

	
<b>Shadow Executive</b>	2 <sup>nd</sup> September 2009
Report of the Director of City Strategy and the Director of Neighbourhood Services	

## WASTE STRATEGY PROCUREMENT UPDATE

### Summary

1. This report gives a summary of the progress made towards procuring a long term waste management treatment contract for the City and for North Yorkshire County Council. The procurement process is still ongoing so it is very much a work in progress report bearing in mind the technical solutions have not yet been decided upon and therefore the financial consequences established. The terms of reference for the report are:
  - A brief summary of the progression towards a waste PFI solution and latest update.
  - How the York and North Yorkshire area is currently performing after being one of the largest waste producers in the country in 2006? Has it met the 2008 target, adopted in 2006, to be below the national average in terms of waste production.
  - Will waste PFI plans look at a single solution or a combination of types of plant? What are the implications for transportation of waste.
  - Does the finance stack up for the PFI deal.
  - Does the council have a contingency in place if it is unable to meet the PFI deadline.
  - Identification of the major risks of the current strategy

### Background

2. The Council has previously received various reports on the procurement of a waste treatment facility as summarised below.
3. The Executive at its meeting on 26<sup>th</sup> June 2007 gave approval for the procurement of a long term waste management service contract. The Executive authorised the Director of City Strategy to:
  - a) Commence the formal procurement of residual waste treatment facilities, in line with the Private Finance Initiative (PFI), following successful approval of the Outline Business Case by the Treasury Project Review Group.
  - b) Utilise the proposed evaluation methodology (most economically advantageous tender) identified in the report;

- c) Develop and implement evaluation criteria subject to a further report setting out the evaluation process and resource input required;
  - d) That a further report be brought by the Director of City Strategy to the Executive identifying sites suitable for residual waste treatment facilities.
4. At its meeting on 23<sup>rd</sup> October 2007 the Executive subsequently received a report which approved the implementation and evaluation criteria referred to above and resolved:
- a) That the award of £65m PFI credits towards the costs of this project be noted;
  - b) That the Executive's belief that Landfill Tax generated from York residents should be returned to recycling services in York, in line with the campaign by the Local Government Association, be reaffirmed;
  - c) That an Inter-Authority agreement under seal be entered into with North Yorkshire County Council on the basis of the issues set out in the report and that the Director of City Strategy and the Head of Civic, Legal and Democratic Services, in consultation with the appropriate Executive and Shadow Executive Members, be given delegated authority to agree the detail of the agreement in order to give effect to those terms.
  - d) That the Director of City Strategy be authorised to utilise the proposed evaluation methodology, in consultation with the appropriate Executive and Shadow Executive Members.

#### **Progress to date**

5. A notice was published in the Official Journal of the European Union on 1 September 2007. Pre-qualification Questionnaires were received from 12 companies or consortia, and 10 were invited to submit 'outline solutions' (one withdrew and two others combined). A total of 17 solutions were submitted in December 2007.
6. In February 2008, a shortlist of four consortia were invited to submit detailed solutions. In September 2008 the final two bidders were invited into further dialogue to develop their solutions towards final tenders in accordance with the competitive dialogue procedure. The final two consortia are Amey/Cespa and Earthtech/Skanska
7. It was originally intended to close the dialogue stage and invite final tenders in December 2008. The complexity of the dialogue process and consequential impacts of the withdrawal by NYCC of the Minerals and Waste Core Strategy, and the economic down turn, have prolonged this current stage of the procurement so that the revised date for final tenders will now be in September 2009.
8. It is now expected that the preferred bidder will be confirmed towards the end of 2009 and a contract for the procurement of a waste treatment facility be signed by Spring 2010.

## Next Steps

9. The dialogue with the final two bidders will continue until both councils are confident that the solutions on offer represent robust options. The final stage of the process is now focussed on a final assessment of the solutions to determine:
  - sufficiency of information and detail of solution
  - risk profile
  - affordability and value for money
  - deliverability including approach to planning and finance.
10. The competitive dialogue process, once closed, only allows for clarification and fine tuning and therefore it is vital that any uncertainties or ambiguities are resolved before final tenders are invited.
11. Final tenders will then be assessed against the same evaluation criteria used throughout the procurement process, and the preferred bidder identified.
12. The final business case will need to be signed off by Treasury before the preferred bidder can be confirmed. This is expected to be towards the end of 2009.
13. The cost to the councils of delivering the final proposed solution are currently being assessed to ensure that they fall within the previously approved affordability envelope for the project although this can only be fully assessed when the dialogue process is concluded. Early indications are that both proposed solutions are likely to be within the original business case.

## Procurement Governance

14. The inter-authority agreement between the county council and City of York council as currently drafted identifies the role of the Project Board in the appointment of the Preferred Bidder. The Project Board is made up of officers from each authority, and is chaired by the county council's Corporate Director, Business and Environmental Services and also includes the city's Director of City Strategy. Other Members of the Project Board also include the Head of Finance from City Strategy and the Assistant Director of Finance from NYCC and a representative of the councils' external advisors. The Project Board meets at least on a monthly basis.
15. The Project Board has overseen the procurement to date and has involvement in the following:
  - Approval and publication of the OJEU notice
  - Selection and evaluation of bidders at all stages of the procurement
  - Issue of all tender documents
  - Management of all stages of the procurement
  - Appointment of the preferred partner and issue of the preferred partner letter.

- Subject to approval by Members a contract would then be drawn up with a completion date for signature being spring 2010.
16. The project board have been examining options within the current procurement process for types of solution and location and also a “do nothing” option which will provide a comparison in terms of cost with the PFI solution. As yet other further alternatives have not been explored because the picture regarding alternative sites for disposal are far from clear. However the target date of 2014 for the PFI proposal to come on stream leaves scope, should the councils decide there is a need, to investigate further alternatives.

### **Type of solution**

17. As referred to earlier in the report the competition is now between two parties:
- Amey/Cespa
  - Earthtech/Skanska
18. The technology proposed both parties is not yet confirmed although options considered include the possibilities of an Anaerobic Digestion System, a Mechanical/Biological Treatment plant (MBT) and the possibility an energy from waste system that will provide electricity to the National Grid. Full details of the tonnage to be treated within whichever system is preferred is still subject to the procurement process.
19. The question of whether the solution will be a single solution or a combination of different types of plant will only be established at the conclusion of the procurement process. However it is very likely that some combination of the above options will be proposed. The implications for transportation will also only be fully understood when the process is concluded and a site established for locating the treatment plant. In York’s case the question will be whether or not we will need a transfer station or whether the waste can be delivered directly to the facility.

### **Financial**

20. The original financial model for the proposed PFI was approved by Members for submission to government as part of the business case for the PFI bid. At this stage of the procurement process the financial outcome is not yet known although indications are that it will be within the parameters of the original business case referred to above.
21. The council’s Director of Resources together with the Director of Finance from NYCC are currently involved in assessing possible outcomes from the procurement and a report will be brought to the Executive when this work is completed which will be after the conclusion of the procurement process.

### Current position on waste production

22. The table below sets out the performance of York's waste management strategy for the last six years.

Year	Waste Arising	Recycled	Composted	Landfilled
2003/04	118,310	10,550	4,660	95,820
2004/05	123,510	12,970	5,400	97,050
2005/06	120,870	16,100	7,830	88,910
2006/07	122,380	23,400	16,890	74,210
2007/08	118,600	25,530	17,250	68,040
2008/09	113,765	25,940	17,930	63,225

23. The waste arisings peaked in 2004/05 at 123,510, since then there has been a gradual reduction in the amount of waste collected in York. In 2008/09 the total was 8% down on the peak, despite a large number of additional properties being built.
24. Recycling is 250% up in the six years and composting up by almost 400%. The results of this success has seen the tonnages going into landfill falling from its peak by 33,825. A 25% total reduction of waste being disposed of in this way.
25. Similar improvement have been achieved in the North Yorkshire Districts, and the treatment solution has been sized on these figures.
26. Based on the historical method of measurement, this performance moved both York and North Yorkshire into the 3<sup>rd</sup> quartile performance. The green waste for composting being the single largest reason why waste arisings in the region are higher than some other areas.
27. The historical measures are based on the tonnages per head of population. Cities and Regions who attracted high levels of visitors and successful universities found that they were in the lowest quartiles for performance on these measures. The new National Indicators, introduced last year, has changed the method of measure, so waste statistics are now measured against the number of households (properties). Early indications is that this method put York to a high point within the second quartile on performance of waste management.

### Risk Analysis

28. There is a comprehensive risk register for the project which includes a total of 117 identified risks. The register is broken down into a number of sections:
- Planning
  - Design
  - Construction and property
  - Operational
  - Demand

- Performance
  - Taxation
  - Financial
  - Technology and obsolescence
  - Regulatory
  - Residual value
29. Each of the risks is further broken down into where responsibility lies – public, private, shared.
30. The main risks for the two councils are in:
- Planning – that is gaining planning permission for any proposed facility.
  - Design – The need to avoid changes to the specification after any contract is awarded either for council requirements or as a result of external influences.
  - Operational – production of more waste than estimated or change in composition.
  - Financial – Inflation prior to financial close
  - Regulatory – Changes in regulations
  - Residual value – cost of decommissioning

**Financial Implications**

31. There are no financial implications from this report report which aims to update members on the progress of the project.

**Legal Implications**

32. There are no legal implications arising directly from this report.

**Recommendations**

33. Members of the Shadow Executive are asked to note the contents of this report.

Reason: To inform and update the Shadow Executive and help shape the effectiveness of future action.

**Contact Details**

<b>Author:</b>	<b>Chief Officer Responsible for the report:</b>			
Author's name: Bill Woolley, Acting Chief Executive	Bill Woolley, Acting Chief Executive Sally Burns, Director of Neighbourhood Services			
Co-Author's Name: John Goodyear, Assistant Director Neighbourhood Services	<b>Report Approved</b>	✓	<b>Date</b>	26 August 2009