WASTE MANAGEMENT CONTRACTS PROCUREMENT PROJECT
PROCUREMENT STRATEGY
REFERENCE REPORT WDA/09/06

SUMMARY

At the Authority meeting of 3rd March 2006, a procurement strategy to implement the JMWMS for Merseyside was approved. The procurement strategy consists of the following three contract packages:

- Recycling contract;
- Recovery contract;
- Landfill contract.

Recycling contract – This will incorporate the operation of Household Waste Recycling Centres, Material Reclamation Facilities, In Vessel and Open Windrow Composting Facilities, and Waste Transfer Loading Stations for the receipt of “black bag” waste collected by the District Councils and as needed, residual waste from recycling facilities along with subsequent transport to recovery or landfill.

Recovery Contract – This will provide the high capital cost residual waste treatment and recovery facilities, based on the reference case of the provision of MBT and as necessary, thermal treatment facilities.

Landfill contract – This contract will secure landfill capacity to meet the Authority’s future requirements.

The purpose of this note is to record the rationale for structuring the procurement strategy as above.

The analysis includes consideration of the following alternative contract package options:

- One contract to provide all elements of the services required;
- Three contract strategy (Recycling, Recovery and Landfill).

The above contract packaging options are considered with regard to the following factors:

- Market capacity;
- Allocation of risk;
- Contract administration;
- Service interfaces;
- Competitiveness;
- Alignment with Government advice.

The detailed options analysis is contained within Appendix A to this file note.

An analysis of the Recycling contract with regard to the above factors, including consideration of the following contract packaging options is also included:

- Separate contracts for all elements;
- Separate Household Waste Recycling Centre (HWRC) Contract;
- Separate contract package to include Material Recycling Facilities, In Vessel Composting and Open Windrow Composting;
- Separate transport contract to serve any of the above packages;
- One contract for all elements (recycling contract).

The detailed options analysis for the Recycling contract is contained within Appendix B to this file note.

ANALYSIS AND RECOMMENDATIONS

Analysis of the two alternative contract packaging options with regards to the listed factors leads to the recommendation of a procurement strategy consisting of three contract packages:

- Recycling contract;
- Recovery contract,
- Landfill contract.

A brief summary of the analysis for the two options, and the recommendation reached follows:

One contract to provide all elements of the services required

This option brings together all elements of waste treatment and disposal under one contractor. The advantages of such an approach are deemed to be a single service interface, and allocation of risk to the service provider, together with simplified District / Authority interfaces.

However, it is considered that there are serious disadvantages with this option. These are: limited market capacity for a single contract of the size envisaged, greater service transition and sites risks, for which the guarantees from the private sector may come at a cost. Another factor is the assumption, based on latest Government guidance, that PFI credits would not be available. In addition, the inclusion of landfill within the contract further reduces the number of providers in a position to make competitive bids.

There is also value for money considerations as the risk transfer to the private sector of what are considered as relatively lower risk facilities such as transfer stations and HWRCs for may not be justified by the additional cost of private sector finance.

Therefore this option was not recommended.

Three contract strategy (Recycling, Recovery and Landfill).

Splitting the procurement into three contracts is deemed to lead to competitive pricing because of an increased number of bidders, and through separate and early procurement of landfill capacity, to increased market interest. The provision of transfer stations HWRCs and composting facilities is familiar to the Authority as apposed to the more complex waste treatment facilities where there are whole life benefits to be gained from PFI arrangements. Additionally, benefits from this approach include earlier provision of recycling facilities to mitigate LATS exposure in early years, easier transition to the new services and reduction in certain interface risks with the treatment contracts. This contract strategy was generally favourably received at the two market sounding days held by the Authority.

Current Government advice is that PFI credits should be restricted to large infrastructure projects. A separate procurement of recovery infrastructure leads to the assumption that credits of £75 million NPV will be available.

The disadvantages of this approach are seen to be increased contract interface risks and administration, and more complex Authority / District interfaces through the Inter Authority Agreement.

Consideration of this option against the factors listed leads to the recommendation that a procurement strategy consisting of three contract packages is the optimum solution for the Authority.

Therefore this option was recommended for the procurement strategy.

Recycling contract

There are a number of options available for the structuring of this contract. The analysis carried out indicated that the appropriate solution is to incorporate the operation of Household Waste Recycling Centres, Material Reclamation Facilities, In Vessel and Open Windrow Composting Facilities, and Waste Transfer Loading Stations for the receipt of "black bag" waste collected by the District Councils and as needed, residual waste from recycling facilities along with subsequent transport to recovery or landfill.

The analysis includes consideration of the following alternative contract package options:

- Separate contracts for all elements;
- Separate Household Waste Recycling Centre (HWRC) Contract;
- Separate contract package to include Material Recycling Facilities, In Vessel Composting and Open Windrow Composting;
- Separate transport contract to serve any of the above packages;
- One contract for all elements (recycling contract).

As with the procurement strategy, each of the above alternative contract packaging options is considered with regard to the following factors:

- Market capacity;
- Allocation of risk;
- Contract administration;
- Service interfaces;
- Competitiveness;
- Alignment with Government advice.

The detailed options analysis is contained within Appendix B to this file note.

Analysis of the five contract packaging options with regards to the listed factors lead to the presumption of including the Materials Recycling Facility, Waste Transfer Loading Station, In Vessel and open windrow composting and associated transport requirements in a single contract package: the Recycling Contract.

A brief summary of the analysis for each option, and the recommendation reached follows:

Separate contracts for each element.

Although this approach theoretically gives the maximum opportunity for competition in each service area, it is considered this theoretical advantage is outweighed by the disadvantages resulting from market capacity, allocation of risk, contract administration and service interface considerations.

Therefore this option was not recommended.

Separate Household Waste Recycling Centre (HWRC) Contract

This approach has the advantage of utilising a specialist contractor focussing on HWRC performance only, possibly giving higher levels of HWRC waste diversion performance resulting from a single contract management focus. There is also a possible advantage from giving opportunities for greater competition from such companies who may not have the capacity or expertise to consider contracts including other recycling facilities.

However, it is considered that waste diversion performance achieved by such specialist contractors is mirrored in the market by mainstream waste management companies. There should be no fundamental reason why a specialist contractor would be able to make any quicker progress than a main waste management contractor in improving HWRC performance.

HWRCs are the main ‘public facing’ element of the service provided by the Authority. Access to the public at HWRCs is therefore considered to be the most significant route to provide greater public awareness of the Authority’s recycling ‘message’. Smaller specialist providers may not have the resources and expertise to provide the communications and PR activities required by the Authority.

In addition, a separate contract for management of HWRCs results in additional contract administration and service interfaces and loss of potential economies of scale. Overall, there is no perceived advantage to the Authority in letting a separate contract for the management and operation of HWRCs.

Therefore this option was not recommended.

Separate contract to include Material Recycling Facilities, In Vessel Composting and Open Windrow Composting

To the extent that operating these facilities is a specialist activity, and there are established open windrow composting providers active in the region, a separate contract may be seen to give the opportunity to the specialists to provide the services. However, it is considered that this can be achieved through suitable selection of contractors using such specialists as subcontractors as required. Access to existing open windrow facilities may be achieved through the procurement process.

As with a separate contract for HWRC management, additional contract administration and service interfaces and loss of potential economies of scale would flow from this approach.

It is therefore considered that there is no particular advantage in separately procuring these services and facilities, assuming a good level of market response from waste management contractors, and suitable selection of subcontractors where required.

Therefore this option was not recommended.

Separate transport contract

Transport can be a difficult area to manage, and letting a contract for the transport element of the services only would potentially allow specialist logistics companies to enter the market, bringing expertise and additional competition to bear.

However, these potential advantages are outweighed by risk allocation, contract administration and service interface issues. Because of these issues it is considered that the transport function is best provided by the main (recycling) contractor, employing if required specialist logistics resources on a subcontractor basis.

For the above reasons procuring a separate transport contract was not recommended.

One contract for all elements (recycling contract)

Packaging all elements within one contract has the apparent disadvantage of making it difficult for the specialist contractors in the HWRC, composting and transport fields to bring their particular expertise to bear on the provision of services, therefore leading to the possibility of reduced competitiveness.

However, putting the HWRC, WTLS, composting and transport as one package does have an advantage of being well tried and familiar to the waste management industry and this approach does not prevent these specialists being employed on a subcontractor basis by a main or management contractor.

In addition, benefits from this approach include better allocation of risk, reduced contract administration costs and service interfaces for the Authority.

Consideration of this option against the factors listed leads to the presumption that packaging all elements within one contract is the optimum solution for the Authority.

Therefore this option was recommended for the procurement strategy.

APPENDIX A

Procurement Strategy - Contract Packaging Options Analysis

The analysis includes consideration of the following alternative contract package options:

- One contract to provide all elements of the services required;
- Three contract strategy (Recycling, Recovery and Landfill).

Factors for consideration

The factors listed below are considered for each of the above alternatives contract packages.

Factor	consideration
Market capacity - expertise - strengths - weaknesses	What is the likely market capacity? What strengths does this approach have? What are the weaknesses of this approach?
Allocation of risk - performance - volume / composition - service provision	Are risks placed with the organisation best placed to manage those risks?
Contract administration - number of procurements - contract admin resources needed	What contract administration resources are needed?
Service interfaces - more = more risk - less = less risk	What service interfaces are required? What are the potential effects of these interfaces?
Competitiveness - of tender process / value for money - economies of scale	What is the effect on competitiveness / value for money? Are economies of scale likely?
Alignment with Government advice	Does the contract package reflect current Government advice?

Option appraisal

The options under consideration were assessed against the factors listed as shown in the tables below

Contract Package:

One contract to provide all elements of the services required

Factor	Advantages	Disadvantages
Market capacity		Given the size of the contract, it is likely that there will be a limited number of providers able to compete. Inclusion of landfill may further reduce the number of providers able to compete.
Allocation of risk	Single contract should result in more risk being passed to the service provider. Contract interface risks avoided.	Increased risk of LATS exposure in early years. Site delivery risk borne by single provider. Additional cost of private sector finance not necessarily justified for low risk assets such as transfer stations and HWRCs.
Contract administration	Single contract to be administered by the authority.	
Service interfaces	Single service interface, therefore interface risks borne by the Authority reduced. District / Authority interfaces simplified (Through the Inter Authority Agreement).	Greater service transition risk post 2008.
Competitiveness	Potentially greater economies of scale.	If market capacity is limited, potential reduction in competitiveness. Funding all of the required facilities through PFI may not demonstrate value for money
Alignment with Government advice		Government advice is that PFI credits should be restricted to large infrastructure projects. Therefore the assumption is that PFI credits will not be available.

Three contract strategy (Recycling, Recovery and Landfill).

Factor	Advantages	Disadvantages
Market capacity	Increased number of bidders likely, leading to competitive pricing and risk management (reduced counter party risks). Landfill capacity secured separately, therefore increasing market capacity.	
Allocation of risk	Earlier provision of facilities through the recycling contract leading to reduced LATS costs in early years. Provision of relatively low risk facilities such as transfer stations and HWRCs not subject to higher cost private sector finance. Easier transition to new service arrangements with shorter lead in time for recycling contract. Risk of site delivery split between different providers. Reduction in waste composition / volume and cost inflation risks in treatment contract. Early delivery of “fall back” facilities, avoiding the need for “interim” facilities which may become redundant when recovery facilities become available.	Increased contract interface risks which will lie with the Authority or be priced by the service providers in their tenders.
Contract administration	Easier to terminate or change services (more flexible contract arrangements).	Increased number of procurements needed. Increased number of contracts to be administered by the Authority, requiring greater resources.
Service interfaces	Phased development of facilities would enable the Authority to build expertise.	Increased complexity of District / Authority interfaces (Through the Inter Authority Agreement). Increased contract interfaces required, the Authority will bear increased risks and costs.
Competitiveness	Some financing through prudential borrowing possible at more competitive interest rates than are available	Rolled up interest will be payable, possibly increasing unitary charge payable by the Authority.

	through the private sector. Specialist providers may carry smaller overhead costs	Possible loss of economies of scale through increased overhead costs.
Alignment with Government advice	Government advice is that PFI credits should be restricted to large infrastructure projects. Therefore the assumption is that PFI credits of £75 million NPV will be available. Strengthens priority of Partnership to deal with waste higher up the waste hierarchy i.e. concentrate on recycling before residual treatment of waste.	

APPENDIX B

Recycling Contract - Contract Packaging Options Analysis

The analysis includes consideration of the following alternative contract package options:

- Separate contracts for all elements;
- Separate Household Waste Recycling Centre (HWRC) Contract;
- Separate contract package to include Material Recycling Facilities, In Vessel Composting and Open Windrow Composting;
- Separate transport contract to serve any of the above packages;
- One contract for all elements (recycling contract).

Factors for consideration

The factors listed below are considered for each of the above alternative contract packages.

Factor	consideration
Market capacity - expertise - strengths - weaknesses	What is the likely market capacity? What strengths does this approach have? What are the weaknesses of this approach?
Allocation of risk - performance - volume / composition - service provision	Are risks placed with the organisation best placed to manage those risks?
Contract administration - number of procurements - contract admin resources needed	What contract administration resources are needed?
Service interfaces - more = more risk - less = less risk	What service interfaces are required? What are the potential effects of these interfaces?
Competitiveness - of tender process / value for money - economies of scale	What is the effect on competitiveness / value for money? Are economies of scale likely?
Alignment with Government advice	Does the contract package reflect current Government advice?

Option appraisal

The options under consideration were assessed against the factors listed as shown in the tables below

Contract Package:

Separate contract for all elements.

Factor	Advantages	Disadvantages
Market capacity	Breaking the service down to its smallest component parts gives the greatest opportunity for specialists in each of the service areas to enter the market. Potentially greatest flexibility in service provision as failure of one service provider does not compromise the whole service.	Specialist providers may not have an understanding of the whole service. This approach loses the ethos of a 'Merseyside wide' service provision. May lead to differing level of performance across Merseyside. Potential problems regarding financial standing, indemnities and insurances for smaller service providers.
Allocation of risk		Providers will only accept risk that lies within their control. Risks such as volume and waste composition risk will lie with the Authority, or be priced by the service providers in their tenders.
Contract administration	Single contract management focus by providers, potentially leading to earlier improvements in performance.	Greatest number of procurements needed. Increased number of contracts to be administered by the Authority, requiring greater resources.
Service interfaces		Largest number of contract interfaces required, providers not responsible for this, thus the Authority will bear an increased risk and cost.
Competitiveness	Potentially greatest competition for each service area.	Loss of potential economies of scale. Larger regional / national service providers may not be attracted to bid, potentially reducing competitiveness.
Alignment with Government advice	Removing these elements of the procurement from the PFI funding requirements is in line with current Government advice.	

Separate Household Waste Recycling Centre (HWRC) Contract

Factor	Advantages	Disadvantages
Market capacity	Gives the opportunity for specialist HWRC service providers to enter the market.	Specialist providers may not have an understanding of the whole service. The HWRC service is the most 'public facing' of the services provided by the Authority. Smaller specialist providers may not have the expertise to provide the required communications and PR activities required. Possible capacity problems with smaller companies.
Allocation of risk		Because of the separation of the HWRC provision from the other elements of recycling the Authority will bear a greater proportion of the volume / waste composition risk, or this will be priced by the service providers in their tenders.
Contract administration	Single contract management focus by providers, potentially leading to earlier improvements in performance at HWRCs.	Increases the number of procurements needed. Increased number of contracts to be administered by the Authority, requiring increased resources.
Service interfaces		Number of contract interfaces increased, greater level of risk borne by the Authority.
Competitiveness	Potentially greater competition for HWRC element.	Loss of potential economies of scale.
Alignment with Government advice	Removing this element of the procurement from the PFI funding requirements is in line with current Government advice.	

Contract package to include Material Recycling facilities, in vessel composting and open windrow composting

Factor	Advantages	Disadvantages
Market capacity	Established local service providers (for open windrow composting) Potentially greater opportunity for specialist service providers to enter market.	Individual providers may not have the capacity to handle the volumes required. Potential problems regarding financial standing, technical capacity (for operating the range of facilities), indemnities and insurances for smaller service providers.
Allocation of risk		Because of the separation of the HWRC provision from the other elements of recycling the Authority will bear a greater proportion of the volume / waste composition risk, or this will be priced by the service providers in their tenders.
Contract administration		Increases the number of procurements needed. Increased number of contracts to be administered by the Authority, requiring increased resources.
Service interfaces		Number of contract interfaces increased, greater level of risk borne by the Authority.
Competitiveness	Potentially greater competition for this element of the service. May be attractive to regional / national waste management companies	Loss of potential economies of scale.
Alignment with Government advice	Removing these elements of the procurement from the PFI funding requirements is in line with current Government advice.	

Separate transport contract

Factor	Advantages	Disadvantages
Market capacity	Allows specialist logistics companies to enter the market.	Specialist logistics companies may not have an understanding of the whole service.
Allocation of risk		Separation of transport element from operation of facilities may lead to greater risk being borne by the Authority or reflected in the prices tendered by suppliers.
Contract administration		Increases the number of procurements needed. Additional contract to be administered by the Authority, requiring increased resources.
Service interfaces		Additional contract interface arising from the integration of transport and output from facilities to be managed.
Competitiveness	Potentially greater competition for this element of service due to separate contract.	Loss of potential economies of scale.
Alignment with Government advice	Removing this element of the procurement from the PFI funding requirements is in line with current Government advice.	

One contract for all elements (recycling contract)

Factor	Advantages	Disadvantages
Market capacity	Specialist providers may act as sub contractors to main provider. Likely to be more attractive to regional / national waste management companies	Reduced opportunity for specialist providers to tender.
Allocation of risk	Greater opportunity for risks to be managed by provider, and thus reflected in tender prices. Reduction in risks borne by the Authority	
Contract administration	Reduction in number of procurements and contracts to administer, reducing administration costs.	
Service interfaces	Contract interfaces and risk borne by the Authority reduced	
Competitiveness	Traditional contract packaging likely to result in economies of scale.	
Alignment with Government advice	Removing these elements of the procurement from the PFI funding requirements is in line with current Government advice.	