

Report to	Cabinet 10 July 2013	Item
Report of	Head of citywide services	10
Subject	The award of contract for mixed dry recyclables processing service	

KEY DECISION

Purpose

Eight Councils (seven districts and the county council) in Norfolk have undertaken a procurement process for the future recycling of dry recyclable material collected at the kerbside. This report outlines the procurement process followed and details the outcome of the evaluation process; concluding with a recommendation to award the contract to a Teckal-compliant Joint Venture Company (JVC) co-owned by Norse Commercial Services and the seven district councils.

Recommendations

To:-

- (1) award to Norse Commercial Services Ltd ("Norse") a ten year contract for the recycling of dry recyclable material (being the enhanced contract with glass) pursuant to the procurement process carried out, on the basis that such contract be entered into between the District Councils of the Norfolk Waste Partnership and the joint venture company (as defined below);
- (2) approve the entry into a joint venture shareholders' agreement between the seven Norfolk District Councils and Norse for the purposes of establishing a joint venture company (the "JVC") to be the contractor under the recycling contract;
- (3) approve the entry into such ancillary arrangements as shall be necessary pursuant to the establishment of the JVC and the award of the recycling contract to the JVC; and,
- (4) delegate to the deputy chief executive (in consultation with the chief finance officer, head of law & governance and the deputy leader) authority to agree all necessary arrangements for the establishment of the joint venture.

Corporate and service priorities

The report helps to meet the corporate priority “Value for money services” and the service plan priority to deliver an efficient and effective waste service whilst increasing landfill diversion rates.

Financial implications

A loss of £7,000 income per year from 2015/16, rising to a total deficit of £63,000 in 2023 - 24 (assuming no material change in recycling rates). Please see Norwich Position, paragraphs 23 – 26.

Ward/s: All wards

Cabinet member: Cllr Mike Stonard, Environment, Development and Transport

Contact officers

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Background documents

None

Report

Background

1. The seven Norfolk district councils are waste collection authorities (WCAs) and are required to offer a service for the collection of dry recyclable waste to their residents. Norfolk county council is the waste disposal authority (WDA) and also collects a range of dry recyclable material through its household waste recycling centres (HWRCs). The county council currently also has to pay recycling credits to the WCAs at a set rate per tonne of dry recyclables collected from domestic sources, the rate being set by Government.
2. The WCAs, acting as a consortium, have an existing commercial contract with Norfolk Environmental Waste Services Limited (NEWS) for the sorting and bulking of the household recycling material collected across the districts. NEWS is a subsidiary of Norse Commercial Services Ltd which is in turn a part of Norse Group Limited, a holding company wholly owned by Norfolk County Council.
3. The existing contract commenced in 2003 and was extended, within the terms of the contract, to its end date of March 2014. During 2012 consideration was given to a further extension of the existing contract but this option was discounted based on legal advice received. The range of materials processed within this contract covers paper and card, plastic bottles, and steel and aluminium cans.

Next Steps

4. Given the requirement to seek a new contractual arrangement from 2014 and having taken guidance from Members (via the Norfolk Waste Partnership – NWP), officers progressed the procurement based on the following principles:
 - (1) That it would be better to work together as a consortium to achieve economies of scale and a better financial position through competitive bidding process.
 - (2) That there is a genuine need to be able to collect a wider range of materials as consistently requested by the public and members.
 - (3) That there is a need to maximise recycling rates, as per the agreed Norfolk Waste Strategy.
 - (4) That the future consortium model should be based on all councils being equal in terms of the same cost per tonne regardless of location and transport costs.
5. Officers were therefore instructed to move forward with an EU Compliant procurement process, which would allow a range of contract options to be considered, giving bidders the opportunity to propose variant solutions as well as meeting the requirement for a bid that complied with the specification. This meant that a competitive dialogue process would be required, as there was the potential to have to compare a range of very different proposals.

6. The county council also asked to become a partner in the consortium, to potentially deal with the dry recyclate arising from its operation of the HWRCs. This was agreed on a “nil obligated tonnage” basis.

Consortium procurement process

7. In February 2012 the NWP agreed the following principles:
 - (1) Working together is preferred to working as individual authorities.
 - (2) All Councils will be equal partners in the consortium (this relates to governance arrangements within the consortium; i.e. each Council has one vote on decisions).
 - (3) Services procured must be value for money – economic imperatives require maximising financial gain.
 - (4) The local economy will be supported as far as possible, within procurement rules.
 - (5) There will be more recycling and less landfill than currently.
 - (6) Services will be easy for customers to use.
 - (7) Existing inequities between partners should be addressed whilst respecting financial pressures on each authority e.g. by the provision of a mechanism to compensate those who have furthest to travel to disposal/processing facilities.
8. All councils agreed, through their own decision making processes, that they would enter into a consortium procurement based on an EU compliant process to appoint the next contractor for this service area. It was also agreed that Kings Lynn and West Norfolk council (KLWN) would act as the formal Procuring Authority for the purposes of the legislation and would also provide the project management and financial support for the project.
9. In addition, independent, expert support was also required for legal services, waste technical consultancy and procurement advice and all authorities agreed to fund these in equal share, with KLWN handling formal instruction, financial payments, etc. Subsequently, Walker Morris, White Young Green and ESPO respectively, were appointed.
10. In May 2012 the NWP agreed that financial stability and therefore guaranteed prices (as opposed to a solution based on significant market variation) was the most important issue for councils going forward. This factor would drive the financial evaluation model to be used for the procurement process.
11. The consortium also agreed that, in response to the desire to recycle an extended range of materials, the new service should include mixed rigid plastics (e.g. yogurt pots, margarine tubs and food trays) and that bidders should provide proposals both with and without glass bottles and jars.

Bid evaluation

12. At the conclusion of the bidding process, detailed solutions had been received from two bidders. These solutions were evaluated by a team consisting of waste management officers from each council, along with the appointed consultants and financial support.
13. The financial evaluation involved three areas: guaranteed gate fee, Income/profit share proposals and the robustness of the figures used by each bidder. All of the financial evaluation process has been peer reviewed by WYG, the councils' advisor on these matters.
14. The result is shown in the table below :

Ranking	Bidder	Bid type	Service	Score %
1	Norse	Variant	With glass	81.03
2	Norse	Compliant	With glass	78.43
3	Norse	Variant	Without glass	77.37
4	Norse	Compliant	Without glass	76.07
5	Bidder B	Variant	Without glass	67.56
6	Bidder B	Variant	With glass	62.82
7	Bidder B	Compliant	Without glass	44.02
8	Bidder B	Compliant	With glass	29.19

Successful bid

15. The variant solution with glass tendered by Norse Commercial Services Ltd was the most economically advantageous tender and the clear winner based on the evaluation criteria. As this solution proposed the formation of a joint venture company (JVC), representatives of the NWP met with Norse to determine the headline terms and conditions of the proposal.
16. The financial assumptions made in this bid have been rigorously cross-checked as part of the evaluation process including the examination of future trends for a 'basket' of recyclate material, the effects of inflation, machinery wear & tear etc.
17. These headline terms of the JVC are –
- (1) The formation of a 10 year Teckal compliant limited liability closed JVC co-owned by Norse and the participating district councils.
 - (2) Councils will be minority shareholders owning 49% of the JVC with each district 'given' 7%.

- (3) The proposed governance structure consists of a main board with 3 directors from Norse and 2 from the districts. (This may be open to amendment in terms of the number of representatives, however Norse will retain a one representative majority in any amended board structure).
- (4) There will be an operational liaison board involving all district reps.
- (5) Norse will underwrite any losses and take all commercial risk.
- (6) The service will consist of the provision of a contractually based enhanced recycling service with glass
- (7) A gate fee / payment fixed annually
- (8) A collective 50% share of profits generated from all NEWS' activities (not just the MRF) the total of which is currently projected at £3.5M between 2014 and 2019.
- (9) An income share scheme from the sale of sorted recyclable materials sold from the MRF and based on individual authority input.
- (10) No requirement for capital contributions from the councils
- (11) The opportunity for a share of profits from any new contracts awarded to the JVC
- (12) The JVC will be Teckal compliant
- (13) There will be no transfer of property assets into the JVC
- (14) There will be no liability for staff related issues falling to the councils; these will remain with Norse
- (15) Certain key staff (managers and technical/professional staff) will transfer into the JVC operation, again, with no liability to the councils.

Glass recycling

- 18. There were some initial concerns that mixing glass with the other recycling streams may be detrimental to the overall quality of the sorted recyclate, in particular the paper product recovered. However, the Norse solution deals with glass and the potential contamination of other recyclate using a well developed method statement which has been verified by our consultants, WYG. The bid's pricing reflects modern glass removal technologies and Norse have independently checked the likely market values for recyclates with Price Waterhouse Cooper. The results of this evaluation have been studied by the evaluation team.
- 19. As a result, officers are confident that the recycling credits arising from the amount of glass collected far outweighs the potentially lower prices that may be received for paper and cardboard which has been co-mingled with glass.

Financial implications

20. The MRF is located at Costessey on the outskirts of Norwich. For some districts, such as Norwich, recycling collection vehicles can tip directly at the MRF site but for those located further afield it is necessary to tip collected recyclate at transfer stations and then bulk-haul the material to the MRF. The operation of these transfer stations attracts some considerable costs which have to be borne by the individual districts.
21. The procurement process started with the clear understanding that the geographical location of councils should not disadvantage any single authority going forward; i.e. that the costs per tonne of material and any profit share arising, would be the same for each council. It was important that the overall financial position improved for the consortium as a whole, however, it was always recognised that the position of individual councils may well change compared to the existing NEWS contract as a result of historic contractual issues and that these changes could be positive or negative.
22. Based on the predicted total annual tonnage of 86,000, the initial financial evaluation suggests that three of the districts will be worse off as a result of the new contractual arrangements, but officers believe it should be possible to “smooth out” the level of loss, by those who improve their position taking slightly less.

Norwich position

23. Norwich is one of the districts that would require a ‘smoothing adjustment’ in order to lessen the impact of the new contractual arrangements. Based on a total annual figure to 86,000 tonnes of recyclate Norwich would lose approximately £70,000 when measured against anticipated income and costs from the existing MRF contract.
24. The consortium councils have therefore agreed a “smoothing” mechanism to reduce individual councils financial liability phased out over the 10 year lifetime of the contract. There are a number of issues pertinent to this; market conditions and the actual level of recyclate collected being the most important, along with potential delayed start to parts of the service. Consequently, it may well be that no councils ‘lose out’ and therefore the mechanism agreed is not actually needed. The financial position given is considered prudent and represents a near worst case position for the council.
25. The smoothing arrangement will compensate Norwich on a decreasing basis over the 10 years of the contract. In year one, 2014/15, 100% of any loss will be ‘smoothed’ from the savings made by the majority of councils. In subsequent years the percentage of compensation will decrease by 10% per year (assuming that smoothing is still required) to a figure of 10% in the final year, 2023/24.
26. Based on the assumption that the existing financial situation is unchanged throughout the lifetime of the contract Norwich would lose £7,000 of income each year from 2015/16 rising to a total deficit of £63,000 in 2023/24.

Overall position

27. The overall financial benefit for the Norfolk councils involved in this procurement, arising from the Norse bid, is based on three main principles, as follows.

- (1) The gate fee offered is lower than the existing gate fee
- (2) The profit share rate is higher than in the existing contract (based on a joint venture model)
- (3) The districts will be recycling more and disposing of less

The overall “profit share” is made up of two parts:

- (1) An Income Share, when income from the contracted services and materials reaches a certain point
- (2) A Profit Share, arising from NEWS operations only (but with no liabilities for closed landfills)

Conclusion

28. The procurement process has tested the market and returned a result which provides greater benefits for residents and for the consortium as a whole. The closer ties between the districts which have been forged during the procurement and evaluation process will be further enhanced through the operation of the new JVC. This should provide additional benefits going forward, through closer cooperation and future sharing of information, experience and best-practice.

29. In view of the significant financial downturn in recent years the reduction in income from the new contractual service is less than may have been expected. Given that this reduction is considerably off-set by the smoothing payments and given the additional benefits that the new service will bring, it is recommended that the contract is awarded to Norse on the basis of the JVC and as detailed in the recommendation.

Integrated impact assessment



NORWICH
City Council

The IIA should assess **the impact of the recommendation** being made by the report

Detailed guidance to help with completing the assessment can be found [here](#). Delete this row after completion

Report author to complete

Committee:	Cabinet
Committee date:	10 th July 2013
Head of service:	Head of citywide services
Report subject:	The award of contract for mixed dry recyclables processing service
Date assessed:	1 st July 2013
Description:	This report outlines the procurement process followed and details the outcome of the evaluation process

	Impact			
Economic (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Finance (value for money)		<input type="checkbox"/>	X	
Other departments and services e.g. office facilities, customer contact	<input type="checkbox"/>	X	<input type="checkbox"/>	
ICT services	X	<input type="checkbox"/>	<input type="checkbox"/>	
Economic development	X	<input type="checkbox"/>	<input type="checkbox"/>	
Financial inclusion	X	<input type="checkbox"/>	<input type="checkbox"/>	
Social (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Safeguarding children and adults	X	<input type="checkbox"/>	<input type="checkbox"/>	
<u>S17 crime and disorder act 1998</u>	X	<input type="checkbox"/>	<input type="checkbox"/>	
Human Rights Act 1998	X	<input type="checkbox"/>	<input type="checkbox"/>	
Health and well being	X	<input type="checkbox"/>	<input type="checkbox"/>	
Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	X	<input type="checkbox"/>	<input type="checkbox"/>	

	Impact			
Eliminating discrimination & harassment	X	<input type="checkbox"/>	<input type="checkbox"/>	
Advancing equality of opportunity	X	<input type="checkbox"/>	<input type="checkbox"/>	
Environmental (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Transportation	<input type="checkbox"/>	X	<input type="checkbox"/>	
Natural and built environment	<input type="checkbox"/>	X	<input type="checkbox"/>	
Waste minimisation & resource use	<input type="checkbox"/>	X	<input type="checkbox"/>	
Pollution	<input type="checkbox"/>	X	<input type="checkbox"/>	
Sustainable procurement	<input type="checkbox"/>	X	<input type="checkbox"/>	
Energy and climate change	<input type="checkbox"/>	X	<input type="checkbox"/>	
(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Recommendations from impact assessment

Positive

The procurement process has tested the market and returned a result which provides greater benefits for residents and for the consortium as a whole. The closer ties between the districts which have been forged during the procurement and evaluation process will be further enhanced through the operation of the new JVC. This should provide additional benefits going forward, through closer cooperation and future sharing of information, experience and best-practice.

Negative

Neutral

Issues