Leeds CITY COUNCIL

Originator:	Pippa Milne/ David Outram
Tel:	22(43231)/ 21(43939)

Report of the Director Environment and Neighbourhoods

Executive Board

Date: 16th July 2008

Subject: Waste Solution for Leeds – Residual Waste Treatment PFI project - Evaluation Methodology and Update

Electoral Wards Affected:	**Specific Implications For:**	
All	Equality and Diversity	☐
	Community Cohesion	☐
	Narrowing the Gap	☐

Eligible for Call In ☑ Not Eligible for Call In ☐

EXECUTIVE SUMMARY

1 The report provides Members with an update as to the progress of the project since the Executive Board approval of the OBC submission in November 2007 and the increases to the anticipated level of support from DEFRA to that now approved. The Outline Business Case was approved by DEFRA and the HM Treasury Project Review Group in March 2008, with £68.6m of PFI Credits allocated.

2. The report identifies at section 3 the scope of the project and the project objectives and outlines the basis for the drafting of the output specification. The project scope is limited to processing the residual waste remaining after reduction, reuse and recycling and the procurement will provide opportunity for a range of possible processing technologies to be considered.

3. The Council has carried out public and stakeholder consultation on the core criteria for the qualitative evaluation methodology which supports the Council's approach.

4 The report details the principles of the criteria for the Evaluation Methodology and describes the contents of each core criteria for assessing bids received in respect of the project and how these will be evaluated.

5. In this report Members are requested to approve the principles of the criteria for the project evaluation methodology and confirm that the project should proceed to procurement.

6. The report sets out the costs of "do nothing" and recommends that bids received above this figure will not be considered further. It describes that the Reference Project cost will be a target for bidders.

1.0 Purpose of This Report

1.1 The purpose of this report is to obtain Executive Board approval for:

(a) The principles of the evaluation methodology for the comparison of bids received during the procurement phase of the Residual Waste Treatment project;

(b) the commencement of the procurement of a Residual Waste Treatment Facility and

(c) provide an update to the Residual Waste Treatment project affordability and project scope since the Executive Board paper in November 2007.

2.0 Background Information on the Waste Solution Programme

2.1 In October 2006, Executive Board approved the Integrated Waste Strategy for Leeds 2005-2035. The report set out the Strategy's ultimate vision for Leeds to become a 'zero waste' city through a range of measures to reduce, reuse, recycle and recover value from all waste with, ultimately, no waste being disposed of to landfill.

2.2 In September 2007, Executive Board approved a minimum 50% target for recycling or composting household waste by 2020 through the implementation of a broad range of recycling service developments.

2.3 In 2007/08 the amount of waste landfilled dropped by 17,000 tonnes and recycling and composting rose from 22.3% to 25.93%, exceeding the target for that year. That increase has in part been due to the success of the garden waste collection pilot and as a result this service is now being expanded in 2008/09 to cover around 125,000 households and it is anticipated that this will allow the Council to exceed a level of 30% recycling and composting. A pilot initiative to increase the frequency of SORT recycling collections to fortnightly is also planned.

2.4 Consequently the Council's overall long-term projections for household waste have also been reviewed and reduced during June 2008 based on the latest data on waste arisings. As a result, the residual waste treatment capacity to be procured has also reduced accordingly.

2.5 However, it is acknowledged that, in spite of waste prevention and recycling initiatives, there will still be a significant quantity of residual waste to be diverted from landfill if landfill targets are to be met and the associated environmental and financial impacts minimised. This report deals with the procurement of a technology solution for processing this residual waste.

3.0 Residual Waste Treatment project progress

3.1 In November 2007, Executive Board approved the submission of an Outline Business Case to DEFRA for PFI credits to support the delivery of a long-term residual waste treatment technology solution to deliver further reductions in waste sent to landfill. The Outline Business Case was subsequently approved by DEFRA and the HM Treasury Project Review Group in March 2008, with £68.6m of PFI Credits allocated. This allocation was equivalent to 50% of the relevant capital investment value of the Residual Waste Treatment

project, and some £3.5m more than anticipated at the time of the November 2007 Executive Board report.

3.2 Since then the preparation of the contract documentation has commenced in order for the OJEU notice to be issued in late July to start procurement subject to the approval of this paper by the Executive Board.

3.3 The programme for the project is that procurement will commence in late July 2008, with the competitive phase of the procurement expected to be complete by early 2010. Construction will commence on an anticipated two year programme in 2011 with completion scheduled for April 2013. The period from mid 2010 to April 2011 will be used for the contractor to obtain planning permission for the plant which will require a detailed Environmental Impact Assessment (EIA) to be prepared during the procurement period. A one year commissioning period is anticipated following construction, enabling the plant to commence full operations by April 2014. During this period of commissioning increasing quantities of waste will be treated as the commissioning progresses.

3.4 The contract is anticipated to continue for a further 24 years under the management of the contractor with the plant expected to come under the ownership and control of the Council at the end of the contract in 2038 if it is constructed on land owned by the City Council. The evaluation criteria will incorporate an assessment taking into account the possibility of a bidder proposing a site not owned by the City Council with its attendant risks and advantages. In addition bidders will be asked to consider whether alternative contract periods create greater cost efficiency for the City Council.

3.5 A market sounding process was carried out in May 2008 which sought views from a number of potential bidding organisations. Of the eighteen organisations interviewed a significant number indicated their willingness to bid for the project with these potential bidders promoting between them a wide range of technology options for processing residual waste.

4.0 Contract Objectives and Project Scope

4.1 The contract objectives and project scope are set out below and form the basis of the output specification. The output specification is being developed in accordance with DEFRA's Waste Infrastructure Development Programme (WIDP) guidance for waste projects.

4.2 The output specification has been developed such that a range of technologies are capable of delivering the requirements of the Council and this has been tested through market sounding meetings with potential bidders.

4.3 The key service objectives are to deliver:

- The diversion of municipal waste from landfill in order to contribute to the achievement of the Council's landfill diversion targets and having regard to the waste hierarchy;
- An environmentally sustainable service;
- An effective, efficient, economic and affordable service that delivers Best Value.

4.4 As shown above, the contract's primary aim is for the treatment of Leeds City Council's municipal waste that is not reduced, reused or recycled. Given the recycling target set by the Council of a minimum of 50% by 2020, it is anticipated that less than 50% of municipal waste will be sent to the facility. The output specification will require that the contractor, in dealing with this waste, meets our targets for the diversion of biodegradable waste from landfill, thus ensuring that no LATS penalties are incurred, and will set a minimum overall landfill diversion level.

4.5 Although the primary aim is to treat municipal waste that would otherwise go to landfill, there are potential environmental benefits in allowing the option of a facility capable of treating other wastes generated in Leeds that would otherwise go to landfill. The facility

would be designed primarily to process household waste, and any non-municipal waste (e.g. from the commercial sector) would therefore need to be of a composition similar to household waste. However, this represents a potential opportunity to deliver significant benefits in terms of how Leeds deals with all of its waste.

4.6 Allowing for any additional treatment capacity for waste generated within the City, over and above that arising from the municipal household waste stream, would provide the City with the flexibility to continue to aim for lower waste generation targets, and higher recycling levels, whilst ensuring the technology that results from this procurement will continue to operate at optimum efficiency, and performance levels. As this should also benefit the City's commercial sector, it is considered to prove attractive to such stakeholders, as well as bidders. It is therefore proposed that any bids proposing additional capacity will be evaluated on the basis of sustainability, proximity, evidence of available Leeds waste, and would have to offer additional benefits to the Council.

4.7 The contract does not cover the collection of waste, nor the processing of recycling streams segregated for recycling by householders or through other front-end initiatives. However, the evaluation framework will incentivise any additional recycling that can be achieved through the treatment of residual waste.

4.8 Also included within the scope of the contract is the provision of a transfer station. This is necessary to ensure that collection services can be provided in an efficient and sustainable manner and avoids all collection vehicles operating across the City from travelling to a single disposal point. The tonnages of residual waste that the transfer station would manage (and the associated vehicle movements) would be significantly less than when the facility was previously fully operational.

4.9 The Council is offering a site for the residual waste treatment technology to bidders. The site being offered is the former wholesale market site on Pontefract Lane, Cross Green. In addition it may be necessary to construct a waste transfer site separately from the residual waste treatment site, depending upon the bidder's proposals. The Council will undertake further site assessment work to identify a suitable location for a transfer station to assist bidders in preparing their submissions.

4.10 However, it is emphasised that the Council is neutral on sites, and bidders will be invited to submit their own sites. Any proposed sites will be assessed in terms of their location, suitability for the particular technology and the likely success of any planning application. In addition the assessment will cover the risks in respect of service continuity through the contract and after contract completion in 2038.

5.0 Stakeholder Consultation

5.1 There has been extensive public consultation on the Waste Strategy for Leeds over the last two and half years. Most recently the Council has completed a programme of consultation to gain public and other key stakeholder feedback on the criteria to be used to evaluate residual waste treatment solutions.

5.2 The main quantitative consultation comprised two separate telephone surveys: one citywide survey, with respondents drawn at random in a broadly even spread across all wards; another smaller survey with respondents drawn at random from an area within one mile of the four potentially suitable sites identified within the site selection exercise. The citywide survey had 1,100 respondents giving an accuracy of +/-3%. The 'local' survey had 401 respondents giving an accuracy of +/-5%.

5.3 A range of issues were considered by respondents to be important when evaluating residual waste treatment solutions (i.e. receiving average scores of over 8 out of 10 in terms of their importance). These can be summarised as follows:

- Minimising health impacts;
- Maximising recycling;

- Ensuring flexibility to future changes in waste volumes and composition;
- Minimising climate change impacts (including from transportation);
- Minimising landfill;
- Ensuring proven track record of solutions;
- Minimising local environmental impacts (i.e. smell, noise, emissions, appearance, impact on natural environment and wildlife, etc.);
- Minimising risk of delays (i.e. due to planning risk, site suitability, etc.).

5.4 Health impacts are naturally a primary consideration for the Council, and solutions believed to result in negative health impacts will not be considered. Furthermore, all proposals for waste facilities are required to meet strict environmental legislative limits in order to secure planning permission and the necessary permitting, and facilities are continuously monitored for their impacts throughout their operational life.

5.5 The Council has already set a target to recycle more than 50% of household waste, and it is anticipated that this will be achieved through a range of services to enable waste to be segregated for recycling by householders or through other front-end initiatives. However, the ability to achieve further recycling over and above this target from the processing of residual waste has been incentivised within the evaluation model.

5.6 Similarly, the issues of minimising climate change impacts, minimising local environmental impacts and minimising waste to landfill have all been included as key criteria within the 'sustainability' section of the evaluation model, together with criteria relating to the proven track record of solutions and their flexibility to future changes in waste.

5.7 The second part of the survey asked respondents to reflect on the importance of cost versus the sustainability factors covered above. Whilst the results from this section of the survey were not conclusive, they show that the majority of respondents believe sustainability factors to be more important than cost, but that cost should still be given a significant weighting in the evaluation.

5.8 In addition to the resident consultation, a briefing note on the wider Waste Strategy and residual waste treatment solution for Leeds was sent out to a wide range of stakeholders in May 2008, together with a questionnaire on the key criteria against which proposed solutions should be evaluated. The results from this consultation broadly reflect the priorities identified through quantitative survey, but provide more detailed responses in relation to the criteria that should be applied during the evaluation of solutions.

5.9 All of the key criteria identified by stakeholders have now been included within the evaluation model for the residual waste treatment procurement, and the consultation results will continue to inform the ongoing development of the model. A full summary of the consultation responses is available from the Committee Clerk.

6.0 Evaluation Strategy

6.1 The strategy will be designed to ensure that it assesses bids on the basis of the Council's objectives and allows the decision making body to take decisions on a reasonable basis taking into account all relevant factors.

6.2 The procurement will be undertaken using the competitive dialogue process under the EU procurement rules and the evaluation will be on a MEAT (most economically advantageous tender) basis.

6.3 Once issued the Council's procurement scope or stated objectives cannot be changed without the need to re-advertise, which has the potential to delay the project, impact on costs and increase risk. Additionally, once the criteria for award of the contract are published, the Council may only amend these in very limited circumstances.

6.4 The evaluation of bids received for the project is proposed to be carried out using an evaluation model which is designed to be neutral on technology alternatives but seeks to

use proven technology solutions as agreed by the Executive Board at its meeting in November 2007. The objective of the evaluation will be to ensure the Council is provided with the most appropriate solution, delivered in a way which minimises environmental impact and is located on a suitable site.

6.5 The evaluation approach will, in general, be to assess bids in a manner which will:

- conform with all relevant statutory and regulatory requirements and best practice;
- be robust, objective and transparent;
- provide a framework that will facilitate a comprehensive review of each Bid; and
- provide a clear audit trail.

6.6 The evaluation methodology will consider bids on a qualitative and price basis with a combination of these assessments being employed to rank the bids received at each bidding phase.

6.7 In order to ensure the evaluation process is neutral and not prejudiced in favour of any one technology option, detailed testing of the different technology solutions likely to be offered by the market has been undertaken. This testing has incorporated talking to a wide range of potential bidders, and has involved the hypothetical scoring of a range of technologies against the technical, sustainability and price criteria within the evaluation matrix using data provided by the Council's advisors, based on their knowledge of the marketplace, to ensure a representative range of scenarios have been covered.

6.8 As mentioned above the project team, aided by technical advisers, has carried out scenario tests with a view to ensuring that the evaluation framework is broadly neutral in terms of technology. This has shown there to be no appreciable bias towards any particular technology. However, the evaluation framework will be designed to ensure that Leeds selects a proven technology, that is reliable and deliverable, and to fully assess the environmental impact of solutions.

6.9 The table below shows the key decision points during the procurement and the body that will determine each decision:

Decision	Estimated date	Decision making body
Commencement of procurement (OJEU notice)	July 2008	Executive Board
Approval of detailed evaluation methodology	September 2008	Project Board
Outcome of PQQ evaluation	October 2008	Project Board
Outcome of ISOS Evaluation	January 2009	Project Board
Outcome of ISDS evaluation	Second quarter 2009	Project Board
Final Tender – leading to preferred bidder	Fourth quarter 2009	Project Board subject to PUK review assessment
Approval to appoint contractor	Mid 2010 – early 2011	Executive board
Final approval of project funding	Mid 2010 – early 2011	DEFRA
Planning permission	Early 2011	Plans panel

7.0 Qualitative Evaluation Model

7.1 The qualitative evaluation is proposed to be scored using the range of core criteria and weightings indicated below:

Qualitative Core Criteria	% score allocated
Sustainability	60%
Bid Integrity	7.5%
Commercial and legal	15%
Corporate Finance	10%
Payment mechanism	7.5%

7.2 It should be noted that this is the mechanism for allocating 60% of the overall marks available in the evaluation, the remaining 40% being for the price evaluation.

7.3 The **sustainability** section will evaluate the social, environmental and economic impact of bids and how the residual waste plant will operate. The fundamental aim of the contract is to divert waste away from landfill because of its damaging effect on the environment. Whilst bidders will be asked to deliver a minimum level of diversion that will ensure the Council does not incur LATS penalties once the contract is operational, different solutions can deliver different levels of diversion from landfill. Bids will therefore be evaluated based on their ability to deliver beyond the minimum standards set out in the output specification in respect of landfill diversion. The impact on carbon and other greenhouse gas emissions will be assessed. The assessment will in part involve the use of the Environment Agency's WRATE environmental assessment tool. It will examine the carbon impact of the project in comparison with continuing to dispose of residual waste via landfill and compare the impacts of the different solutions submitted. Local environmental and health impacts resulting from factors such as visual impact, odour, noise, dust, traffic, emissions and effluents will also be evaluated. Solutions also have the potential to offer further recycling and their ability to do this will be assessed within this section. The social impacts consider the contractor's proposals for education and engagement with the local community. Economic impacts consider the potential to provide resources to the benefit of the local economy and the potential for inward investment through synergies with the solution. The security of outlets for residues and end products will also be assessed. This is critical, as the failure of end markets could result in a solution failing to deliver the promised performance and leave significant risk at the door of the Council.

7.4 This section of the evaluation also involves assessing the overall capacity, resources and flexibility of the bid to manage municipal waste of the volumes likely to arise in Leeds taking account of foreseeable variations. The ability of each bid to handle future changes in composition of waste taking into account changes arising from the implementation of Leeds recycling strategy will also be assessed together with an assessment of the reliability of the technologies proposed by bidders. In addition, the proposed management systems and contingency planning to ensure that facilities are always capable of dealing with contract waste in the event of any facility downtime should operating difficulties occur will be evaluated. This part of the evaluation will also examine the contractor's ability to obtain planning permission for proposals, the design of the buildings accommodating the plant, and the suitability of the site proposed.

7.5 The elements of the evaluation within the **bid integrity** section comprise an assessment of the completeness and strategy of the bids received and the cohesiveness of the bid consortium, the contractor's proposals for partnership working with the Council and an assessment of the bid's fit with the Council's overall Waste Solution Programme. This section seeks to bring together the issues cutting across the bid, and to ensure that the submission works as a whole. This is important to ensure that the bidder is robust, well organised and capable of delivering the project.

7.6 The **commercial and legal** section will assess the level of risk transfer from the Council to the contractor, the commercial terms of contract proposed by the contractor and the terms of any third party contracts the contractor proposes to enter into such as, for example, an off-take agreement to take outputs from the plant after processing.

7.7 The **corporate finance** section will evaluate the financial robustness of the bid, the deliverability of the funding package and the strength of financial commitment of the consortium and its backers.

7.8 The **payment mechanism** section will evaluate any amendments the contractor proposes to the Council's payment mechanism should the contractor fail to achieve any of the performance standards set out within the output specification.

8.0 Price Evaluation Methodology

8.1 The price evaluation is proposed to be scored using the weightings indicated in Table 1 below with these scores then added to the qualitative evaluation to produce a final assessment. The 60% quality and 40% price is in accordance with the City Council's Contract Procedure rules and is consistent with the outcome of the Stakeholder Consultation.

Table 1

Cost/Quality comparison	**% score allocated**
Quality (from total of qualitative evaluation)	60%
Price Evaluation	40%

8.2 The price evaluation will assess the cost of the bid to the City Council. The City Council's project cost limits were approved by the Council's Executive Board at its meeting in November 2007. The Council's PFI projects to date have been proceeded on the basis of a qualitative evaluation, subject to the price not being greater than the Council's approved affordability limit. However, for this project, given that the current affordability limit was derived using the Reference Project, it is proposed to develop this approach so that other technological solutions are not inadvertently excluded on grounds of price, while at the same time taking proper account of the financial benefit to the Council of paying a lower price.

8.3 It is proposed to apply the following principles;

- The "do nothing" cost shown in Table 3 will be the ceiling price above which bids will not be considered,
- The Reference Project cost will inform a Target Cost for Builders, and will remain as a benchmark for bids on a similar basis
- Price will be scored within the range of the Target Cost to the 'Do Nothing' ceiling, with a bid at the Target Cost receiving full marks, and with higher priced bids receiving fewer marks.

8.4 If bidders do not propose to transfer all of the risks from the City Council to themselves as described in the bid documentation then, if appropriate, an assessment of the costs of this risk will be added to the bid price as part of the price assessment in order that bids can be compared on a like for like basis.

9.0 Principles for evaluation methodology - Determination of outcome

9.1 The evaluation methodology will score the bids against each criterion in respect of the qualitative assessment and following the separate cost evaluation the quality and price will be assessed together as set out in Table 1. Scoring will be carried out by an evaluation team appointed in respect of each criterion and will be completed by Council officers who will consult with experts and advisers where relevant to ensure that the process is robust and well informed.

9.2 Following the completion of each bidding round the evaluation results will be reported to the Project Board who will determine the outcome of the evaluation and the format of the subsequent bidding stage of the competitive dialogue.

9.3 Following the end of the competition when the preferred bidder has been identified, a further report will be submitted to the Executive Board setting out the results of the procurement and seeking approval to enter into a contract.

10.0 Financial Issues

10.1 Following the submission of the OBC to DEFRA for approval of the PFI Credits a further reassessment of the reference project costs was undertaken. In addition, the method of calculating the PFI Credit allocation from DEFRA was revised to provide the Council with an increased allocation. The review of costs identified some additional items which had changed since the OBC costs were prepared. The review concluded with the reference project costs being amended from those indicated in the tables below. However, the outcome is that the estimate of the Unitary Charge and consequent deficit to be funded by the City Council based upon the reference project within the OBC is unchanged from the figures presented to the Executive Board in November 2007.

10.2 Table 2 below shows the first year Unitary Charge based upon the OBC reference project to be £21.006m. The PFI Credit figure approved by HM Treasury Project Review Group and DEFRA is £68.6m and the first year deficit to be funded by the City Council is £15.910m.

Table 2

Estimated Project Cash Flows	**First full year 2014/15 £000s**	**Total over the life of the contract £000s**
Unitary charge	21,006	583,722
Contract Management costs	100	3,235
Total Costs	**21,106**	**586,957**
PFI Revenue Support Grant	(5,196)	(129,731)
Deficits to be financed by the City Council	**15,910**	**457,226**
Plus Cost of other residual waste direct to landfill	2,100	64,300
Total cost of residual waste processing	**18,010**	**521,526**

10.3 Following a review of the costs in the reference project and the do nothing option, it was necessary to incorporate a number of amendments including the addition of an allowance for an assumed increase in the City Council's costs for National Non Domestic Rates. The estimated NNDR cost for the period from 2014/15 through to 2037/38is £19.7m with NNDR for 2014/15 year estimated at £608k (not included in Table 2 above).

10.4 There will still remain a small amount of waste that cannot be treated by a facility and would have to be landfilled. The costs of this disposal will be approximately £2m-£3m per annum depending on landfill tax and gate fee. The costs for this are set out within Table 2 above.

10.5 The cost to the City Council of a do nothing option for residual waste but assuming all service developments take place to allow for a recycling performance in excess of 50% by 2020 was also reassessed following OBC submission. This is shown in table 3 below and indicates that the headroom between the City council's deficit for a "do nothing" scenario for the project scope and the reference project is £2.379m in 2014/15, the first year of operation.

Table 3

	First Full year 2014/15 £000's	**Life of project cost £000's**
Landfill Tax (at £72 per tonne)	13,928	335,300
Residual waste gate fees	4,636	169,797
LATS (at £50 per tonne)	1,825	62,806
Do Nothing for all residual waste	**20,389**	**567,903**
Less Total cost of residual waste processing (as per Table 2)	(18,010)	(521,526)
Headroom between Reference Project and Do Nothing	**2,379**	**46,377**

10.6 An assessment of the costs of delivering a range of possible technologies has been carried out. Calculation of the cost other technology solutions has a degree of uncertainty due to market for some these technologies being immature with other technologies requiring external offtake agreements for output following processing that are not yet developed in the North of England. It is clear however that some technologies may be more costly than the reference project and it is possible that some solutions may cost more than the City Council's "do nothing" cost

10.7 In order to ensure that bidders are able to put forward for consideration a range of possible technologies we do not propose to use the reference project as the maximum price that the City Council will consider but confirm that any bid received costing more than the "do nothing" cost shown at 10.5 above would not be considered. The reference project costs outlined at 10.5 above will be used as a target cost and bidders will be expected to bid around this figure.

11.0 Recommendations

11.1 Members of Executive Board are recommended to:

a) Note the contents of this report;

b) Authorise officers to begin procurement of this project through placement of OJEU and other appropriate contract notices

c) Approve the principles of the evaluation methodology to be used during the procurement as set out in this report and delegate authority to the Deputy Chief Executive as Chair of the Residual Waste Treatment Project Board to finalise the details of the evaluation methodology.

d) Accept that bids submitted costing more than the “do nothing” cost set out in Table 3 of this report will not be considered further and that the reference project costs set out in Table 2 of this report will be a target to be indicated to bidders.