

## PLYMOUTH CITY COUNCIL

**Subject:** Award of the Plymouth Strategic Material Recovery Facility (MRF) contract and approve the city wide roll out of doorstep glass recycling

**Committee:** Cabinet

**Date:** 25 March 2014

**Cabinet Member:** Councillor Brian Vincent

**CMT Member:** Anthony Payne (Strategic Director for Place)

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**Ref:** BA/SMRFdraft01

**Key Decision:** Yes

**Part:** I and II (Separate Report - E3)

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### **Purpose of the report:**

This report summarises the project background and evaluation outcome of a competitive dialogue procurement to secure a replacement material recycling facility (MRF) service and/or facility located within or outside of Plymouth to safeguard and further uplift recycling performance and recommends Cabinet to:

- I. Award the contract for the replacement MRF service to the provisional preferred bidder
- II. Agree to the transfer of associated assets and staff to the provisional preferred bidder upon contract commencement as well as the associated financial resources
- III. Establish and approve the timing for the city wide roll out of a kerbside glass collection service to the citizens of Plymouth in consultation with the Cabinet Member for Environment

These recommendations contribute to the delivery of Council's Pledge 3I: 'Work to ensure long term alternatives to incineration are developed' which recognises that the present administration does not support an incinerator in the Naval Base but will inherit one being built from the previous administration and that the Council will work to ensure long-term alternatives to incineration are developed to ensure this is the last one the Council ever builds.

By awarding this contract and providing a new kerbside glass collection service, waste going to incineration will be reduced and the development of a new bespoke state of the art MRF for the city will enhance recycling, divert waste from landfill and incineration and promote a culture of enhanced recycling across the city. The emerging Plymouth Plan will reinforce the need to give greater focus to recycling and the development of alternative disposal mechanisms which will ensure no further incineration plants will be developed by the Council.

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### **The Brilliant Co-operative Council Corporate Plan 2013/14 -2016/17: Pioneering Period**

The award of contract will assist the delivery of the more accountable, flexible and efficient service with a more commercial risk sharing approach in partnership with the private sector.

### Growing Plymouth

The award of contract will create an opportunity for commercial investment and growth by the private sector in our city by commissioning a new higher technological facility and outlet for recycling comingled collected material regionally.

### Confident Plymouth

The award of contract will utilise a Department for Communities and Local Government (DCLG) grant to develop a strategic MRF facility regionally.

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## **Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land**

### Capital financial implications

£4m of investment for a replacement MRF is in the Council's approved Capital Programme 2012 – 15. This funding utilises an external £4.0m grant from DCLG, of which £3.0m has already been received and £1.0m being due to be received in April 2014. This £4m of investment will be provided by the Council to the successful contractor (£3.6m during 2014/15 and £0.4m during 2015/16 with the balance of any further capital funding to be provided by the Contractor. The city wide roll out of the kerbside glass collection does not attract any capital funding requirement.

### Revenue financial implications

#### 2014/15

The first year of this contract will involve decommissioning the existing MRF facility and building a new MRF and hence requires the Council's collected comingled recycling material to be transferred to an alternative facility. Assuming a contract commencement of 1 May 2014, and based on the successful tenderer's financial model and agreed commercial terms with realistic estimates for tonnages, composition and commodity prices, it is estimated that an increased revenue budget (over current base budget) of £300k will be required for this contract for 2014/15. This figure will be dependent on actual tonnages, commodity prices and composition and hence the actual revenue budget required maybe higher or lower than this estimate.

A public sector comparator (PSC) has been compiled based on similar assumptions and estimates but with Plymouth City Council providing the service and building a new MRF itself and this is estimated to be approximately £1.12m higher than the successful tenderer's cost estimate for 2014/15.

In addition to the above revenue requirement, there is also a need to promote and launch to residents that glass bottles and jars can be added to the existing kerbside recycling collection service and this is estimated to be £80k which includes a leaflet mailshot to all residents along with information stickers which will be affixed to recycling containers. The exact date of this launch has not yet been finalised but it is assumed to be during the summer of 2014 and will look to coincide with other planned waste collection service changes such as rezoning of collection rounds to cater for the operational commencement of the energy from waste disposal contract. The Council's transformation programme has intimated that they will assist with these communication costs if linked with the rezoning project.

#### 2015/16 onwards

Following the commissioning of the new MRF facility, based on estimated tonnages, composition and commodity prices, it is estimated that an increased revenue budget (over current base budget) of £276k will be required for this contract for 2015/16 and this requirement will inflate each year broadly in line with RPIx. This figure will be dependent on actual tonnages, commodity prices and composition and hence the actual revenue budget required maybe higher or lower than this estimate.

The public sector comparator (PSC) with Plymouth City Council providing the service and building a new MRF itself indicates a very similar additional revenue requirement for 2015/16 onwards but it should be noted that this estimate does not quantify the additional risks associated with the council operating a new higher technology MRF and trading material commodities in a national and international arena.

The increased cost in 2014/15 will need to be contained within the Place Directorate as a whole and it is proposed to prioritise any sustainable savings or increased income from within Street Services or other Place services during 2014/15 to address the identified MRF budget shortfall and this will be built into the base budget going forward. This will be monitored by Place Directorate and reported as required to Environmental Services Executive Board which was established to oversee this and a range of other Environmental Services projects.

### Staffing

The award of this contract will enact a TUPE transfer of PCC employed staff currently operating the existing MRF service at Chelson Meadow to the successful tenderer.

### Assets

The award of this contract will transfer the existing Council MRF facility (building and plant), glass storage bays and associated land assets at Chelson Meadow to the successful tenderer via a formal lease arrangement, for the duration of the contract. The £4m DCLG grant money will be used by the contractor who will also enhance these assets which will be returned to the Council upon contract expiry after 10 years or early termination. The design life of the new MRF facility offered by the successful tenderer exceeds the contract duration of 10 years hence PCC will benefit from a residual life post contract expiry.

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### **Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:**

Securing a replacement MRF service removes significant risks to the Council in terms of removing the liability of continuing to use an aging asset beyond its economic design life which is pivotal to providing a recycling service to the citizens of Plymouth.

Furthermore by securing a new MRF which is capable of sorting commingled material which includes glass, this delivers on the Council's commitment to collect glass at the kerbside which is contained in the waste PFI final business case, compliance of which is a condition to obtaining the £177m of PFI waste infrastructure grant support towards the energy from waste solution.

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### **Equality and Diversity**

Has an Equality Impact Assessment been undertaken? Yes

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### **Recommendations and Reasons for recommended action:**

1. Award the contract for the replacement material recycling facility (MRF) service to Viridor Waste Management Limited, being the party selected as provisional Preferred Bidder following the public procurement exercise.

Reason: To implement the conclusion of the public procurement process having secured a replacement processing facility for sorting collected commingled recycling material which includes glass.

2. Agree to the transfer of associated assets and staff to Viridor Waste Management Limited upon contract commencement as well as the associated financial resources

Reason: To conclude the lease and contract specification negotiations, procurement and award as well as commence with statutory employment consultation with staff affected to meet the timelines required to allow the commencement of the replacement service.

3. Establish and approve the timing for the city wide roll out of a kerbside glass collection service in consultation with the Cabinet Member for Environment

Reason: To progress this key work stream validating the Council's commitment to increased recycling.

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**Alternative options considered and rejected:****A. Do-Nothing:**

Given that the Council's existing MRF at Chelson Meadow is beyond its economic design life and is not capable of processing commingled recycling material which includes glass, 'Do-Nothing' is not possible.

**B. PCC build and operate its own MRF:**

New MRFs are more specialist due to their highly technological and continually evolving nature hence PCC are not best placed to design, procure, commission and manage a new MRF, nor manage the commercial risks associated with trading commodities or selling any spare merchant MRF processing capacity to potential third parties. The procurement evaluation and analysis has also confirmed the award of contract provides value for money when compared against PCC's current operational expenditure and is less expensive than PCC building and operating their own new MRF.

**C. Award the contract to another contractor:**

This would be unlawful as it would not be in compliance with the stated award criteria as set out in the tender documentation as required under the Public Contracts Regulations 2006 (as amended).

**D. Not award the contract:**

Under this scenario PCC would be unable to roll out a doorstep collection of glass (see below) in accordance with its PFI final business case commitment which would attract significant risk of jeopardising the PFI waste infrastructure grant. PCC would also have to manage its current MRF until ultimate equipment failure, following which PCC would need to source processing capacity elsewhere within the UK, thus placing existing MRF staff at risk whilst also incurring additional haulage expenditure for un-processed recycling material needing to be redirected to alternative. PCC would also attract reputational loss in the market place.

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**Published work / information:**

None

**Background papers:**

Please refer to associated separate confidential Part II Report which is not for publication by virtue of paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972 (as amended) on the grounds that it contains information relating to the financial or business affairs of any particular person (including the Authority holding that information).

Title	Part I	Part II	Exemption Paragraph Number
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Cabinet Report	X	X			X				

**Sign off:**

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Originating SMT Member : Simon Dale

Has the Cabinet Member(s) agreed the contents of the report? Yes

## **1.0 Background, Governance, Procurement timeline and outcome**

- 1.1 PCC operates an in-house kerbside commingled dry recycling collection and MRF processing service for approximately 114,000 households, collecting commingled recycling material from the kerbside and delivering it to an existing MRF at Chelson Meadow. The Council's existing MRF has exhausted its design life having been originally commissioned circa 1999 and being of relatively low technology and not capable of sorting commingled recycling material which includes glass.
- 1.2 A Cabinet Paper was approved 13th September 2011 endorsing the establishment of a programme to deliver a series of Waste and Recycling Improvements overseen by an Executive Group with appropriate delegated authority, which included:
- Approval of the Programme Governance Terms of Reference and delegation of authority as contained therein.
  - Endorsement of plans to deliver a kerb side glass recycling service across the city, building on the existing strategy of collecting recyclable materials in the single green bin already provided to customers, thereby delivering on PCC's recycling proposals outlined to Defra in its final business case which secured PFI grant support for the Council's new Energy from Waste solution.
  - Approval of plans to deliver a pilot operation for kerb side glass collection to one of eight collection rounds within the city.
  - Acknowledged officers were to conduct a formal soft market testing of possible options around a replacement material recycling facility (MRF) solution.
- 1.3. Within the Terms of Reference, Cabinet delegated the necessary authority to facilitate the delivery of the Programme to the Chair (Director for Place) of the Environmental Services Executive Board, which included portfolio holders for Environment and Finance as well other senior council officers, with the exception of:
- Approval of the report into glass recycling and the strategic direction to be taken following the soft market test
  - Award of contract for the strategic glass recycling solution
  - Allocation of capital within the Capital Programme
- 1.4. A further Cabinet paper was approved 27<sup>th</sup> March 2012 noting the findings of a formal soft market test, high level options analysis as well as a comparative budget appraisal and endorsed the strategic direction and parameters to be take forward into a competitive dialogue procurement for a replacement MRF service solution utilising either a new or existing facility located within or outside Plymouth capable of recycling glass.
- 1.5 On 27<sup>th</sup> November 2012 Cabinet Members supported the acceptance of £4m of funding from DCLG to invest in a new MRF and maintain weekly residual waste collections and confirmed the commencement of the procurement process in accordance with the Cabinet minute of March 2012.
- 1.6 In September 2012 a 'glass pilot' was introduced for one of the eight kerbside recycling collection rounds in the city to test out kerbside glass being collected comingled within the existing green bin collection scheme. The goal was to use the pilot to learn about the changes from a customer and operational point of view associated with allowing glass into our green bins, prior to the conclusion of the procurement and before the pilot is expanded across the city.

- 1.7 During 2013 a competitive dialogue procurement process has been used to select a private sector organisation to work with PCC in partnership to deliver a new MRF service solution for Plymouth City and potentially beyond. During the procurement direction has been continually sought from Environmental Services Executive Board and the benefits explored of Plymouth City Council investing money and/or assets as well as accepting some / all of commercial risks around securing income from the sale of processed material to determine the most economically advantageous solution to the Council.
- 1.8 PCC closed the competitive dialogue process on the 11<sup>th</sup> December 2013 once it could identify one or more solutions capable of meeting its needs and issued the Call for Final Tenders on that date. Tenderers then submitted their final tenders on the 24<sup>th</sup> January 2014.
- 1.9 At each stage of the procurement, tenderers had to respond to specific detailed questions relating to technical performance and interface with other services, costs and/or benefits to the council, approach to risk sharing, the likelihood of deliverability, environmental and energy issues as well as residual life expectations and acceptance / approach to employment issues such as TUPE and pensions. Submissions have been continually evaluated at each stage by officers and external specialist advisors against the predefined and approved published evaluation criteria.
- 1,10 The evaluation process and final outcomes have been subject to review by PCC's internal audit function, culminating in the identification of a provisional Preferred Bidder namely Viridor Waste Management Limited.
- 1.11 The procurement has now concluded and the Council is in a position to secure a replacement MRF service solution for the City which fits with the Council's vision for a co-operative market as endorsed by Cabinet on 10 December 2013:

<b>Diverse;</b>	Services provided by range of partner organisations	Utilisation of larger partner organisation enables access to commodity trading / contingency sites
<b>Sustainable;</b>	Services commissioned on basis of vfm	Tenders on market and successful bidder is less expensive than option for PCC build / operate
<b>Quality;</b>	Services responsive to customer needs and focused on delivering outcomes	Project driver is the safeguarding and uplifting of Recycling, with newer secured technologies offering flexibility over time
<b>Fair;</b>	local suppliers who prevent abuse / champion rights of staff	TUPE accepted with enhanced provisions, living wage protected, no zero hours contracts + investment in workforce demonstrated
<b>Collaborative;</b>	Citizens, commissioners, providers + stakeholders working together	Citizens participation at the doorstep enables the Contractor to deliver the Service performance targets
<b>Transparent;</b>	Information on performance and quality made accessible to communities	Environmental key performance indicators are published via national records on waste flow data

- 1.12 Further background details on the existing MRF service, procurement process, and key issues are included at Appendix A to this report.

## **2.0 Kerbside Glass Collections and Recycling**

- 2.1 With the facility and outlet for sorting and processing of collected recyclables including glass safeguarded through the award of the MRF service contract to Viridor, PCC is now able to extend the ongoing glass pilot scheme and move towards a full city wide roll out of a kerbside glass collection service to Plymouth citizens before the energy from waste plant becomes operational.
- 2.2 The pilot scheme offered to one round in the City which is collecting glass at the kerbside along with other commingled recycling materials has been running since September 2012 and has provided useful learning for the Council in many directions, not least that the collection of glass from the kerbside is very popular with residents. The pilot has also identified that the overall weight of glass within household waste has decreased over the last six years since an initial waste composition analysis was undertaken to estimate glass tonnage in the residual waste. This decrease in weight has been as a result of less food and drink being packaged in glass and the glass containers becoming thinner to save material costs. This glass weight decrease will influence the recycling rate improvement and also the tonnage of glass waste diverted from landfill from the residual waste stream.
- 2.3 Since the replacement MRF service options and procurement process was commenced during 2011, there have also been significant changes in waste legislation and the definitions as to what is classed as Recycling and what is classed as Recovery has and is still changing. For many materials and in many cases, these definitions are still not fully defined or clear and hence what may be formally classed as Recycling today may be classed as Recovery in the future despite nothing actually changing with respect to the processing or treatment of the waste. The Council's ambition to divert as much material from landfill and secure a gainful use remains valid however and has been a key objective of the MRF service procurement alongside value for money is must also a key consideration in the current financial climate.
- 2.4 A key objective of the MRF service procurement has been secured in that this contract and the future kerbside glass collection will have no implications for the recycling collection service other than collecting additional material and delivering to a new location at Chelson Meadow in the short term while the new MRF is being constructed. Similarly residents will suffer no inconvenience by having to accommodate additional containers at their properties and they will simply be able to place their washed glass bottles and jars in the green recycling containers rather than disposing of them in their brown bins or having to take them to a bottle bank.
- 2.5 Once the new MRF service contract is approved for award and the operational commencement is confirmed, the launch of the city-wide kerbside collection of glass will be finalised. It is envisaged that this city-wide roll-out will be implemented during 2014 although the exact timing will need to be considered and coordinated with other potential changes such as the rezoning of collection rounds which will coincide with the new energy from waste plant becoming operational.
- 2.6 As part of the city-wide glass collection roll-out a detailed communication plan is being developed and agreed, and it is envisaged that this will include roadshows and information leaflets being sent to residents and potentially information stickers being placed on existing recycling bins to clearly communicate which materials can be recycled and which cannot. These communications will seek to raise awareness and educate all Plymouth residents and reinforce and promote the waste hierarchy thereby improving recycling and sustainability, and decreasing Plymouth's overall carbon footprint.



**Glossary**

'DCLG'	Department for Communities and Local Government
'DEFRA'	Department for Environment, Food and Rural Affairs
'EfW'	Energy from Waste plant
'EIA'	Equality Impact Assessment
'MRF'	Material Recycling Facility
'PCC'	Plymouth City Council
'PFI'	Private Finance Initiative
'SMT'	Soft Market Test
'SMRF'	Strategic Materials Recycling Facility

Appendix A –  
Background to the existing material recycling facility (MRF) service,  
procurement process, and key issues

**1.0 Service and MRF procurement background**

- 1.1. PCC operates an in-house kerbside commingled dry recycling collection and MRF processing service for approximately 114,000 households, collecting commingled recycling material from the kerbside and delivering it to an existing MRF at Chelson Meadow. The Council's existing MRF has exhausted its design life having been originally commissioned circa 1999 and being of relatively low technology and not capable of sorting commingled recycling material which includes glass.



Plate 1 : Existing Chelson Meadow MRF manual picking cabin

- 1.2 Working on the continued assumption that customers will be allowed to include glass within their existing green bins collected by PCC, the main focus towards the promotion and enabling of a doorstep glass collection service is the sorting and processing of collected recyclables, rather than the customer having to sort and store them separately and/or in separate collection schemes.



Plate 2 : Typical modern MRF process conveyors

1.3 In order to inform the March 2012 Cabinet decision to launch the competitive dialogue procurement for a replacement MRF service solution within or outside of Plymouth, findings from a formal soft market test process, background knowledge as well as wider industry and regional considerations were noted in relation to:

- Existing PCC service delivery methods, resources and assets
- Current and future PCC recycling material collection and processing performance
- Current regional Local Authority collection methods and recycling performance
- Current national recycle processing infrastructure
- Legislative aspects surrounding the change in the formal definition of Recycling
- Commercial volatility and income risks from post-processed recycle commodity trading



Plate 3 : post processed recycling material for resale to re-processor market

## 2.0 Key Issues

2.1 There were a host of issues around the delivery of existing services used to inform the March 2012 Cabinet decision to seek a replacement MRF service solution:

- Asset condition surveys of the existing MRF and associated infrastructure at Chelson Meadow has confirmed that the MRF building is structurally sound and associated common infrastructure roads, services etc are ok, however in respect of the MRF plant, the process lines and equipment are becoming an increased maintenance liability and are at risk of total failure due to exceeding the MRF's operational design life.
- Composition and quality of the recycling 'feedstock' material is a major risk to all parties, for MRF technology selection / design and operational performance / maintenance.
- Processed recycling commodity market (income) is highly volatile and further affected by the remote geographical location of Plymouth
- There are few modern commingled glass capable MRFs in the southwest region and none with available (or planned) capacity to process Plymouth's recycling.
- Irrespective of a solution choice newer MRF processing technologies rely on a different resource need, for example quality control over the technology versus manual sorting techniques.
- New MRFs are more specialist due to their highly technological and continually evolving nature hence PCC in-house staff may not be best placed to design, procure, commission

and manage a new MRF nor the risks associated with trading commodities or selling any spare merchant processing MRF capacity.

2.2 Based on this learning officers developed analysis which examined possible types of solutions, before recommending taking forward a procurement to include externally operated MRF solution options, namely:

- a. A provider who builds a MRF in or around the Plymouth area and takes the risk of operating it based on a 10 year commitment of Plymouth's recyclable waste plus whatever else they can win
- b. A provider who builds a MRF remotely to Plymouth taking responsibility for transporting our recyclable waste to the MRF taking the operational risk to provide the service for 10 years
- c. A provider who already has capacity in an existing remote MRF who will transport our recyclables to their site and process them for a 10 year period

2.3 When endorsing the launch of the procurement the following procurement parameters were confirmed:

- Any new provider must take all current collected recycling waste stream commingled with glass.
- Specific waste management PCC assets were to be offered for consideration.
- Use of PCC capital for a new MRF, with a current upper limit of £4million as aligned to the capital programme, was to be explored
- Optimum contract duration of 10yrs to be explored, but to be flexible between 5-15yrs and finalised during the procurement to allow for the different solutions that maybe offered by the market.
- The solution was to have no adverse financial impact on the upstream collection service.
- Operational long stop target service commencement date of April 2014 for receipt of the full commingled recyclate waste stream incorporating glass, of which is to encompass of any interim development stage by the new provider if applicable.

### **3.0 Procurement Process**

3.1 A Prior Information Notice (PIN) was used to advertise the project and commence a formal soft market testing (SMT) exercise. The purpose of the SMT was used to inform the market that a project was being developed and likely to be formally advertised in an OJEU notice shortly, whilst also gathering intelligence on market capacity, market capability and feedback on potential solution options.

3.2 Following a successful Bidder's Day the first stage of the formal procurement process commenced with PCC requiring interested parties to complete a Pre-Qualification Questionnaire (PQQ). Applicants had to meet the minimum requirements for economic and financial standing (financial capabilities) and technical and professional capacity (relevant technical experience and resources) and had to meet the legal eligibility criteria, as set out in the PQQ.

3.3 The seven highest scoring applicants were taken forward to the Invitation to Submit Outline Solutions (ISOS) stage. During this phase participants needed to engage in dialogue with PCC to develop their solutions, their structure and delivery of the project, their willingness or appetite for risk against PCC's requirements.

3.4 Participants were required to submit one mandatory Outline Solution fulfilling the PCC's requirements and up to one variant Outline Solution each, however no new solutions to

those submitted at the Outline Stage were permitted to be introduced at any subsequent phase of the procurement.

- 3.5 Following evaluation of the Outline submissions three participants and four solutions were invited to the Invitation to Submit Detailed Solutions stage (ISDS). During this phase participants were required to again engage with PCC to fully develop the detail of the solutions and associated contractual documentation.
- 3.6 Following evaluation of the detailed submissions and a subsequent brief period to refine the successful two solutions provided by two tenderers, PCC closed the dialogue on the 11<sup>th</sup> December 2014 once it could identify one or more solutions capable of meeting its needs and issued the Call for Final Tenders on that date. Tenderers then submitted their final tenders on the 24<sup>th</sup> January 2014.
- 3.7 At each stage of the procurement, tenderers had to responded to specific detailed questions relating to technical performance and interface with other services, costs and/or benefits to the council, approach to risk sharing, the likelihood of deliverability, environmental and energy issues as well as residual life expectations and acceptance / approach to employment issues such as TUPE and pensions. Submissions have been continually evaluated at each stage by officers and external specialist advisors against the predefined and approved published evaluation criteria. The evaluation process and final outcomes have been subject to review by PCC's internal audit function, culminating in the identification of a provisional Preferred Bidder namely Viridor Waste Management Limited.