils can expect to receive.

6.10 A broad explanation for the down turn in recyclable material values is the lowering of oil prices which has been seen world wide. This lowering in oil price has enabled more goods to be manufactured using virgin (non-recycled) materials. However, over the lifetime of a longer contract this position could revert back to higher levels of income.

6.11 **Gate Fees**

6.12 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”.

6.13 Gate fees can vary significantly over time and can 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 associated income;
- different levels of sophistication and cost associated with the MRF technologies being employed – more modern MRF’s 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 technologically advanced facility;
- composition of incoming material – mixed dry recyclables with higher value contents and lower contamination levels will be worth more than mixes with more 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.

6.14 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 in a way as to minimise the level of risk that all parties are exposed to.

6.15 **MATERIAL TRANSPORTATION COSTS**

6.16 The final cost element to consider is the cost of delivering bulk recyclables from Waterdale Transfer Station depot to the successful bidders MRF.

6.17 Previous procurements run through the HWP 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.

- 6.18 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.
- 6.19 Therefore following discussion among the 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.
- 6.20 It is anticipated that such a statement in combination with any queries during the tender submission stage should prevent bids from MRF's that may be able to offer a good combination of gate fee / basket value for the material but are in a location that requires additional transport costs and negative carbon impact.

7.0 **FINANCIAL MODEL PROPOSED**

- 7.1 Taking into account the contents of this report it is recommended that in order to achieve the best value for the councils kerbside collected commingled recycling material that the following model is used;
- 7.2 A consortium contract with partnering authorities providing the re-processor with a "critical mass" of material tonnage over a long term contract (7-10 years). An agreed gate fee is paid and covers a re-processors operating costs. This minimises associated risks to a re-processor and makes the contract attractive in a current tough financial climate for recyclable material.
- 7.3 To offset the gate fee paid by the council(s) an income is received for part or full value of the tonnage delivered. i.e. A "gate fee" of £45 per ton is offset against a "basket value" of £25 per ton would reduce the gate fee to £20 per ton of material. Income received would fluctuate according to market conditions although it is hoped over time that markets will recover sufficiently enough to see an upturn in related income.
- 7.4 By operating a separate haulage contract that bulk delivers material to a site the consortium is in control of haulage operations. At the same time it de-risks an otherwise unattractive addition to a re-processing contract whilst achieving best value haulage costs.

8.0 **IMPLICATIONS**

8.1 **Financial**

- 8.1.1 The Shared Director of Finance comments that the financial implications are not known at this stage but will become clear as the procurement progresses.

8.2 **Legal Issues** (Monitoring Officer)

- 8.2.1 The Head of Democracy and Governance comments that the procurement officer has been involved in the discussions with partner authorities. The contract is of sufficient value that the EU procurement rules will apply.

8.3 Equalities

8.3.1 There are no equalities implications identified in relation to this report

8.4 Potential Risks

Potential Risk	Likelihood	Impact	Overall score
That costs for the reprocessing contract negatively exceed expectations	3	3	9
That costs for a separate haulage contract negatively exceed expectations	2	3	6
That all partner authorities do not get agreement to enter a consortium contract	2	3	6
Risk Mitigation			
The purpose of the joint procurement is to mitigate the associated risks around future costs.			

8.5 Staffing

8.5.1 None identified

8.6 Accommodation

8.6.1 None identified

8.7 Community Safety

8.7.1 None identified

8.8 Sustainability

8.8.1 Diverting waste away from landfill and incineration remains ethically and financially important a local and national level. By continuing to provide quality recycling services, Watford is ensuring that services continue to provide best value to residents