

Report – Finance Committee

Report of Urgent Action Taken: Waste Collection, Street Cleansing and Ancillary Services – Contract Award Report

To be presented on Thursday, 10th January 2019

*To the Right Honourable The Lord Mayor, Aldermen and Commons
of the City of London in Common Council assembled.*

SUMMARY OF ACTION TAKEN

1. On 12 December 2017, your Finance Committee approved a procurement strategy report for the re-tender of the City's waste collection, street cleansing and ancillary services contract.
2. A Waste Collection Steering Group was established as part of this process to review existing waste collection and street cleansing requirements, develop robust specifications and tender evaluation criteria, undertake evaluation of submitted tenders, and participate in "dialogue sessions". In addition to this activity, the Port Health and Environmental Services Committee also agreed the criteria for this contract, which were then used to inform the specification.

Tender Process

3. The OJEU (Official Journal of the European Union) contract notice was published on 23 January 2018. Thirteen suppliers expressed an interest by accessing the tender documents on the e-procurement portal, of which five submitted a completed Selection Questionnaire (SQ) and were invited to the next stage of the tender process to submit Detailed Solutions. During this stage, one supplier withdrew from the process.
4. Following evaluation of the Detailed Solutions, the three highest scoring bidders were invited to participate in a number of "Dialogue Sessions", held during June and July 2018. The "Dialogue Sessions" addressed key areas of the specification and provided an opportunity for the City Corporation to give feedback on areas of weakness in suppliers' respective bids, as well as allowing bidders to understand further the City's requirements.
5. At the close of the Dialogue Sessions, detailed written feedback was given to each bidder as a record of discussions. In addition, the Waste Collection Steering Group revisited the specification to take on board comments from bidders.
6. In August 2018, invitations were sent out to the three bidders for them to submit Final Tenders. All bidders submitted a tender by the deadline. A soft market testing exercise was also undertaken to understand key drivers and requirements of market providers.

Final Tender Evaluation Summary

7. The Final Tender evaluation outcome was as follows:

Bidder	Quality Score	Annual Price	Price Score	Total Score
Veolia ES (UK) Limited	43.10	£6,950,166	40.00	83.10
Biffa Municipal Ltd	40.42	£7,030,032	39.13	79.54
Urbaser Ltd	37.70	£7,105,278	39.55	77.25

8. The tender evaluation was based on 60% weighting for Technical/Quality and 40% weighting for Commercial/Price considerations.
9. For the purpose of the price/commercial evaluation, bidders were asked to submit a proposed 'royalty' payment on income received from the City's commercial waste business; this was provided as a percentage against an estimated value of commercial waste business.
10. At the time of tendering, the City Corporation estimated the value of the commercial waste business to be approximately £3m per annum.
11. The tender price, for the purpose of evaluation, was calculated as follows:

$$(\text{Annual service delivery cost}) - (\text{£3m} \times \text{royalty payment \%}) = \text{Tender sum}$$

Therefore, the total tender price for Veolia ES (UK) Ltd was:

$$(\text{£7,160,166}) - (\text{£3m} \times 7\%) = \text{£6,950,166}$$

Corporate & Strategic Implications

12. This contract is an integral part of delivering the City Corporation's strategic aim to create a high-quality public realm that attracts and responds to new developments, enhances the historic environment, and is enjoyable to experience.

Financial Implications

13. The total price of the recommended bid was £7.16million per annum, which compares with a current budget of £3.73million.
14. The contract cost is significantly higher than was budgeted. The closeness, however, of all three bids (i.e. within 3% of each other), suggests that the prices received genuinely reflect the market rate. There are a number of known factors that help to explain the increase. These include:
- The specification has changed resulting from increased footfall (e.g. the need to accommodate movement from Crossrail), a more buoyant weekend and night time economy, a large increase in the number of street trees and other greening, and cycle super highways, resulting in increased mechanical sweeping, and the increased numbers of non-estate dwellings.

- ii) The introduction of the Ultra-low Emission Zone (ULEZ), requiring an upgrade to a number of vehicles to meet the Euro 6 diesel standard. This requires a retrofit exhaust particulate treatment system which would cost £15,000 for each vehicle; 40 would require modifying, and this cost alone is estimated at in excess of £600,000.
- iii) The industry market has changed. A number of mergers have taken place and amongst those remaining there is far less appetite for small profit margins or offering minimal profit bids to secure highly advantageous reference sites such as the City.
- iv) From an officer assessment of the outgoing contractor's accounts, Amey are currently losing approximately £1.5m a year on the contract.
- v) The outgoing contractor was found not to be fulfilling the contract requirements in some areas; this included their management, supervision and event preparation. This resulted in a number of activities being covered by the client officer team.

Action Taken

- 15. City Procurement recommended the appointment of Veolia ES (UK) Ltd for the provision of waste collection, street cleansing, and ancillary services, as their bid demonstrated the most economically advantageous tender at the required quality standards.
- 16. Urgency was sought as the City Corporation had limited mobilisation time for the new contract; this was, in part, due to Amey (the incumbent provider) serving notice to terminate the contract in April 2019. Also, with a contract of this nature, mobilisation would usually take around six months; due, however, to the Corporation having to undertake a new, complex procurement exercise, this mobilisation period has been greatly reduced. Consequently, time saved during the approval process would result in time added on for mobilisation, which is critical to ensuring the contract is ready to commence on 6th April 2019.
- 17. Approval was consequently given to the award of a contract for the provision of waste collection, street cleansing, and ancillary services for a period of 8 years, with an option to extend for periods of up to 8 further years, to Veolia ES (UK) Ltd, at a cost of £7,160,166 per annum, equating to £57,281,328 over 8 years. It was also noted that Veolia ES (UK) Ltd had offered a 7% 'royalty' payment to the City Corporation, on an annual basis, based upon the agreed value of the City's commercial waste business.

RECOMMENDATION

- 18. We **recommend** that the action taken be noted.

All of which we submit to the judgement of this Honourable Court.

DATED this 16th day of November 2018.

SIGNED on behalf of the Committee.

Jeremy Paul Mayhew
Chairman, Finance Committee