

<b>REPORT TO:</b>	<b>CABINET 19 January 2015</b>
<b>AGENDA ITEM:</b>	<b>appendix</b>
<b>SUBJECT:</b>	<b>South London Waste Partnership – Procurement of joint Waste collections and Related Environmental Services</b>
<b>LEAD OFFICER:</b>	<b>Jo Negrini, Executive Director Development &amp; Environment</b>
<b>CABINET MEMBER:</b>	<b>Councillor Stuart Collins, Cabinet Member for Green and Clean</b>
<b>WARDS:</b>	<b>All</b>

**CORPORATE PRIORITY/POLICY CONTEXT:**

The Administration has a commitment to make Croydon the cleanest and greenest borough in London.

As part of the commitment to becoming the cleanest and greenest borough in London it is recognised that the consistent delivery of high-quality of Environmental Services is an integral element of achieving this aim, as these key front-line services affect the visual impact of every street within the borough.

**AMBITIOUS FOR CROYDON & WHY ARE WE DOING THIS:**

**Cleaner & Greener** – exploring opportunities through competitive dialogue to procure a contract capable of ensuring that environmental improvements will be achieved during the life of the contract to enhance and improve the environment where residents live and work.

**FINANCIAL IMPACT**

It is recognised that through this joint procurement for Waste collection and Environmental Services, that there is the potential for achieving savings in the region of 10% against current base service costs.

**FORWARD PLAN KEY DECISION REFERENCE NO.: not a key decision**

The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below

**1. RECOMMENDATIONS**

- 1.1 Agree to the proposal to jointly procure waste collection and related environmental services as part of the South London Waste Partnership ('SLWP').
- 1.2 Agree to Croydon being the Lead Authority for this procurement.
- 1.3 Agree to delegate authority to the Chair of the SLWP Management Group, in consultation with the SLWP Management Group, Strategic Steering Group and members of the SLWP Joint Waste Committee to deselect bidders and agree the specification at each stage of the procurement.
- 1.4 Agree to fund share equally with the London Boroughs of Merton, Sutton and the Royal Borough of Kingston upon Thames the associated procurement costs relating to this contract.
- 1.5 Note to receive a report in late 2016 to consider the award of the contract

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**2. EXECUTIVE SUMMARY**

2.1 The South London Waste Partnership was formed in 2003 between the London Boroughs of Croydon, Merton, Sutton and the Royal Borough of Kingston upon Thames 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 The South London Waste Partnership has two key objectives:
- To manage waste in a way that is more sustainable and causes less damage to the environment.
  - To manage waste in a way that is more cost-effective, for the benefit of council tax payers.

- 2.3 As part of the drive for even greater efficiency, SLWP officers have been exploring the opportunities for future delivery of a range of high quality environmental services. An options analysis has been undertaken to assess the merits of procuring services in partnership, as opposed to each borough procuring alone, or retaining existing arrangements. Procuring in partnership does not automatically require that all partners need exactly the same service.
- 2.4 Each of the four SLWP boroughs has made an assessment of delivery and procurement options and modelling savings based on joint procurement by all boroughs. The modelling suggests service savings in the region of 10% could be achieved on collection alone, excluding potential increased revenue from recycle materials. In order to achieve savings in excess of 10% saving each of the partner boroughs will need to consider the harmonisation of these services. 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.

### 3. Issues

#### Approach Taken

- 3.1 Each of the partner boroughs have different collection regimes and frequencies, including weekly and fortnightly collection of residual waste and recycling material, chargeable and non-chargeable green garden waste and various types of containers. A breakdown of these services can be found at **Appendix 1**.
- 3.2 The Partnerships Strategic Steering Group (which is chaired by a Chief Executive from the boroughs) 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 needed developing.
- 3.3 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 should be used and the scope of the procurement defined as follows:
- LOT 1 - Waste collection and recycling, commercial waste, street cleaning, winter maintenance (gritting) and vehicle maintenance.
  - LOT 2 - Parks, ground maintenance, for London Boroughs of Sutton & Merton only.
- 3.4 The detailed findings and rationale for this conclusion can be found in section 4 of this report.

## 4. Findings

### Research (Local Partnerships and Eunomia)

- 4.1 In 2013 the Partnership commissioned 'Local Partnerships' (an organisation jointly owned by HM Treasury and the LGA that provides 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.
- 4.2 Eunomia modelled 12 different collection regimes, using standardised assumptions for staff, vehicles, materials revenue and economies of scale for management and depots. These 12 scenarios suggested that there was a varying amount of savings to be achieved depending on which collection model was adopted and the degree of harmonisation of services across the Partnership.
- 4.3 The modelling work outlined above does not take account of the additional savings that may be achieved through a strong negotiating strategy and bidder's appetite. The Partnership intends to test the assumptions of the modelling work during the competitive dialogue process, using the information as a basis to drive down costs during commercial discussions with bidders.

### Competitive Dialogue

- 4.4 The recommended procurement route for the project is Competitive Dialogue. This process involves pre-qualifying bidders and then de-selecting bidders through iterative stages, which are shown in the flow diagram at Appendix 2. The key determinants of the decision to use Competitive Dialogue are:
1. The complexity of the requirement and the need to explore various options and service developments with bidders;
  2. 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.
  3. At the Soft Market testing events prospective bidders confirmed they preferred this approach.

- 4.5 The timetable for the competitive dialogue process for these services can be found at 5.1. It is anticipated that contract award will be in September 2016 with contract commencement in April 2017.
- 4.6 Croydon's existing integrated street cleaning, waste and recycling collections and vehicle maintenance contract with Veolia Environmental Services Ltd is due to end on 3 March 2018.

#### Soft Market Testing (SMT) Findings

- 4.7 The Partnership undertook two SMT events the first in July 2013 and a further one in August 2014 based on the Lot structure at 3.3 above
- 4.8 Through SMT discussions potential bidders expressed a view that a long term opportunity for a broad scope of services would be attractive to the market. Views from the market were in favour of the proposed contract length of between 21 and 25 years given this would provide scope for innovation and the capital investment required to deliver savings. The scope and duration of contract was attractive with the indication that a contract of this size would enable bidders to spread their risks, reducing profit margins and provide time to integrate any introduction of harmonised services.
- 4.9 The market view was a preference for revenue sharing on materials and for openness and transparency with regard to the pricing mechanisms for the value of materials. This would allow for the alignment of Council and contractor interests in achieving best prices for materials.
- 4.10 The market suggested that a sub-regional approach to waste collection and associated services in London would be extremely attractive. It was also indicated the market would give a higher priority to the sub regional approach than that for individual boroughs, particularly ones which are still delivered in-house.

#### Economies of Scale

- 4.11 As evidenced in previous procurements for waste disposal contracts a key advantage of working in partnership is the potential for economies of scale. This is particularly relevant in the following areas;
- Consolidation of recycle 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
- 4.12 The potential benefits of a joint procurement and the economies of scale were explored with the attendees of the Soft Market Testing day and they agreed that

these could be achieved only through a partnership approach to procuring these services give the opportunities in 4.9.

#### Savings Potential

- 4.13 One of the Partnerships objectives is to manage waste in a way that is more cost effective for the benefit of council tax payers. As a minimum, the Partnership expects to deliver annual revenue savings of at least 10% or £5m across the four boroughs, based on 2013/14 budgets. This represents a net present budget saving of £106.1m over a 25 year contract period with a payback of procurement costs in the first four months. Croydon's share of this saving would be in the region £1.6m per annum.
- 4.14 The overall savings figure and the precise breakdown of savings across the four boroughs will be agreed by all partners and the successful contractor, as a result of detailed discussions during the Competitive Dialogue process. In order to achieve savings in excess of 10% each of the partner boroughs will need to consider the harmonisation of services. This will provide greater efficiencies not only through collection optimisation but the quantum of materials being sold on the recycling market. The impact of savings per annum based on 10%, 15% and 20% savings assumptions are shown in **Appendix 1** providing a breakdown for each borough based on existing service budgets for 2014/15.

#### Conclusion

- 4.15 Each of the boroughs have different options for the future provision the services included in LOT 1, these are set out below in the table below.

	Sutton	Croydon	Merton	Kingston
Option 1	Procure alone	Re-procure alone	Procure alone	Re-procure alone
Option 2	Do nothing – services remain in-house	Explore shared service/joint procurement outside SLWP	Do nothing – services remain in-house	Extend existing contracts
<b>Option 3</b>	<b>SLWP Procurement</b>	<b>SLWP Procurement</b>	<b>SLWP Procurement</b>	<b>SLWP Procurement</b>

- 4.16 At present only the London Boroughs of Sutton and Merton are interested in pursuing LOT 2 the three options illustrated in the table above remain relevant for those two authorities. The Royal Borough of Kingston (RBK) has indicated that they will remain with their existing contractors in respect of Lot 2 works.
- 4.17 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
- Contractor able to achieve savings across staff, depot, vehicles, routing and new software.
- The attendees at the Soft Market Testing (SMT) event indicated that a sub-regional approach to waste collection and associated services in London would be extremely attractive and they would make this their top priority.

4.18 While efficiencies may be achievable by individual authority procurements, a number of these would not be realisable if an individual authority procured alone. It 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.

4.19 On the basis of these conclusions each of the partner boroughs have formally agreed through their own decision making processes to jointly procure these services, and agreeing to Croydon being the Lead Authority.

## 5 TIMETABLE FOR IMPLEMENTATION

5.1 The draft timetable for the joint procurement is shown in Table 2.

Table 2.

<b>Activity</b>	<b>Date</b>
Borough Decisions on Procurement Strategy	January 2015
OJEU Notice Issued	January 2015
Outline Solutions Dialogue Stage	March – May 2015
Outline Proposals shared with Members	May 2015
Detailed Solutions Dialogue Stage	June – October 2015
Detailed Proposals shared with Members	October 2015
Final Tender Dialogue Stage	November 2015 – February 2016
Final Tender Proposals shared with Members	March 2016
Executive Decisions on Preferred Bidder	May 2016
Contract Award	September 2016

Contract Commencement	April 2017* *(Croydon's existing contract ends on 3 March 2018)
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5.2 It is currently assumed that Croydon would start the new contract with the approved contractor on 4 March 2018, with the London Boroughs of Merton, Kingston & Sutton starting earlier.

## 6 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

6.1 The cost of the proposed procurement exercise is estimated to be £1,635k over a three year period, with each borough contributing £408k. The Partnership submitted an Outline Business Case to bid from the DCLG Transformation Challenge Award (TCA) for the total cost of this project, and an award of £1,330k has been made to the partnership (£333k per Borough). This results in an estimated cost to the Council of £75k.

6.2 Table 1 summarises the estimated costs submitted as part of the TCA.

Table 1

Resource Type	2014/15 £'000	2015/16 £'000	2016/17 £'000	Total cost £'000
Internal resources	65	70	16	151
External advisors	468	606	138	1,212
Contingency	107	135	31	273
Overall Total	640	811	185	1,636
<b>Cost Per Borough</b>	<b>160</b>	<b>203</b>	<b>46</b>	<b>409</b>

6.3 The potential savings associated with this procurement are £1.6m per annum. The budget for all services that are proposed to be included in the new contract is currently £16.551m, as detailed in appendix 2.

6.4 **Risks** - A risk register for the procurement exercise will be established and monitored by Management Group Officers on a monthly basis and reported to the Strategic Steering Group. This risk register will initially capture the risks in 6 categories, strategic, commercial, financial, legal, technical and engagement activities.

6.5 **Options** – In re-tendering this service the Council does have the option of going out for a new contract on its own. It is not anticipated that this course would bring about the level of savings and service improvements that will be derived from the joint procurement approach.



**6.6 Future savings/efficiencies** – This approach should result in the delivery of significant savings to the authority through greater efficiencies from the contractor and economies of scale as a result of the joint procurement.

(Approved by: Richard Simpson, Director of Finance and Assets)

## **7. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

7.1 The Council Solicitor comments that pending entering into a fully binding Inter Authority Agreement in respect of the proposed joint procurement set out in the detail of this report, if the recommendation is approved, a legally binding letter is intended to be exchanged between the four partner boroughs of the SLWP. This letter commits the partner boroughs to the procurement and associated costs and the implication of one of the partner boroughs deciding to no longer take part in the procurement and how this would be dealt with between the authorities. A copy of the proposed letter is attached as Appendix B.

7.2 As set out in the detail of this report, SLWP has experience of complex procurements and the reasons for using the competitive dialogue process are justified for a project of this type. As Croydon will be the contracting authority it will act as the legal lead and ensure the co-ordination and provision of appropriate legal advice throughout the course of the project the costs of such advice being equally shared between the partner boroughs.

7.3 (Approved by: Sean Murphy, Principal Corporate Solicitor (Regeneration) on behalf of the Council Solicitor & Director of Democratic & Legal Services)

## **8. HUMAN RESOURCES IMPACT**

8.1 There are no human resources implications arising from this report.

8.2 Approved by Adrian Prescod, HR Business Partner, for and on behalf of Director of Human Resources, Chief Executive Department

## **9. EQUALITIES IMPACT**

9.1 An Equalities Impact Assessment for each of the partnering boroughs will be required to be undertaken once the final procurement solution has been agreed.

## **10. ENVIRONMENTAL IMPACT**

10.1 The successful bidder will be encouraged to optimise routes for all service vehicles, and awareness and promotion of recycling will need to be achieved through the new contract.

## **11. CRIME AND DISORDER REDUCTION IMPACT**

11.1 There are no known impacts on crime and disorder reduction.

## **12. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION**

12.1 It is recommended that the Council agrees to undertake the Lead Authority role for this joint waste collection and related environmental services contract in partnership with the London Boroughs of Merton and Sutton and the Royal Borough of Kingston.

## **13. OPTIONS CONSIDERED AND REJECTED**

13.1 The Partnership has explored options for individual partnering boroughs to undertake separate procurements, but the conclusion was that greater efficiencies can be achieved through joint working.

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**CONTACT OFFICER:** Tony Brooks, Director of Environment

**BACKGROUND PAPERS - None**