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**PROCUREMENT OF WASTE MANAGEMENT SERVICES**

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**Responsible Cabinet Members -Councillor Veronica Copeland,  
Sustainable Environment and Climate Change Portfolio**

**Councillor Stephen Harker, Resources Portfolio**

**Responsible Directors - Cliff Brown  
Director of Community Services**

**Paul Wildsmith  
Director of Corporate Services**

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**Purpose of Report**

1. To consider the final tenders received for a contract to be awarded to deliver waste management services for eleven years from April 2009.

**Background**

2. For some time there have been aspirations from Members and residents to have a waste disposal service that makes a contribution to tackling climate change with reduction in landfill and increased recycling. At the same time there has been concern about the increasing costs of waste disposal particularly with the high dependency on landfill and the Landfill Tax that this disposal route incurs.
3. The current approach to waste treatment and disposal, heavily reliant on landfill, will become financially untenable in the next few years due to the combined impact of increasing Landfill Tax and the requirements under the Waste and Emissions Trading Act 2003 (Landfill Allowance Trading Scheme - LATS) to reduce the amount of biodegradable municipal waste going to landfill.
4. Landfill Tax is currently £24 per tonne. In March 2007 the Chancellor announced that in each of the next three years it will rise by £8 per tonne, reaching £48 per tonne by 2010/11. Current practice in Darlington involves landfilling over 50,000 tonnes of waste per annum. An £8 per tonne increase per year in Landfill Tax adds £400,000 to the Council's costs, with no improvement in service or performance. Beyond 2011 further increases are anticipated but are yet to be set. In addition to Landfill Tax the LATS targets are also challenging. In 2005/06 the number of permits allocated to Darlington was 38,781 and by 2020 this will reduce to 11,872. The chart in **Appendix 1** illustrates the amount of biodegradable waste the Council needs to divert from landfill to be LATS compliant.

5. In September 2006 Cabinet agreed to a procurement process for a service to recycle, treat and dispose of municipal waste and to operate and manage the Household Waste Recycling Site. This contract is to operate from April 2009 for 11 years until 2020 (notice has been served on the existing contractor to terminate the contract at 5 April 2009).
6. The procurement process used has been “competitive dialogue” to secure a contract using an output based specification. This has given bidders the opportunity to propose various technologies that will meet Darlington’s landfill diversion requirements.
7. The procurement process commenced formally in January 2007 with the release of an OJEU advert seeking expressions of interest. Nine initial responses were received and through competitive dialogue these have been reduced to three bidders, each of which have submitted final tenders.
8. The aim and objectives the contact is designed to meet are:

#### Aim

The provision of a service that manages the Council’s waste in an environmentally and economically sustainable manner and diverts waste from landfill to enable the Council to meet or exceed its Landfill Allowance targets.

The supportive objectives are:

- (a) To allow the Council to fulfil its statutory obligations under the Environmental Protection Act 1990 (to provide for waste disposal and provision of a household waste recycling site).
- (b) To help to minimise waste arisings.
- (c) To significantly increase levels of recycling, composting and recovery.
- (d) To be affordable and offer value for money thereby assisting the Council in its Best Value duty.

The Contractor will also be expected to:

- (a) Provide such reasonable assistance as the Council may require to facilitate waste minimisation, recycling and similar initiatives.
  - (b) Act in a manner that is conducive to creating a public awareness that waste is not “rubbish”.
  - (c) Prepare and maintain a delivery plan covering the environmental implications and management of all the services provided.
9. The procurement of this waste management contract is the first phase of a larger project that will also see a review of collection and recycling services (kerbside), all within a new overall Waste Strategy for Darlington. This work is separate to the procurement work and will follow.

## Information and Analysis

10. Members are asked to note that in considering this report they should have regard to the additional and commercially confidential information in Part III of the agenda as well as the information provided here. The procurement process has been managed by a cross-Council team. The team has been supported by the provision of external legal, technical, financial and planning advice. Legal advice has been provided by Ward Hadaway, technical advice by Parsons Brinkerhoff, financial advice by Grant Thornton and planning advice by Building Design Partnership. All of these companies are framework partners of the Council with the exception of Grant Thornton who were selected by informal quotation under delegated powers.
11. The three bids received are summarised in the following paragraphs. The bid from Stonegrave Aggregates actually comprised of two offers, one based on separate charges for different waste streams and the other a blended fee. This latter offer was significantly more expensive without offering equivalent benefit and has, therefore, not been presented in detail in this report.
12. Two of the bids represent an initial increase in overall costs in respect of waste disposal/treatment compared with current arrangements. However, as a consequence of the Landfill Tax escalator and making assumptions about future increases in Landfill Tax (based largely on continuation of the existing escalator rate) all of the bids eventually not only break even but represent a saving compared with current practice by 2013.
13. The bids contribute to a value for money option for waste management over the life of the contract, as well as meeting LATS targets. They also increase the sustainability of the Council's waste management practices. They reduce landfill and increase recycling and composting, as illustrated in the charts in **Appendix 2**. All of these sustainability benefits contribute to the Council's Climate Change agenda, reducing emission of Greenhouse gases through reduced landfill.
14. The key features of each bid are outlined below:
  - (a) **Stonegrave Aggregates**
    - (i) Stonegrave Aggregates proposal is to process up to 50,000 tonnes per annum of unsorted municipal waste in an in-vessel treatment plant at their site at Aycliffe Village. The site is an existing quarry, landfill and waste management facility. Planning permission is required for the plant, which is yet to be constructed.
    - (ii) The main output from the process would be a compost like material. Further processing, using magnets and trommels etc would separate out glass, ferrous and non-ferrous metals, for recycling and residual material for landfill.
    - (iii) Stonegrave Aggregates propose to operate the Household Waste Recycling Site using their own in-house staff. A Waste Transfer Station is not required with this proposal as waste can be delivered directly to Stonegrave Aggregates' site at Aycliffe. Under this proposal recycling and composting would rise from 40%

at the start of the contract to 50% at its conclusion.

(iv) **Collection Issues**

The Stonegrave Aggregates proposal does not necessitate the Council making changes to its collection systems to meet LATS and recycling targets (however, the Household Waste Recycling Act 2003 will require that the Council makes arrangements to collect at least two types of recyclable waste from households).

(v) **Risks**

This proposal relies on the successful outcome of a planning application and the construction of plant at Stonegrave Aggregates site. A planning application will be submitted by Stonegrave Aggregates to Durham County Council if they are the successful bidder. Darlington Borough Council officers recently commissioned Building Design Partnership (one of our framework partners) to assess the planning risk relating to this proposal and their conclusions are that the planning risk associated with this proposal is low.

(vi) It should be noted that a waste transfer station would not be required as the site is local and waste can, therefore, be delivered directly.

(b) **SITA**

(i) SITA's proposal is to recover energy from up to 25,000 tonnes per annum of unsorted municipal waste at their existing Energy from Waste plant at Billingham. In order to meet LATS targets and high recycling targets, SITA also propose to compost green waste at their composting site at Billingham and bulk and market additional materials, which the Council would provide by revising collection arrangements.

(ii) To avoid the inefficiencies and cost of delivering waste directly to Billingham the Council would need to provide a Waste Transfer Station facility.

(iii) SITA propose to operate the Household Waste Recycling Site using their own in-house staff. Under this proposal recycling and composting would rise from over 27% at the start of the contract to over 44% at its conclusion although the greater part of this increased recycling would only be achieved by the Council revising its collection systems. During this time 39 to 43% of waste would be recovered through incineration at an energy from waste plant.

(iv) **Collection Issues**

SITA's proposal will only meet LATS targets and high recycling levels if the Council revises collection arrangements to segregate additional materials. (However the Household Waste Recycling Act 2003 will require that the Council makes arrangements to collect at least two types of recyclable waste from households).

(v) **Risks**

The need for revised collection arrangements presents a risk in that should such arrangements fail or not be effective, the Council could fail to hit LATS and recycling targets. The additional recycling collections required as part of SITA's proposal are challenging but can be attained by the best performing authorities.

- (vi) A waste transfer station will be required to avoid sending refuse collection vehicles to the SITA plant at Billingham. This will necessitate seeking planning permission and constructing a suitable facility. The costs have been built into the SITA proposal but the risk does not form part of the evaluation score as it would rest with the Council.

(c) **Premier Waste Management Ltd (Premier)**

- (i) Premier's proposal is to meet LATS targets and achieve high recycling and composting rates by processing up to 50,000 tonnes per annum of unsorted municipal waste in a closed vessel which treats the material in a matter of days. The output is further processed using magnets, trommels etc to segregate the compost like output, glass, ferrous and non-ferrous metals all for recycling and residual material for landfill. In addition, Premier would offer composting of green waste and bulking and sale of recyclates.
- (ii) Waste would initially be delivered to Premier at the existing Heighington Waste Transfer Station but Premier may lose access to this (dependent on Durham County Council, who own the site) part way into the contract. The Council would, therefore, need to plan for provision of an alternative Waste Transfer Station. From this point waste would be transferred to one of several sites Premier are developing and for which they have planning permission, including the existing facility at Thornley.
- (iii) Premier would propose to operate the Household Waste Recycling Site using their own in-house staff.
- (iv) The Premier proposal would more than meet Darlington's LATS requirements and achieve recycling and composting levels of 40% at the start of the contract rising to 50% at its conclusion. In addition, over 7% of waste would be recovered. This would be achieved by selling flock (one of the outputs of the process) to an energy recovery process.
- (v) **Collection Issues**  
The Premier proposal does not necessitate the Council making changes to its collection systems to meet LATS and recycling targets (however the Household Waste Recycling Act 2003 will require that the Council makes arrangements to collect at least two types of recyclable waste from households).

(vi) **Risks**

Initially Premier will have access to Durham County Council's Waste Transfer Station at Heighington. Durham County Council have offered no guarantee of the continued availability of this facility and the Council would need to be prepared to provide an alternative facility in the event that access to the Heighington facility was removed. The costs have been added into the Premier proposal but the risk involved in providing an alternative waste transfer station rest with the Council and therefore have not formed part of the evaluation score.

### **Appraisal of Bids**

15. The outcome of the appraisal of bids can be found in **Appendix 3** in Part III. The evaluation criteria used have been based on 45% of points awarded on cost, and 55% on deliverability. Deliverability encompasses a number of issues, which are technology (20%), planning (15%), construction (7%), proximity (3%), collection issues (3%) and targets (7%). Assessment of each of the deliverability criteria takes account of the risks to the Council of each of the bids. The assessment has included external consultants' advice.

### **Financial Appraisal Process**

16. The final three bidders were required to submit financial information stating:

- (a) Prices for providing the specified outcomes, including sharing arrangements for income generated by sales of recyclates for the first year of the contract (2009-10).
- (b) Bases for future years (2010-11 to 2019-20) prices, including indices and price-review mechanisms. To achieve best value, the specification for the contract is based on outputs and outcomes, not pre-determined technology-specific solutions. Consequently, bidders were given flexibility to specify indices and price-review bases in their submissions.

17. The sum total of the first year and projected annual prices over the life of the contract is the bid price. To make like-for-like comparisons, it is necessary to make some adjustments to the submitted bid price so that there is consistent treatment of the impact on the Council's costs of assumptions regarding:

- (a) Price Indexation
- (b) Landfill Tax

18. Costs that are outside of the scope of the contract have also to be added to the tender prices. These costs are:

- (a) Waste Transfer Station (WTS), where one is needed for the proposed solution
- (b) Additional collection costs that the Council would incur to enable the proposed solution to be delivered

19. The submission and evaluation of bids required assumptions to be made relating to future years regarding:
- (a) Waste volumes
  - (b) Landfill tax rates
  - (c) Inflation
20. These assumptions affect the evaluation of the overall costs of each bid. The price-sensitivity of using different assumptions has therefore been tested in the evaluation. For example, it has been assumed that LFT will continue to increase by £8 per tonne per annum until 2013-14 and by £3 per tonne per annum from 2014-15.
21. The payment profiles of the three bids over the period of the contract are different. Consequently, the total cost of each submission has been ‘discounted’ to reflect the fact that payments in earlier years have higher values than those in the later years. Total cost and discounted evaluations are shown in **Appendix 3**. The evaluation does, however, demonstrate that there is no significant difference between the three bid profiles.
22. Each of the final submissions has been evaluated in comparison with:
- (a) The other two submissions
  - (b) Existing budget provision in the medium term financial plan
  - (c) Projected costs of continuing with the current landfill-based solution
23. The results of the financial assessments of the three submissions and further details, including commercially confidential information, are in **Appendix 4** in Part III of the agenda.
24. The overall cost to the Council of the lowest cost bid, which is also the economically most advantageous, i.e. the highest-scoring bid overall, is broadly in line with budget provision in the MTFP. Costs of waste management in future years will, however, continue to increase by more than the general level of inflation as a result of:
- (a) Increasing volumes of waste
  - (b) Year-on-year increases in Landfill Tax
25. The estimated total cost of each of the bids received is substantially less than the projected cost of continuing with the present landfill based disposal.

### **Result of Financial and Deliverability Evaluation**

26. The overall weighted evaluation of cost and deliverability, including assessment of risk, is:

Stonegrave Aggregates	87.13%
SITA	80.29%
Premier	86.33%

27. Stonegrave Aggregates' submission has been assessed as offering the most economically advantageous option and is consequently recommended for acceptance.
28. The relatively narrow range and high scores reflect three high quality bids received at the final stage of the procurement process, which began with 13 enquiries and 9 initial responses.

### **Outcome of Consultation**

29. The approach to this procurement project (output based specification) was the subject of a report and presentation to the Public Protection and Community Partnerships Scrutiny Committee in September 2006.

### **Legal Implications**

30. This report has been considered by the Borough Solicitor for legal implications in accordance with the Council's approved procedures. There are no issues which the Borough Solicitor considers need to be brought to the specific attention of Members, other than those highlighted in the report.

### **Section 17 of the Crime and Disorder Act 1998**

31. The contents of this report have been considered in the context of the requirements placed on the Council by Section 17 of the Crime and Disorder Act 1998, namely, the duty on the Council to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. It is not considered that the contents of this report have any such effect.

### **Council Policy Framework**

32. The issues contained within this report do not represent change to Council policy or the Council's policy framework.

### **Decision Deadline**

33. For the purpose of the 'call-in' procedure this does not represent an urgent matter.

### **Key Decisions**

34. The contents of this report represent a key decision as the contract being procured will involve substantial expenditure. It has been advertised in the Forward Plan.

### **Recommendation**

35. It is recommended that the bid from Stonegrave Aggregates as detailed in the report be accepted.



## **Reasons**

36. The bid represents the most economically advantageous option.

**Cliff Brown**  
**Director of Community Services**

**Paul Wildsmith**  
**Director of Corporate Services**

## **Background Papers**

Planning Risk Review for Proposed Waste Management Facilities at Aycliffe Quarry: Building Design Partnership October 2007

## **Appendices**

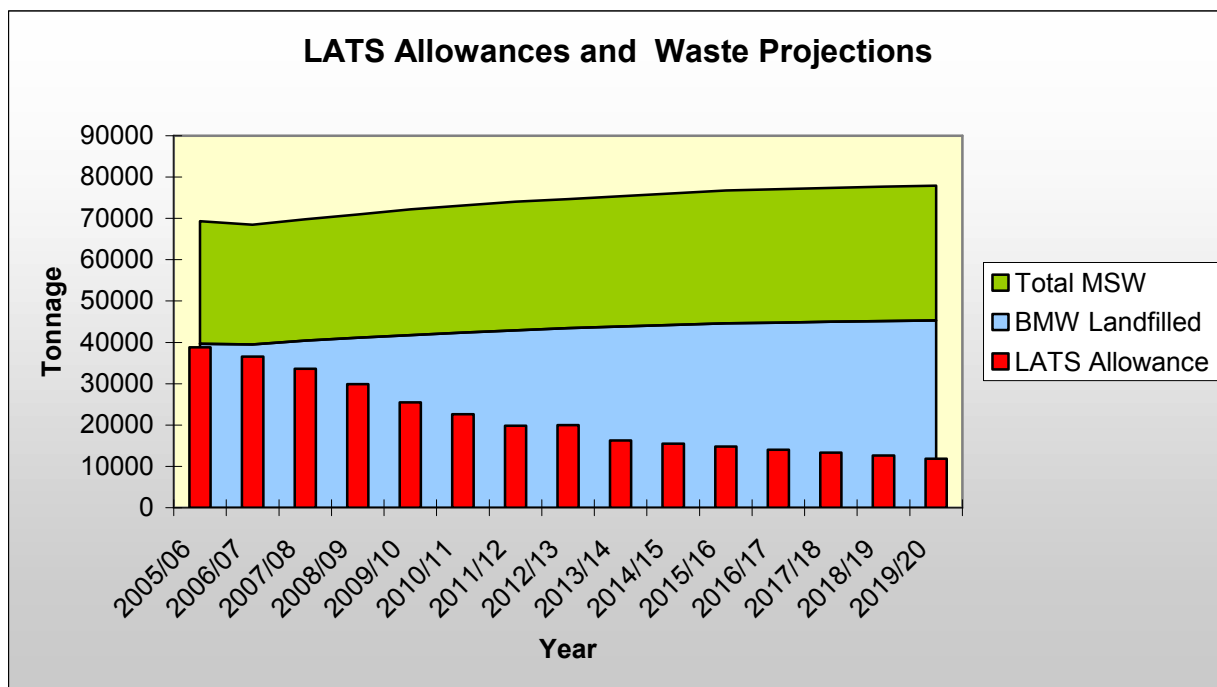
### Part I

- 1 LATS Allowances and Waste Projections
- 2 Recycling, Recovery and LATS Performance of Bids

### Part III

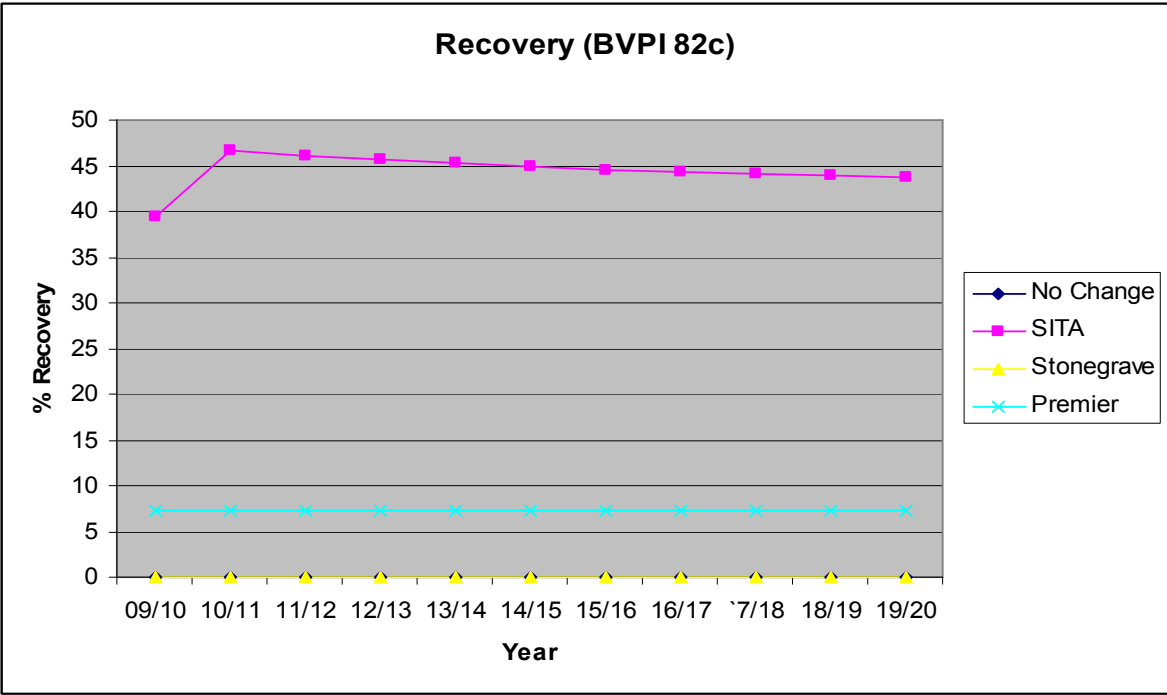
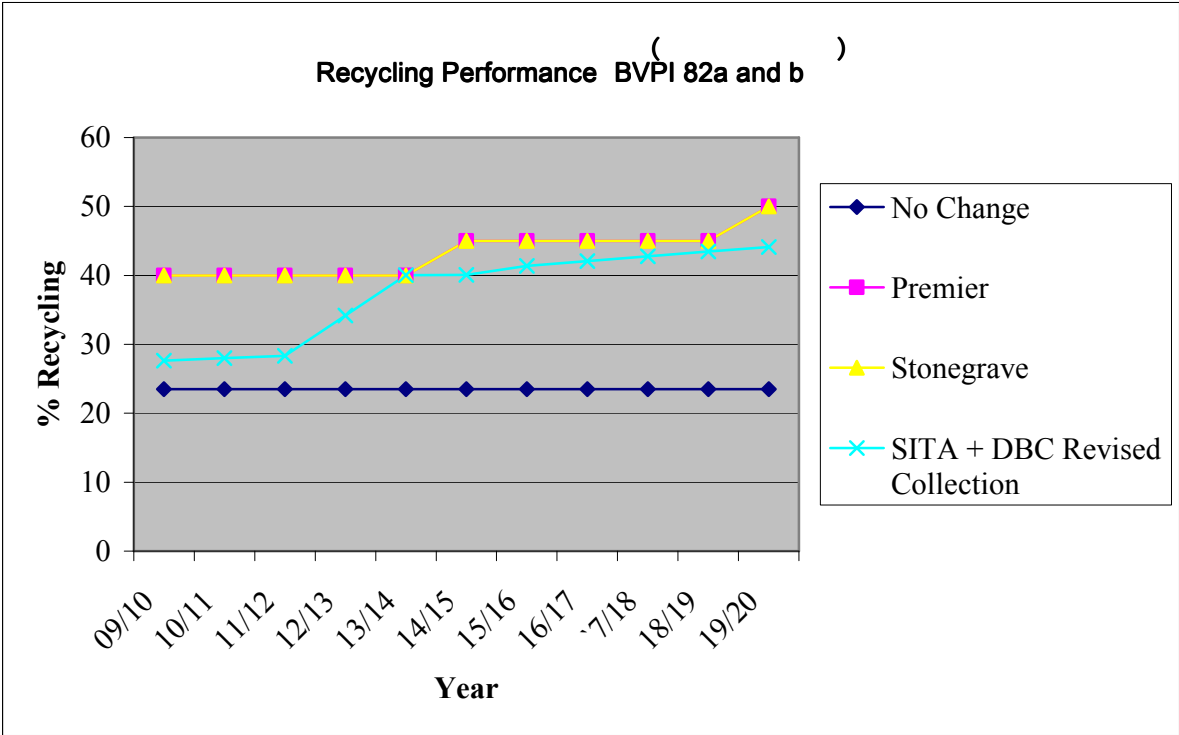
- 3 Evaluation of Tenders
- 4 Financial Appraisal

Bill Westland: Extension 2552  
BAH



Note: The gap between biodegradable municipal waste landfilled ( BMW) and Landfill Allowance Trading Scheme (LATS) allowances represents non-compliance with LATS. The contract being procured is intended primarily to deal with this BMW waste and make Darlington LATS compliant at an affordable cost.

The deficit in LATS allowances in the years prior to the contract commencing (up to 2009) has been met by purchasing LATS allowances.



### Performance Against LATS Targets

