

Appendices

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**NORTHAMPTON**
BOROUGH COUNCIL**CABINET REPORT**

Report Title	Environmental Services Re-provision – Contract Award
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AGENDA STATUS: Public

Cabinet Meeting Date:	17 th January 2018
Key Decision:	Yes
Within Policy:	Yes
Policy Document:	No
Directorate:	Customers and Communities
Accountable Cabinet Member:	Councillor Mike Hallam
Ward(s)	All wards

1. Purpose

- 1.1 To seek agreement of Cabinet to award the environmental services contract to the Preferred Bidder, Bidder B, for a period of 10 years.

2. Recommendations

That Cabinet:

- 2.1 Subject to confirmation of commitments after the Alcatel standstill period, appoints Bidder B as the Preferred Bidder and agrees to award the Environmental Services Contract for a period of 10 years, at a price of £97,697,867 (not including indexation /inflation), with an option to extend by mutual agreement for up to a further 10 years, subject to satisfactory performance of the contract and Cabinet approval nearer that time.

- 2.2 Further to recommendation 2.1, delegates to the Director of Customers and Communities, in consultation with the Cabinet Member for Environment, authority to do all that is reasonably required, necessary and appropriate to implement Cabinet's decision to award the contract to the Preferred Bidder and to achieve successful completion of the environmental services procurement process, including:
- Agreeing terms and entering into leases, in line with the Preferred Bidder's property, vehicle, equipment and container proposals
 - Providing final approval and execution of the contract following confirmation of commitments.
- 2.3 In accordance with the advice of the Council's Chief Finance Officer, approves expenditure of £11.938m into the capital programme, funded by borrowing with up to £10m of the Minimum Revenue and interest charges being offset by the use of existing reserves for the vehicles, equipment and containers that will be used to provide the new environmental services contract.
- 2.4 In accordance with the advice of the Council's advisors, agrees that the Council will pay for the cost of bringing the facilities up to standard at the Council owned Westbridge Depot, at the price provided for this work by the Preferred Bidder of £450,038, this sum to be included for in the Capital programme for 2018-19.
- 2.5 Notes the impact on the revenue budget of this contract is £11.128m for 2018/19 which has been factored into the budget to be approved by Council in February 2018.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Council's current environmental services contract expires on 3 June 2018.
- 3.1.2 Environmental services refers to waste, recycling, grounds maintenance, street cleansing and other ancillary services.
- 3.1.3 At a meeting of Cabinet on 16th November 2016, it was decided to again outsource the full range of environmental services.
- 3.1.4 At a subsequent meeting of Cabinet on 11th January 2017, the key principles of the procurement strategy for the re-provision of environmental services were agreed and the business case was approved.
- 3.1.5 The purpose of this business case was to establish whether the procurement project was:
- Desirable, taking into account the cost/risk/benefits balance
 - Viable, in terms of the project's ability to deliver the product

- Achievable, by determining whether the product will provide the benefits

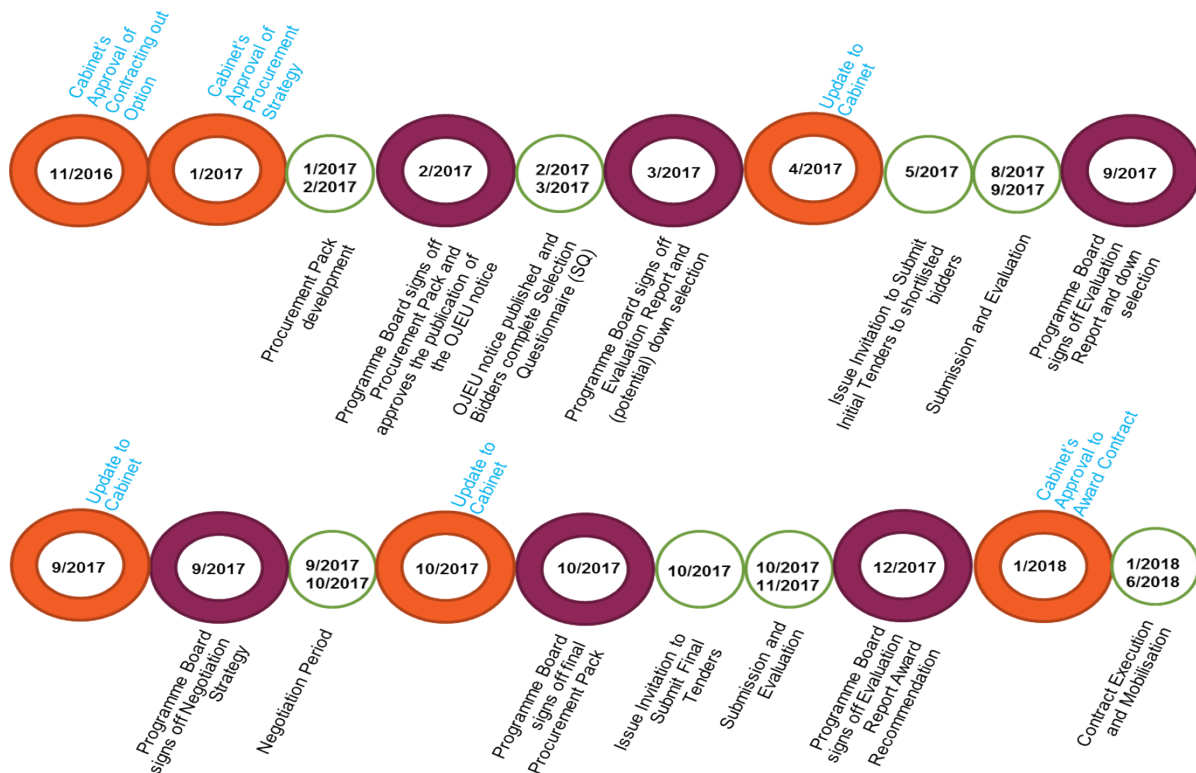
3.1.6 The business case provided a reference document that the programme board utilised to ensure that the project had clear definition, direction and that it provided evidence of what we were seeking to achieve.

3.1.7 As well as approving the overall business case in January 2017, Cabinet gave its approval to a number of specific matters set out in the business case, as follows:

- Environmental services (waste, recycling, grounds maintenance, street cleansing and other ancillary services) were to be procured as a single lot.
- The contract length to be 10 years, plus extension provisions up to a further 10 years.
- Competitive Procedure with Negotiation to be used as the procurement procedure.
- An outcome based services specification to be developed and negotiation with bidders to be undertaken on strategic aspects of service subject to the outcome of the Initial Tender stage.

3.1.8 The procurement timetable was set out in the business Case. The major implementation timescales are outlined in figure 1.

Figure1: Major Project's Implementation Timescales



3.1.9 Table 1 sets out the Tier 1 level of the contract award criteria.

3.1.10 In order to have the best possible chance of achieving both good quality and affordable environmental services from the procurement process, it was agreed that price and quality criteria were to be given the same weighting.

Table 1: Tier 1 Level of Contract Award Criteria

Tier 1 Criteria	Weighting to apply at ISIT	Weighting to apply at ISFT
Price	50%	50%
Quality	50%	50%

3.1.11 In April 2017, Cabinet was advised that in response to the OJEU notice and Selection Questionnaire issued on 13th February 2017, nine responses were received and evaluated, leading to the five highest scoring bidders being invited to submit initial tenders.

3.1.12 Also in April 2017, in response to the extensive public consultation that had taken place, Cabinet agreed that the following requirements for service design be included in the service specification:

- Fortnightly co-mingled dry recycling collection service
- Free green waste collection service
- Kitchen food waste collection service

3.1.13 ISIT stage started on 8th May 2017 and completed on 8th September 2017. Of the five bidders invited to submit initial tenders, two submitted initial tenders.

3.1.14 Although the council reserved the right to award the contract on the basis of the initial tenders, it decided not to and instead entered negotiations with the two bidders who submitted initial tenders so that bidders could improve the content of their submissions.

3.1.15 At the conclusion of the negotiation period, the Council informed the remaining bidders of the changes to the documentation based on the negotiation sessions and invited both bidders to submit final tenders by setting a common deadline for the submissions.

3.1.16 The Final Tender submissions were received by the deadline of 4pm on 17th November 2017. Following a very robust process of evaluation and moderation, the Preferred Bidder was identified by applying the award criteria, leading to the recommendation set out in this report to award the environmental services contract to Bidder B.

3.2 Choices (Options)

- 3.2.1 Cabinet can only choose to award or not award the contract to the Preferred Bidder. These are the only two options available to Cabinet at this late stage in the process. If Cabinet chooses not to award the contract to Bidder B, the existing contract would end on 3 June 2018 and no contract arrangements would be in place as a replacement.
- 3.2.2 Cabinet is advised that a very robust process has been followed to identify the Preferred Bidder using the published evaluation criteria and methodology and Cabinet can be confident in the process that has been undertaken and the recommendations that have flowed from it to determine that Bidder B's Final Tender submission represents the most economically advantageous tender and is capable of meeting the council's requirements.
- 3.2.3 Cabinet is strongly advised to approve the recommendations of this report as the risks of not doing so are substantial in terms of statutory functions, cost, service delivery and reputation.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 There are no policy implications directly arising from this report.

4.2 Resources and Risk

Financial Implications

Costs of new contract

- 4.2.1 Both bidders priced for a new contract to either be inclusive or exclusive of the cost of Vehicles, Equipment and Containers to be used to deliver the services. This approach has enabled the Council to evaluate the option of using its own sources of funding for the purchase of these assets instead of the bidders cost of capital.
- 4.2.2 If the environmental services contract is awarded to the Preferred Bidder, and the costs of assets are included, the total price of the new service will be £114.22m, an annual price of £13.235m (a standard annual payment of £11.221m plus start-up costs of £2.014m) in year 1 and annual prices of £11.221m to be paid in years 2 to 10. Years 2 to 10 prices do not include indexation, for example to cover the cost increases or decreases for fuel inflation, or pay awards etc. These will be determined on an annual basis and added to the annual price for that year.
- 4.2.3 Table 2 reflects the overall budget impact before taking account of the asset funding saving. These amounts do not include indexation

Table 2

Budget Impact	2018/19 £k	2019/20 £k	2020/21 £k	2021/22 £k	2022/23£ k
Base Budget	7,145	7,095	7,095	7,095	7,095
Net Increase	5,313	4,126	4,126	4,126	4,126
Revised Budget	12,458	11,221	11,221	11,221	11,221

The revised budget shown in Table 2 of £12.458m covers the following elements set out in Table 3.

Table 3

Price Element	Annual Price £k	Cost £k
Existing Contractor (2 months)	7,145	1,191
New Contractor - Standard (10 months)	11,221	9,253
New Contractor - Start Up	2,014	2,014
Total Cost 2018/19		12,458

4.2.4 However if, in accordance with the recommendation of this report, the environmental services contract is awarded to the Preferred Bidder, and the costs of assets are not included, the total price, of the new service will be £97.698m, an annual price of £11.569m (a standard annual payment of £9.570m plus start-up costs of £1.999m) in year 1 and annual prices of £9.570m to be paid in years 2 to 10. As before years 2 to 10 prices do not include for indexation.

4.2.5 The price increase has been reflected in the draft budget for 2018-19 and subsequent years based on the assumption that the Preferred Bidder is approved and the Council fund separately the cost of the assets. Table 6 reflects the overall budget impact after asset funding savings.

Table 4

Budget Impact	2018/19 £k	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k
Revised Budget	12,458	11,221	11,221	11,221	11,221
Capital Funding Saving	1,330	387	391	400	408
Revised Budget	11,128	10,834	10,830	10,821	10,813

The revised budgets shown in Table 4 cover the following pricing elements shown in Table 5.

Table 5

Price Element	2018/19 £k	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k
Existing Contractor *	1,191	0	0	0	0
New Contractor – Standard **	7,892	9,570	9,570	9,570	9,570
New Contractor – Start Up	1,999	0	0	0	0
MRP	0	1,194	1,194	1,194	1,194
Interest	46	70	66	57	49
Total Cost	11,128	10,834	10,830	10,821	10,813

* Represents 2 months cost

** Represents 10 months cost

Capital implications and funding of assets

- 4.2.6 At the meeting on 15th November 2017 Cabinet approved that the Chief Financial Officer in consultation with the Cabinet Member for Finance determine the optimum value for money method of financing assets that is to be used in providing the Environmental Services Re-provision Contract throughout the period of its operation. The Council engaged external expert advice to assess the optimum value for money method of financing assets.
- 4.2.7 In accordance with the advice of the Council's CFO, it is proposed that expenditure of £11.938m be included in the capital programme. It is proposed that the funding for all of this expenditure be borrowing which would incur interest charges and require the Council to make a statutory Minimum Revenue Provision (MRP) for the total amount borrowed – the MRP charge would be spread over the useful lives of the assets. However, as the Council currently has healthy reserves, it is proposed that up to £10m of the MRP and interest charges to the General Fund be offset by the use of existing reserves. The use of the reserves would follow the same spend profile as the required MRP charge. This would ensure that the use of reserves is spread over the contract and allow sufficient flexibility should the financial environment change for the Council over the period.
- 4.2.8 In addition to the cost of the service, the Council will pay for the cost of bringing the facilities up to standard at the Council owned Westbridge Depot. The Preferred Bidder has provided a price of £450,038 for this work. The refurbishment undertaken will enhance the Westbridge Depot and is to be included within the capital programme for 2018-19. The work is to be undertaken by the Preferred Bidder in conjunction with the Council at the start of the contract.
- 4.2.9 As previously stated in the report to Cabinet on 15th November 2017, whilst both Bidders A and B have included within their pricing the cost of providing dedicated assets, it is currently common practice for contract specifications within this sector to require bidders to detail the assets (including costs) that they would employ in the performance of the contract.
- 4.2.10 As it can often be better value for money for the Council to provide these assets and therefore to fund them as it can have better access to cheaper borrowing (e.g. from Public Works Loan Board (PWLB) or to fund from reserves, these options have also been considered.

4.2.11 Cabinet on 15th November 2017 gave delegated power to the Chief Financial Officer in consultation with the Cabinet Member for Finance to determine the optimum value for money method of financing the assets.

Re-provision Programme

4.2.12 The cost of the re-provision programme to date is £455k and is expected to rise to £537k by the conclusion of the project.

Risk

4.2.13 A risk register has been developed to ensure effective risk management throughout the procurement process. Risks are being managed via expert advice from technical and professional experts and some mitigations have been put in place.

4.2.14 Furthermore, to help to ensure the robustness of the procurement process going forward, Overview and Scrutiny Committee (O&S) established a working group to scrutinise the process through to contract award and beyond. In its report to Cabinet of 18th October, 2017, O&S advised Cabinet that they had found the procurement process to be robust.

4.2.15 As part of the new arrangements a 50:50 share of the risk and reward for the processing and resale of recycled materials collected has been agreed between the Council and the Preferred Bidder. As resale prices and volumes collected of these materials can go up and down a mechanism in line with current industry standards has been agreed by the Council and the Preferred Bidder to ascertain any financial gain/or loss. The Council has provided within its general reserves an amount to cover such a loss should it arise.

Internal Audit

4.2.16 PwC, the council's internal auditors, have reviewed the governance and risk management processes that were put in place to deliver the council's procurement process.

4.2.17 The review was undertaken by way of an ongoing assessment of the delivery of the environmental service re-provisioning project and considered activities undertaken by the council in respect of project governance and risk management. PwC confirmed that their observations were satisfactorily addressed.

4.2.18 PwC found that the project's governance and risk management processes were operated effectively and the governance relationships and project management controls put in place were robust.

4.3 Legal

4.3.1 A procurement process of this type, size and scope is legally complex. Expert legal advice has been sought throughout the process and this has been reflected in the council's approach to the key aspects of the reported procurement process.

4.4 Equality and Health

- 4.4.1 An equality impact assessment was undertaken as part of the commissioning options review process, considered by cabinet on 16th November 2016.
- 4.4.2 That EIA has now been reviewed to reflect the recommendations set out in this report and will continue to be reviewed and updated throughout the mobilisation phase of the project.
- 4.4.3 The Preferred Bidder has had full regard to equality and health implications when submitting their final tender and a community impact assessment has been undertaken.

4.5 Consultees (Internal and External)

- 4.5.1 A community engagement framework was developed to ensure stakeholders were fully involved in the environmental services re-provision process.
- 4.5.2 The community engagement framework was drawn from a broad range of stakeholder groups, including resident associations, parish councils, friends groups, park management committees, partner agencies, ward councillors and staff.
- 4.5.3 As well as consultation undertaken via the community engagement framework, an Ipsos MORI survey was commissioned. The survey entailed 1,000 interviews with residents from across Northampton which sought their views on various aspects of environmental services.
- 4.5.4 All consultation was analysed and summarised. The consultation report (Community Engagement and Consultation on Re-Provision of Environmental Services) is a background paper to this report and is available on the council's website.
- 4.5.5 Conclusions drawn from the consultation were used to inform key aspects of service design, namely
 - Fortnightly co-mingled dry recycling collection service
 - Free green waste collection service
 - Kitchen food waste collection service
- 4.5.6 Consultation outcomes also provided some very clear messages about local priorities and desired service standards and have been made available to bidders in the data room to assist them in developing their tenders.

4.6 How the Proposals deliver Priority Outcomes

- 4.6.1 The proposals in this report will help to deliver the following corporate plan priorities:

- A clean and attractive town for residents and visitors
- Enhancing and encouraging participation
- Delivering quality modern services

Background Papers

Environmental Services Re-provision – Selection of Service Delivery Option, Cabinet Report, 16th November 2016

Eunomia – Commissioning Options Review, October 2016 (partly exempt for commercial reasons)

Environmental Services Re-provision – Procurement Process, Cabinet Report, 11th January 2017

Community Engagement and Consultation on Re-Provision of Environmental Services

Selection Questionnaire Evaluation Report, March 2017 (restricted access)

Environmental Services Re-provision – Procurement Process, Cabinet Report, 12th April 2017

Environmental Services Re-provision – Progress Report, Cabinet Report, 19th July 2017

E Overview and Scrutiny – Environmental Services Working Group, Cabinet Report 18th October 2017

Environmental Services Re-provision Contract – Capital Asset Financing, Cabinet Report, 15th November 2017

ISFT Evaluation Report, December 2017 (restricted access)

Financing of Assets Report, December 2017

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