

**CABINET**

**15 SEPTEMBER 2010**

**JOINT REPORT OF THE EXECUTIVE DIRECTOR OF CITY SERVICES,  
DIRECTOR OF FINANCIAL RESOURCES AND CHIEF SOLICITOR**

**SOUTH TYNE AND WEAR WASTE MANAGEMENT PARTNERSHIP -  
PFI UPDATE**

**1 PURPOSE OF THE REPORT**

- 1.1 To note and endorse the procurement process to date, including the proposal to appoint a Preferred Bidder; to note the impact on the budget and approve the recommendation to Council to amend the budget to include the financial costs of the project.

**2 RECOMMENDATIONS**

- 2.1 Cabinet is asked to:-
- (i) Note and endorse the procurement process to date.
  - (ii) Recommend Council to agree that the total financial costs over the lifetime of the project and the commitment to meeting the annualised cost, as set out in paragraph 5.1 in the body of the report; be approved as an amendment to the budget.

**3 BACKGROUND**

- 3.1 Cabinet on 5 December 2007 approved the recommendation to Council that the PFI Outline Business Case (OBC) in relation to the procurement of residual waste treatment services for the South Tyne and Wear Waste Management Partnership (STWWMP) be submitted to Department for the Environment, Food and Rural Affairs (DEFRA) as the basis for seeking PFI credit support for the future procurement of arrangements to deal with the residual waste fraction of municipal waste; and for that purpose only:
- (i) Agree the illustrative affordability range for the partnership authorities based on a PFI supported procurement and set out in the OBC and the appendices to the report; and
  - (ii) Confirm its commitment to address the illustrative affordability gap for the Council as set out at paragraph 5.1 of the body of the report and the OBC, and any subsequent revision thereof, resulting from a reapportionment of costs between the Partnership authorities that continues to offer financial benefit over the "do minimum" option.

- 3.2 At its meeting on 27 February 2008 Council resolved that the report of the Cabinet together with the views of the Review Committees be approved and adopted.
- 3.3 Cabinet on 30 July 2008 approved the commencement of the procurement and authorised the Joint Executive Committee to approve the relevant procurement documentation and to determine the detailed evaluation methodology.

#### **4 CURRENT POSITION**

- 4.1 The principal procurement has progressed as set out in Appendix 1 using the Competitive Dialogue procedure as required by DEFRA as a condition of PFI funding.
- 4.2 The evaluation of the Final Tenders received on the 11 August 2010 means that the Partnership Project Team is in a position to make a recommendation on the preferred bidder, which is the subject of a separate report elsewhere on the agenda.
- 4.3 It is proposed that Cabinet recommends to Council to agree that the financial costs of the project over the lifetime of the contract up to the upper level set out in 5.1.(a) below be approved as an amendment to the budget.

#### **5 RELEVANT CONSIDERATIONS/ CONSULTATIONS**

##### **5.1 (a) Financial Implications**

Cabinet at its meeting on 5<sup>th</sup> December 2007 approved the estimated financial implications of the project included within the report approving the submission of the OBC. The financial implications were set out within paragraph 5.1 of that report and stated that the potential affordability envelope was estimated to be between £234m to £353m over the 28 year life of the project. The Council's potential affordability envelope equated to an additional ongoing revenue cost of £5.2m to £7.0m per annum. The cost of the solutions proposed by both of the bidders are below the upper level of this affordability envelope.

In accordance with the policy of gradually building up provision within the Council's base budget to fund the eventual affordability gap, additional resources have been provided through the Council's budget to date and further resources will continue to be provided in accordance with the medium term plan for the annual increases in landfill tax until the commencement of the operation of the Waste Disposal Strategic Solution. Such provisions will enable the the affordability gap to be met fully prior to the solution becoming operational. It will also be necessary to provide for ongoing inflationary increases in future years' budgets over the period of the contract.

(b) Risk Analysis

A full risk analysis is being undertaken in relation to the contract and will be detailed in a subsequent report to Cabinet

(c) Legal Implications

The Chief Solicitor has been consulted and his comments have been incorporated within body of the report.

(d) Consultation

The Joint Municipal Waste Management Strategy has been subject to wide public consultation, including Members Seminars and Community Spirit groups.

Other relevant implications have been considered and taken into account in tender documentation, the dialogue process and the requirements for bidders' submissions.

## **6 REASONS FOR THE DECISION**

### **6.1 For the following reasons:**

- i) To achieve the long-term objectives of the Joint Municipal Waste Management Strategy (JMWMS).
- ii) To enable the procurement to be progressed in a timely fashion.

## **7. ALTERNATIVE OPTIONS**

7.1 The individual authorities could procure separately but this would be inconsistent with the stated aim within the Joint Municipal Waste Management Strategy that the authorities procure under the auspices of the Partnership.

7.2 The individual authorities could decide not to proceed with the PFI project but they would lose access to PFI credits worth approximately £5.4m per annum in Revenue Support Grant.

## **8 BACKGROUND PAPERS**

Background papers used in the preparation of this report include:

- i) Report of the Director of Community and Cultural Services – Waste Management – Development of Partnership Arrangements; Cabinet 14 February 2007
- ii) Report of the Director of Community and Cultural Services- STWWMP Governance Arrangements; Cabinet 10 October 2007

- iii) Report of the Director of Community and Cultural Services  
Joint Municipal Waste Management Strategy; Cabinet 10  
October 2007
- iv) Joint Report Of Director Of Community And Cultural Services,  
City Treasurer And City Solicitor- South Tyne And Wear Waste  
Management Partnership - Outline Business Case; Cabinet 5  
December 2007
- v) Report Of Director Of Community And Cultural Services-Waste  
Management Partnership Arrangements; Cabinet 26 June 2008
- vi) Report Of Director Of Community And Cultural Services- South  
Tyne And Wear Waste Management Partnership- Evaluation  
Methodology And PFI Update; Cabinet 30 July 2008
- iv) South Tyne and Wear Waste Management Partnership Joint  
Municipal Waste Strategy 2007-2027 October 2007

### Policy Context

1. The proposals are consistent with the South Tyne and Wear Waste Management Partnership's Joint Municipal Waste Management Strategy, and the Council's Corporate Improvement Plan with regard to sustainable waste management arrangements that reduce reliance on landfill and achieve landfill avoidance (LATS) targets, meet known and future legislative requirements, and recover value from waste. The proposals will also limit increases in the treatment costs of wastes over the longer term enabling the delivery of efficient, value for money services.

### Developments since Commencement of the Procurement

2. The principal PFI procurement for a residual waste facility has been undertaken using the Competitive Dialogue process and in accordance with the evaluation criteria approved by Cabinet and Joint Executive Committee in July 2008.

The procurement has involved four evaluation stages, namely

- (i) Pre-Qualification (12 candidates to 8 bidders),
  - (ii) Outline solutions (8 bidders to 3), and
  - (iii) Detailed solutions (3 bidders to 2).
  - (iv) Final Tenders (2 bidders to Preferred Bidder)
3. The procurement process commenced with a Pre Qualification Questionnaire (PQQ) stage following the issue of a Prior Information Notice and a Contract Notice in the Official Journal of the European Union (OJEU). The PQQ stage is a capacity and capability check of potential bidders to ensure their suitability to enter into the Competitive Dialogue.
  4. Bidders which passed this initial check (8) were invited to submit Outline Solutions for the project that were evaluated using the Competitive Dialogue evaluation methodology agreed prior to the issue of the OJEU notice.
  5. The three Bidders that were successful at Outline Solutions stage (3) were invited to submit Detailed Solutions which were then evaluated, and one Bidder was de-selected at that time.
  6. Since January 2010 the Partnership Project Team have undertaken further dialogue with the two shortlisted Bidders leading to Close of Dialogue and Call for Final Tenders on 21 July 2010. Final Tenders were submitted by both Bidders on 11 August 2010.

7. Evaluation of Final Tenders has been undertaken by the Partnership Project Team and the recommendation of Preferred Bidder will be presented to the Cabinet meeting by way of separate report on the agenda.
8. At each stage in the Competitive Dialogue Procedure, the Bidders' submissions have been evaluated using a comprehensive evaluation methodology. The Bidders have been supplied with a copy of the evaluation methodology and with a comprehensive suite of documentation to ensure Bidders are aware of precisely what responses they were required to submit for evaluation.
9. The shortlisted Bidders were informed that the Final Tenders would be evaluated in line with the previously notified criteria which required responses in four distinct areas:
  - Technical (including Planning, and Communications);
  - Financial
  - Legal
  - Overall Integrity

The weightings to be applied for each area at this Final Tender stage are:

- Technical 60%
- Financial 20%
- Legal 15%
- Overall Integrity 5%

Bidders were required to pass a minimum quality threshold for each area. Bidders that passed the minimum quality threshold were then assessed against the economic cost to the Partnership of their solution in order to determine the Preferred Bidder.

10. The criteria and weightings were as follows :-
  - i. TECHNICAL  
The evaluation, comprising 60% of the overall score with a minimum quality score of 75%, assessed the following elements:-
    - Facilities design and development proposals
    - Approach to sites, planning and regulatory issues
    - Suitability of proposed technology and operating performance
    - Environmental impacts and sustainability
    - Suitability of service and interface proposals
    - Facilities, contract management and handback arrangements

ii. FINANCIAL

The qualitative financial evaluation, which comprises 20% of the overall score, was undertaken in relation to the following:

- Financial model integrity (5%) Minimum Quality Score 75%;
- Payment mechanism (5%) Minimum Quality Score 80%;  
and
- Deliverability and security of funding (10%) Minimum Quality Score 65%.

iii. LEGAL

The key aspects of the legal evaluation, comprising 15% of the overall score and with a minimum quality score of 80%, were:-

- Contract Terms
- Contract Structures and Guarantees

iv. OVERALL INTEGRITY

The elements assessed, to a minimum quality score of 80% and comprising 5% of the overall score, were:-

- Completeness and Consistency of the Submission
- Cohesiveness of the Project Team
- Partnership Working

11. The overall aim of the evaluation process was to select the Final Tender that is the most economically advantageous to the Partnership which meets the Partnership's quality requirements.

