

SUBJECT: Dragon Waste:- Household waste recycling centre, transfer station and haulage contract review.

Directorate: Operations – Waste and Street Services

MEETING: Strong Communities Select Committee

DATE: 16th June 2016

DIVISION/WARDS AFFECTED: All

1. Purpose

1.1 To advise the Committee on the proposed way forward for the Dragon Waste contract.

2. BACKGROUND

2.1 Throughout the Recycling Review reference has been made to the future of our Civic Amenity Sites and Transfer Stations and how they become operationally and financially fit for purpose to complement our kerbside provision and ensure a sustainable and high performing recycling offer is made to Monmouthshire residents.

2.2 To be clear the current Dragon Waste contract is for the following services:

- Management and operation of 4 Civic Amenity* Sites (Llanfoist, Five Lanes**, Troy and Usk which are owned by MCC and managed by Dragon Waste)
- Management and operation of 2 Transfer Stations – Llanfoist & Five Lanes
- Haulage of residual waste to Project Gwyrdd EfW at Trident Park, Cardiff.
(* the legal term for the sites is Civic Amenity. They are more commonly known now as Household Waste Recycling Centres (HWRCs) and therefore will be referred to as such through this paper
** Llanfoist and Five Lanes sites are under full maintenance leases to Dragon Waste whereas Troy and Usk are owned by MCC and managed on our behalf by Dragon Waste)

2.3 This is a very old contract and has evolved over time as legislation and priorities change. In 1994, Monmouthshire County Council and Terry Adams formed a joint venture company (JVC), Dragon Waste, to operate and manage the waste disposal and Civic Amenity Sites. This was in response to legislation that no longer allowed local authorities to operate civic amenity sites that resulted in many setting up JVCs or Local Authority Waste Disposal *arms-length* Companies (LAWDaC).

- 2.4 Terry Adams sold his shares to Viridor and since the late 1990s Viridor have remained the majority shareholder (81%) of Dragon Waste.
- 2.5 In 2014 the contract was renegotiated with Viridor to allow a smooth transition to Project Gwyrdd, instigate transparent management costs to enable any future procurement to be undertaken on a truly comparative basis, a fit for purpose recycling contract and savings across the contract. The outcome of these negotiations were brought before Select Committee prior to Cabinet approval in October 2014.
- 2.6 Viridor also hold the organics contract for recycling of kerbside collected organic waste. This contract sits outside of this paper as Select Committee and Council have already determined the long term future of organic waste and agreed to a partnership with the Heads of the Valleys AD programme which will commence from April 2018.
- 2.7 The legislation allowing local authorities to operate their own sites has now been repealed and the opportunity to run the Civic Amenity sites in-house is now an option that some Councils have adopted.

3. Some Context

- 3.1 Our HWRCs are a critical component of our recycling service to Monmouthshire residents. In 2015-16 the waste generated through the 4 sites amounted to 43.5% of the total waste managed by the Authority. The levels are expected to reduce to below 40% in 2016-17 with the implementation of the “Van Ban”, mandate no. 8 which is restricting commercial type vehicles access the sites on the evidence that traders were using the sites and not being commercially responsible for the waste they produce. The table below provides the high level data on tonnages through the sites. At the meeting tonnage data per site for 2015-16 will be made available.

	2013-14	2014-15	2015-16
Green garden waste only	3242.80	4642.46	4001.65
Automotive batteries	27.01	23.90	35.63
Books (Reuse)	26.87	23.15	29.45
Card	428.72	425.50	445.54
Gas bottles (Reuse)	12.92	14.54	16.04
Mineral Oil	14.56	18.10	13.42
Mixed cans	12.34	13.24	8.84
Mixed glass	131.82	151.36	134.80
Mixed tyres	2.66	30.54	12.48

Other Scrap metal	653.95	748.80	881.92
Paper	196.78	171.22	183.00
Plasterboard	186.86	291.64	329.22
Plastics	10.30	25.21	9.50
Post Consumer Batteries			
Rubble	2105.38	3412.76	3960.86
Textiles & footwear (Reuse)	183.83	169.95	161.86
Vegetable Oil			
WEEE - Cathode Ray Tubes	194.99	184.36	168.06
WEEE - Fluorescent tubes and other light bulbs	1.62	1.16	1.48
WEEE - Fridges & Freezers	141.62	182.91	197.17
WEEE - Large Domestic App	94.10	114.08	147.30
WEEE - Small Domestic App	393.58	466.00	459.52
Wood	1925.07	2356.06	2501.96
Other	5.42	7.08	4.06
Dry recycling CA TOTAL	6750.40	8831.56	9704.51
TOTAL R&C CA Sites	9993.20	13474.02	13703.76
Residual CA Sites	5727.22	6835.09	8050.62
TOTAL CA Arisings	15720.42	20309.11	21754.38
Total arisings	45,941	49,212	49,950
CA Site & of total arisings	34.2%	41.3%	43.5%

3.2 Overall the 4 HWRCs recycle 63% of total waste received. This average though masks some stark differences. Llanfoist and Troy which benefitted from investment in 2009 both recycle well in excess of 70-75% whereas Troy and Usk being much smaller and older sites can at times struggle to recycle 50%. However we recognise these sites are valued and well used by their local communities so this review is as much about continuing environmental performance as finding the right solution for our residents and model for service delivery.

3.3 Just as important to internal operations is the successful management of our Transfer Stations. There are on average 440 vehicle movements over the weighbridges every week, the majority of these are refuse vehicles unloading residual, recycling and garden and food waste. The sites are responsible for receiving the kerbside waste collected by the Council, bulking it up and managing the contracts with relevant hauliers for the onward transportation of that waste to its next destination.

Reviewing our Options

3.4 In March 2016 a workshop was held with officers from Waste Management, Procurement and Legal. The purpose of the workshop was to review the following aspects:-

- a. existing contract and current legislation,
- b. internal vs external provision,
- c. procurement options
- d. type and length of contract and alignment to existing services
- e. key terms and elements to be included
- f. the future of Dragon Waste as a JVC
- g. government reorganisation

3.5 The workshop reviewed information and guidance from a wide variety of sources and a table of the challenges and opportunities is set out below.

Procurement	Opportunities	Challenges
Procure	Opportunity to improve existing terms further and test market	Procurement of waste contracts is resource intensive and may not deliver financial savings against existing contract
Extend existing contract	Known entity, works well, good service.	Limited opportunity to vary contract to reflect local opportunities and reduces benefit of the alignment of regional contracts for garden waste and food waste.
Restricted - Usually used where market and commodity being procured is fully established.	Terms and conditions fixed at outset and procurement time and costs reduced.	Limited opportunity to improve on existing terms. Risk that contractors will be put off by certain terms and will not bid.
Restricted with negotiation – used where the market place is well established but solution and terms could be improved through limited negotiation. Allows for direct award should one bidder satisfy all contract terms and focuses bidders initial response.	Increased market interest	Increased resource requirement for procurement.
	Majority of terms and conditions are fixed reducing cost and procurement time scales.	Additional external support needed in drafting contract terms to allow some flexibility for “bid-back” elements.
	Allows the market to offer improvements and solutions for certain areas within contract.	Negotiation increases contract procurement timescales and resource needs.
	Allows MCC officers opportunity to secure best deal and strategic fit.	Needs to be managed tightly within procurement regs on areas that can be negotiated.

Procurement	Opportunities	Challenges
Competitive dialogue – used where either the market and/or the solution is not established. Allows for full dialogue to investigate wide variety of solutions and market approaches.	Flexibility for MCC – opportunity to investigate wide variety of market solutions	MCC already aware of solution and market is established
	Contract terms built around negotiation process	Expensive for both sides – costs then reflected in final tender. Reliance on external consultants to capture terms and conditions, extends the procurement timescales (often several years) and costs.

Provision	Opportunities	Challenges
In House	Under direct control	Small quantities of a wide range HWRC material to be managed – difficult to find markets
	Would understand fully the management of the sites	Do not have market knowledge to sell material competitively – Members did not want kerbside material to be managed in house
	Have more flexibility	Risks of material and pollution management fall on MCC
	Job and training opportunities	Lack of expertise, TUPE, on-costs
	Aims and objectives aligned to corporate vision and MCC customer care	Direct management of staff on site and increased public expectation of in-house services and levels of policy flexibility
External Service Contract	Risk transferred	Lack of flexibility to respond to changes quickly and with minimal negotiation
	HWRC recyclates are marketed nationally and bulked with providers and offers market knowledge and competitiveness.	MCC very small tonnages in global market Unpalatable when recycling markets are “high” but “pain/gain” contracts could bring risk to MCC given volatility of recycle market.
	Security of contract terms and payments for fixed period.	Shareholders payments, profit, public purse funding externalised.
Joint Venture Company / Alternative Delivery/Partnership model	Shared risk profile could offer long term benefits	Opens MCC to risks in recycling market when setting MTFP budgets.
	Potential to bid for other work	Having right partner on board is crucial, protracted procurement negotiations for this and future tenders
	If structure is right can bring innovation and commercial aspect to LA services	Traditional models still a feature within this industry and does the service have time or need to spend time on alternatives??

Contract Length	Opportunities	Challenges
Short 1-5 years	Flexibility for MCC	Limited market interest, procurement costs are increased in longer term

	Aligns to government reorganisation	Unlikely to dove tail to other LAs terms, the provision of CA sites unlikely to be affected by reorganisation in early years.
Medium 5-12 years	Increased market interest	Increased resource requirement for procurement.
	Fixed terms and contract payments to assist budget projections for MTFP	Volatility of recyclate market and current low point for setting contract costs.
	Allows for performance improvement targets to be set and allows time for these to be implemented. Aligns to capitalisation costs of fleet of 6-9 years	Market may require pain/gain terms for this length contract. Limited time to ride out market fluctuations.
Long term 12-25 years	Potential for market to invest in infrastructure improvements.	Cost added to contract and may not be as competitive as prudential borrowing terms
	Opportunity to set long term goals and objectives.	Waste legislation, government reorganisation, future waste profile all unknown.

4. Review findings

- 4.1 Procurement and legal advice is to tender for a new contract with a commencement date of April 1st 2018. The existing contract has been running for over 30 years and should be tested for competitiveness. The contract does not specifically allow for contract extension but there is no defined end date either.
- 4.2 At the present time officers are minded to recommend that the contract content remains as is – HWRCs, Transfer Stations and residual haulage. However this will be tested through engagement with the market over the summer to ensure the package is attractive and will ensure competition through the process.
- 4.3 The potential to work with our neighbours has also been considered, particularly around Transfer Station and bulking facilities. When reviewing the location of our transfer stations and where the majority of our kerbside operations are undertaken it was determined that additional costs would be incurred by MCC if we made use of neighbouring facilities. However it was identified that our neighbours operations were closer to MCC borders than the other way around. The main stumbling block for sharing facilities is that MCC's proposed service configuration is different to all our neighbours and sharing bulk facilities etc. does require a level of commonality and consistency.

Service Provider

4.4 An external provider for this contract provides the greatest level of security for MCC. The provision of the full suite of existing services under one provider limits MCC risks to the volatility of the waste market, the risks in waste permitting and licensing, the management costs and interface between haulage and recycling markets. The option of the service being brought back in house was thoroughly reviewed and discounted for the following reasons:

- Lack of Council/Member appetite for the LA to become a recycling trading commercial entity. The types of waste coming through HWRCs are far more diverse and difficult to manage than kerbside materials. Members gave a very strong steer through the Recycling Review that MCC benefitted from good and robust partnerships with specialists in this area who bulk the MCC material with other waste they manage and are therefore able to get greater value for money; and
- Whilst staff would TUPE over, working in partnership with a strategic waste provider brings access to specialist advice e.g. permitting, licensing etc. that a small authority would never be able to develop and therefore would incur additional consultancy costs.

Procurement Method

4.5 Procurement using restricted with negotiation offers a good level of flexibility whilst reducing the timescales and potential costs for MCC and tenderers. Soft market testing for other waste procurement projects have shown that this is the market's preferred procurement option for services and gate fee contracts. This is likely to need the support of external legal and financial consultants with the preparation of the contract and payment mechanism.

Contract Length

4.6 On balance of risk and resource requirement the proposed contract term would be 7 years plus 5 x 1 years optional extensions. This allows alignment to any government reorganisation and/or regional contract opportunities and gives the market an opportunity to capitalise fleet investment over the contract period.

Affording Investment

4.7 The Recycling Review has identified that some improvements will be required at the Transfer Stations. Our current kerbside recycling reprocessing contract requires a stand trailer to be on Five Lanes at all times as the current barn is not large enough to accommodate all the waste. This is a temporary measure and needs to be rectified. Initial modelling through the Recycling Review has demonstrated that a saving could be made from the separate collection of glass and this could potentially cover the cost of

prudential borrowing to ensure compliant and fit for purpose Transfer Stations for the next 7 years. This modelling will be a feature of the Recycling Review to be presented to Select in Jan 2017 prior to a decision being made by Cabinet.

Improving Performance

- 4.8 At present, the overall recycling performance of the four CA sites is limited by the facilities at Troy and Usk. There is an opportunity to improve the facilities at Troy but this would take substantial investment in a new site (approx. £1.5-£2m). A feasibility study of the costs vs tonnage throughput at Troy and Usk shows that investment in Troy would only offer benefit if the Usk site was closed and waste was diverted to Troy. It is fully recognised though that the Usk site provides a much appreciated facility but may not offer the greatest return on investment in performance and long term sustainability terms.
- 4.9 The contract also needs to consider what else could be done to improve performance. Whilst Monmouthshire is not at any immediate risk of failing WG targets we have a duty to identify what other measures could be undertaken to improve recycling performance or the visitor experience at the site. Examples include:
- Explicit policy on opening of black bags deposited by residents;
 - Making some sites recycling only – restrict black bag waste;
 - Introduce a charge for traders to use the CA sites e.g. use technology such as vehicle registration to identify and charge traders per visit;
 - Reuse at the HWRCs – as is being developed for Llanfoist. How can the principle be extended to small, constrained sites?
 - Restricting the sites to Monmouthshire residents only e.g .use of technology

Key Risks

- 4.10 A contract and procurement of this size is not without its risk. The intention to instigate a new procurement is in no way a reflection on the current service provider who have delivered a complex service extremely well. The service has very few complaints and we have to thank the staff at Viridor for their continued hard work and commitment to excellent service delivery in Monmouthshire.
- 4.11 One of the biggest risks is that the tenders are well above the price MCC currently pays for the service. The cabinet report will determine an affordability envelope for the procurement and if it is breached then MCC will need to evaluate the way forward and determine if it is appropriate to proceed. In addition the recommended procurement process allows for negotiation which will maintain a level of competitive tension which could work in MCC's favour to reduce initial proposed costs.

- 4.12 Standards of customer service is incredibly important and as referred to above our current service provider provides an excellent service. Customer engagement and strategies will need to feature strongly within the evaluation framework as MCC cannot afford for standards to slip.
- 4.13 This is a complex procurement process and the times scales set are very challenging. There will need to be a high level of internal legal, procurement and financial support that could be secured externally if necessary but will place a greater pressure on both budgets and time scales.
- 4.14 Following the comments from the Select Committee and with the additional detail from the soft market testing, a comprehensive risk register will be developed.

5 Way forward – Next Steps

- 5.1 The Select Committee comment on the review and in particular give a steer to the following:
- The proposed form of contract – process, term, structure
 - Are we content with the current level of performance?
 - If there is no investment for new sites/improvement are we content with the current operating model of 4 HWRCs?
 - What improvements are palatable (at minimal cost) to improve recycling performance
- 5.2 Waste and Street Services intend to issue a Prior Information Notice (PIN) and hold soft market testing days during the next 2 months to invite the market to offer potential solutions and improvements to the proposed contract terms so that when a contract is issued we know it is fit for purpose and MCC and potential partners are explicitly clear on requirements.
- 5.3 The findings from this and the soft market testing engagement will be brought back to Committee in the autumn prior to a Cabinet paper seeking agreement on the procurement strategy and the proposed affordability envelope.

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