



Report of the Director Environment and Neighbourhoods

Executive Board

Date: 05th November 2008

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

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| Electoral Wards Affected: All |
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| Specific Implications For: |
| Equality and Diversity <input type="checkbox"/> |
| Community Cohesion <input type="checkbox"/> |
| Narrowing the Gap <input type="checkbox"/> |

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 principles of the evaluation methodology in July 2008.
2. The report details the proposed criteria and sub-criteria for evaluation, their weightings, and key aspects of the Evaluation Methodology, for approval by Members.
3. The report identifies a Price Ceiling above which Bidders may be excluded.
4. The report details the proposed approach to dealing with third party waste.

1.0 Purpose of This Report

1.1 The purpose of this report is to:

- (a) Obtain Executive Board approval for the criteria, sub-criteria and weightings for the evaluation of bids received during the procurement phase of the Residual Waste Treatment PFI Project and;
- (b) Provide an update to the Residual Waste Treatment PFI Project affordability and project scope since the Executive Board paper in July 2008.

2.0 Background Information

2.1 In November 2007, the Executive Board approved the submission of the Outline Business Case for the Residual Waste Treatment Project to DEFRA and HM Treasury for approval. This approval was received in March 2008 and subsequently work proceeded to prepare the project for commencement of the procurement stage.

2.2 In July 2008 the Executive Board authorised Officers to begin procurement of the Residual Waste Treatment PFI Project through the placement of an OJEU and other contract notices, as well as giving approval to the principles of the methodology to evaluate the bids received. This report deals with the progress of the procurement since this time.

3.0 Contract Objectives and Project Scope

3.1 The Council continually monitors and reassesses its waste flow model, which forecasts future growth in waste arisings, and incorporates projected increases in recycling, and resulting processing capacity requirements. This is responsive to the reductions in waste observed in recent years. The size of the residual waste treatment capacity requirement identified by the waste flow model is 160,000 tonnes of processing capacity per annum, some 20,000 tonnes less than previously estimated. The revised financial figures outlined in section 8.0 of this report reflect the new waste flow assessment.

3.2 The proposed contract will 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 additional recycling that can be achieved through the treatment of residual waste, as outlined in section 6.0, criteria 1.1 of this report.

3.3 The provision of a transfer station will be included within the scope of the contract. This is necessary to ensure that collection services can be provided in an efficient and sustainable manner. It is intended that the existing facility on Evanston Avenue, off Kirkstall Road, becomes the Council's reference site for this purpose. A detailed feasibility report has been undertaken which has concluded that there are no constraints to proceeding with this as a reference site for the procurement, and site selection work has shown that there is not an obvious alternative site in the Council's control which would be appropriate. 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.

3.4 However, it is emphasised that the Council does not have a preference for a particular transfer station location, providing any proposal does not have a significant impact on the efficiencies for the collection service, and bidders will be permitted to submit their own sites. Any proposed sites will be assessed in terms of their location, suitability and the likely success of any planning application, in a similar way to sites for the main plant.

3.5 A planning application for the new transfer station facility will be necessary and this is

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expected to be developed and submitted by the successful bidder at an appropriate stage.

4.0 Residual Waste Treatment Project Progress

- 4.1 The Official Journal of The European Union (OJEU) notice was released on schedule on Wednesday 30th July 2008, together with the Memorandum of Information and Pre-Qualification Questionnaire (PQQ).
- 4.2 Thirteen PQQ responses were received by the 5th September 2008, and were considered by the Project team. Two of the respondents were not successful in meeting the criteria evaluated in the Pre-Qualification Questionnaire and one consortium subsequently withdrew from the procurement.
- 4.3 The Project Board met on 15th October 2008 and approved the selection of Bidders who passed the PQQ evaluation. All Bidders have been informed of the outcome by letter.
- 4.4 The following table lists the 10 Bidders to be taken forward to the next stage, Invitation to Submit Outline Solutions (ISOS):

| | Consortia |
|----|---|
| 1 | AmeyCespa Waste |
| 2 | Biffa Waste Services Ltd. |
| 3 | Joint venture between Covanta Energy Ltd and Kelda Water Services Ltd. |
| 4 | Joint Venture between Interserve Investments Ltd and United Utilities PLC |
| 5 | MVV Umwelt GmbH |
| 6 | Joint Venture between Shanks Group PLC and Scottish and Southern Energy Generation Ltd. |
| 7 | Urbaser S.A. |
| 8 | Veolia ES Aurora Ltd. |
| 9 | VT Environmental Engineering Ltd. |
| 10 | Waste Recycling Group (WRG) Ltd. |

- 4.5 The Competitive Dialogue phase of the process will begin on 13th November 2008. Bidders are required to submit, as part of the first stage of the Competitive Dialogue, a response to the Invitation to Submit Outline Solutions (ISOS) by 21st January 2009. It is intended that 3 or 4 Bidders, on completion of the outline solutions evaluation, will be selected to move forward to the subsequent Invitation to Submit Detailed Solutions (ISDS) stage. On completion of the evaluation at ISDS stage (estimated to be November 2009), 2 of the remaining Bidders are expected to be selected to go forward to the subsequent stage of the procurement process, the Invitation to Submit Final Tenders (ITSFT). On completion of the ITSFT stage, a Preferred Bidder will be identified by the Council. The Council has reserved the right to include additional stages within the procurement process should it be deemed necessary.

5.0 Evaluation Strategy

- 5.1 A report was submitted to the Executive Board in July 2008 which contained the proposed criteria for evaluation.
- 5.2 The price/quality split was agreed by the Executive Board to be:

Table 1

| Criteria | % Score Allocated |
|---------------|-------------------|
| Quality Score | 60% |
| Price Score | 40% |
| Total | 100% |

- 5.3 The criteria against which the qualitative score will be assessed were agreed by the Executive Board as detailed below:

Table 2

| Quality Criteria | Allocation |
|---------------------------------|------------|
| Sustainability | 36 |
| Bid Integrity | 4.5 |
| Commercial and legal | 9 |
| Finance and Corporate Structure | 6 |
| Payment mechanism | 4.5 |
| Total | 60 |

- 5.4 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 in accordance with the approved criteria and the format of the subsequent bidding stage of the competitive dialogue.
- 5.5 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 of the Final Business Case and to enter into a contract.

6.0 Evaluation Sub Criteria

- 6.1 The qualitative criteria for the ISDS and subsequent stages have now been subdivided into further sub criteria with weightings allocated. It is not anticipated that these will change through the procurement process; however it may be necessary to provide further sub divisions of weightings to reflect any development of the bid deliverables required from Bidders. The approval for any additional detail will be sought from the Project Board via its existing delegations. The additional detail is however unlikely to materially affect the evaluation. The breakdown is shown in the table below.

| Criteria | Question as a % Total of Overall Score |
|--|--|
| 1. Sustainability | |
| 1.1 Technology | |
| Overall Capacity and Flexibility | 3.60% |
| Deliverability of Proposed Solutions | 4.50% |
| Landfill Diversion, Recycling and Composting | |
| • Landfill Diversion | 2.40% |
| • Recycling/Composting Performance | 1.80% |
| Section Total | 12.30% |
| 1.2 Management Systems | |
| | |

| | |
|---|---------------|
| Contingency and Maintenance Planning | |
| <ul style="list-style-type: none"> Contingency Planning Maintenance Plan | |
| Management Systems | |
| <ul style="list-style-type: none"> Operation Proposals Health and Safety Plan/Quality Plan | |
| Section Total | 3.60% |
| 1.3 Design, Sites, Planning and Permitting | |
| | |
| Design | 2.10% |
| Planning and Permitting | 4.50% |
| Section Total | 6.60% |
| 1.4 Social | |
| | |
| Education and Engagement with Local Community and Wider Stakeholders | 1.80% |
| Section Total | 1.80% |
| 1.5 Environmental Impacts | |
| | |
| WRATE (Waste and Resources Assessment Tool for the Environment) | |
| Environmental Impact Control Plan and Carbon Management Plan | 4.80% |
| Continuous Improvement | |
| Section Total | 4.80% |
| 1.6 Economic | |
| | |
| Energy and Resource Efficiency | 1.80% |
| Third Party Income Proposals | 1.80% |
| Security of Outlets for Residues and End Products (including recycle and energy) | |
| <ul style="list-style-type: none"> Ability to meet quality requirements for markets Contractual robustness of market proposal and financial risk to Council | 3.30% |
| Section Total | 6.90% |
| Sustainability Section Total | 36.00% |
| | |
| 2. Bid Integrity | |
| | |
| Completeness and Strategy | 1.125% |
| Bid Team and Cohesiveness | 1.125% |
| Partnership Working with the Council and Contractors delivering other elements of the Waste Solution | 1.125% |

| | |
|--|----------------|
| Management of Advisers and Sub-contractor(s) | 1.125% |
| Section Total | 4.50% |
| 3. Legal and Commercial | |
| Commercial Acceptability and Risk Transfer | 4.50% |
| Land (including Title, Ground Conditions and Contamination) | 0.90% |
| Consents (including planning and associated contractor issues) | 0.90% |
| Termination, Compensation on Termination, Refinancing, Treatment of asset on expiry | 0.90% |
| General (incl. Indemnities, Insurance, IPR, Payment, Change Protocol etc, but excl. above matters) | 1.80% |
| Section Total | 9.00% |
| 4. Finance and Corporate Structure | |
| Financial Robustness of Bid | 1.50% |
| Deliverability of Funding Packages | 3.00% |
| Strength of Commitment | 1.50% |
| Section Total | 6.00% |
| 5. Payment Mechanism | |
| Payment Mechanism | 4.50% |
| Section Total | 4.50% |
| 6. Price Evaluation | |
| Price Evaluation (see section 7.0 below for methodology) | 40.00% |
| Section Total | 40.00% |
| Total Overall | 100.00% |

- 6.2 Following the direction given by Executive Board that the methodology should be technology neutral, detailed testing of the different technology solutions likely to be offered by the market has been undertaken. This testing 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.
- 6.3 The work has shown there to be no appreciable bias towards any particular technology. However, the evaluation framework has been designed to ensure that Leeds selects a technology that is reliable and deliverable, within the price ceiling agreed by the Council, and fully assesses the environmental impact of solutions.

7.0 Price Evaluation Methodology

7.1 As shown at 5.2 above the price evaluation will account for 40% of the overall evaluation score and will assess the cost of each bid solution to the Council.

7.2 The evaluation methodology set out below has been developed such that:

- The cost to the Council does not exceed the cost of the 'do nothing' scenario (see para 8.2);
- Bidders are incentivised to price competitively, and will receive more evaluation marks for a lower price; and
- There is an appropriate balance between the quality and price evaluations (with the objective that different technologies are not inappropriately excluded from the competition on the grounds of price alone).

8.0 Price Ceiling

8.1 The Price Ceiling, which has been revised following the further waste flow modelling referred to in section 3.1 of this report, will set the maximum price acceptable to the Council, in total cash terms, from 1st April 2010 (i.e. the year in which the Contract is expected to be signed) to 31st March 2039 (i.e. the contract expiry date). The reference project assumes an operational start date of April 2014. The proposed approach enables the Council to assess the relative cost of bids which assume different operational start dates, and will take into account the Council's own residual waste disposal costs prior to the commencement of the facility.

8.2 The cost of the 'do nothing' scenario from 2014 to 2039 (in which all service developments take place to achieve recycling targets, but with no residual waste treatment facility) is £514.577m in total cash terms. The table below calculates the maximum unitary charge that could be payable by the Council in total cash terms to ensure that the 'do nothing' cost is not exceeded.

| | Total Cost to Council (2014 to 2039) £m |
|--|--|
| Total Cost of 'do nothing' scenario | 514.577 |
| PFI Revenue Support Grant | 132.641 |
| PFI Contract Management Costs | (3.416) |
| Cost of Processing Residual Waste not suitable for treatment | (70.258) |
| Maximum Unitary Charge Payable | 573.544 |

8.3 The Price Ceiling is therefore calculated as being:

- the total unitary charge payable over the assumed operational life of the Contract (from 2014 to 2039) of £573.544m; plus
- the expected cost of residual waste processing by the Council between 2010 and 2014 of £59.556m.

This gives a Price Ceiling of £633.101m in nominal terms.

8.4 Bidders will be required to meet the Price Ceiling from the ISDS stage of procurement onwards. The Council will reserve the right to adjust bidders' prices in the event that the bidder places additional financial risk on the Council which is not reflected in the unitary charge. The Council will be able to exclude any bidders from the procurement process if they do not price below the Price Ceiling.

8.5 In addition to the Unitary Charge, the Council will also reimburse the Contractor for relevant National Non Domestic Rates ('NNDR') charges. The Council anticipates that these costs will total circa £15m over the life of the project, although the actual charge will not be known until the facility has been constructed. Therefore an estimated cost of £15m will be added to all bidders' prices. Bidders will be required to meet the Price Ceiling after this adjustment has been made.

9.0 Evaluating Price at ISDS

9.1 All bidders pricing within the Price Ceiling will receive a price evaluation score. The price evaluation will assess the Net Present Value ('NPV') of the total cost to the Council over the life of the 25 year contract.

9.2 Bidders' prices will be assessed by reference to a Minimum Price Threshold. Any bidder pricing on or below the Minimum Price Threshold will receive a price evaluation score of 100%. The Minimum Price Threshold will be set at a level which will be sufficient to promote competitive pricing, but will discourage bidders from seeking an inappropriate advantage under the scoring system by bidding a price which is too low and therefore not robust. The actual percentage used will be confirmed to bidders once the ISOS proposals have been reviewed.

9.3 Bidders pricing above the Minimum Price Threshold will be scored on a linear basis, using a pre-determined formula, such that the higher the price bid, the lower the score received. As described in section 8.4, bids received above the Price Ceiling will be recommended to the Project Board for rejection.

10.0 Evaluating Price at ISOS

10.1 A simplified approach to price evaluation will be undertaken at the ISOS stage of procurement. This is to reflect the fact that bidders will not be expected to provide a fully priced financial model at this stage. As a result, bidders will be required to provide some basic elemental cost data, and an overview of their approach to pricing, which will be used to ascertain a price evaluation score.

11.0 Programme

11.1 Due to the complexity and level of public interest in the Residual Waste Treatment PFI, it is recommended that the strategy for informing Members is formalised.

11.2 The future programme and the levels of delegation in respect of the decisions necessary to progress the procurement is shown below, together with those decisions already taken which are shown with a grey background:

| Decision | Estimated Date | Decision Making Body |
|---|----------------------------|---|
| Commencement of procurement (OJEU notice) | July 2008 | Executive Board |
| Outcome of PQQ evaluation | October 2008 | Project Board |
| Approval of detailed evaluation criteria and sub-criteria | November 2008 | Executive Board |
| Approval of full evaluation methodology and minimum price threshold | November 2008 – April 2009 | Project Board |
| Outcome of ISOS Evaluation | March 2009 | Project Board |
| Outcome of ISDS evaluation | Third quarter 2009 | Project Board |
| Final Tender – leading to preferred bidder | First quarter 2010 | Project Board subject to PUK review assessment |
| Approval of FBC and authority to contract with preferred bidder | Mid 2010 – early 2011 | Executive Board |
| Contract finalisation and award | Mid 2010 – mid 2011 | Deputy Chief Executive (under delegated powers) |
| Final approval of project funding | Mid 2010 – early 2011 | DEFRA |
| Planning permission | Early 2011 | Plans panel |

12.0 Third Party Waste

- 12.1 A report was submitted to the Executive Board in July 2008 which highlighted that there may be benefits to the Council and stakeholders in Leeds in allowing for bids to propose additional capacity, beyond that required to treat Leeds' household municipal waste, in order that the facility may be capable of treating other waste generated in Leeds (e.g. commercial waste).
- 12.2 The current arrangements for the management of municipal waste involve a small proportion of waste generated in surrounding Local Authority areas being processed in Leeds and also similar levels of waste from Leeds being processed in surrounding districts and Local Authorities. The arrangements for processing third party waste within Leeds when the Residual Waste processing technology is operational in Leeds are expected to reflect the current profile of managing municipal waste in terms of the proportion of this waste that arises within the Leeds area. The future arrangements are not anticipated therefore to significantly change the volumes of waste crossing the Leeds City boundary.

12.3 Bidders will be provided with data on the Council's current waste arrangements and their bids will be evaluated on the principle that the scope of the new facility will be limited to primarily processing Leeds' waste and that any waste derived from across the City boundary will be reflective of current volumes. Bidders proposing to include third party waste will be evaluated within sections 1.3, 1.5 and 1.6 of the evaluation framework which will consider sustainability, proximity, planning, environmental impact and any additional benefits which their proposal offers to the Council.

13.0 Recommendations

13.1 Members of Executive Board are recommended to:

- a) Note the contents of this report.
- b) Approve the criteria, sub criteria and weightings for the evaluation of bids received for the project.
- c) Note the revised Price Ceiling resulting from the change in the waste flow model, described in section 8.0, and approve that bids received above this ceiling may not proceed further in the procurement.
- d) Approve the approach towards third party waste.

Background Papers

Report of the Director Environment and Neighbourhoods to Executive Board, 14th November 2007: *"Waste Solution for Leeds – Submission of the Outline Business Case for the Residual Waste Treatment Project"*.

Report of the Director Environment and Neighbourhoods to Executive Board, 16th July 2008: *"Waste Solution for Leeds – Residual Waste Treatment PFI project - Evaluation Methodology and Update"*.