

Bulky Waste Guidance: Case study 5 - Liverpool

Household Bulky Waste Collection contract: Liverpool City Council (LCC)



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Introduction

The FRC Group was established in 1988 and is based in Liverpool. Bulky Bob's is one of its social businesses, established in 2000 to provide bulky waste collection services to a number of local authorities around the North West.

Bulky Bob's collects all bulky household waste and provides training, employment and wider community benefits to those on low incomes in the city. Full time, trainee, volunteer and placement employment opportunities have increased as the social enterprise has developed new reuse and recycling activities. New activities include cable stripping and microwave oven recycling, to which disabled placements and their key workers are assigned.

In 2009, they succeeded in obtaining Future Jobs Fund funding directly from the Department for Work & Pensions (DWP), which enabled them to provide 57 training opportunities for the following 18 months.

In addition, they have contractual agreements with other agencies and council departments, such as Social Services to provide "crisis" furniture packs to families who are leaving hostels and have no means of purchasing furniture.

Between 2000-2010, Bulky Bob's:

- made over 450,000 collections of bulky household waste;
- diverted over 275,000 individual furniture items and white goods from landfill (60%+ of this material is recycled/reused);
- collected more than 35,000 tonnes of waste furniture and white goods; and
- employed 238 people from the long-term unemployed. 93% of the trainees who finish the Bulky Bob's year long fully salaried training programme move in to full-time employment.

In 2000, Bulky Bob's was awarded a 6.5 year contract to collect bulky household waste from households in Liverpool, with the option to extend for a period of up to 3 years.

Key facts

- Commencement date of the contract November 2009
- EU Procurement rules applied
- Direct contract
- A restricted procurement process was used.
- The contract is for 6 yrs plus the option for a 7 year extension
- Bulky waste collection is free to all households
- No. of collections: 48,000 collections (2009/10)
- Bulky waste recycle/reuse rate: 62% (2009/10); 57% (2008/09)
- Bulky waste recycled: 1,807 tonnes (2009/10)
- Disposal cost savings: £145,120

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Background

During the late 1990's, the directors of FRC made representations to LCC concerning the social and environmental benefits of reusing and recycling bulky waste. At this time, FRC collected unwanted household furniture from individual donors. The items immediately fit for reuse were sold through its 'Revive' shop to people and families on low incomes. Other items were repaired, modified and recycled by individuals that were either on training schemes or on short-term, funded employment.

Convinced of the community and environmental benefits, the political will to support a third sector waste recovery organisation was established and contracting proceedings commenced. The first contract was awarded to Bulky Bob's in 2000, originally for 6.5 years. This was subject to two further 12-month extensions.

If it is possible that a contract will be extended, the local authority should make this known at the start of the procurement process, and should take any anticipated extension(s) to a contract into account when calculating the contract's length and value.

A contract extension that was not envisaged at the start of a procurement process will be at risk of challenge on the basis that it should have been the subject of a fresh procurement process. There must also be no material changes in price or content.

The decision to extend the contract will be the Council's, and this should be determined by some contractual mechanism – performance against KPIs, perhaps – as well as it being for the Council to decide if the contract is still needed and offers the best value for money.

In 2007, LCC decided that it would retender all of its waste and recycling collection services, including bulky waste, as a single integrated collection contract. It made this decision having looked at the business case, but LCC was also driven by the City's increasing, but still relatively low, overall performance on recycling.

Bulky Bob's had provided a well-established and efficient service for many years. The Bulky Bob's name, ethics and reputation were very well-established in the Liverpool area, and were almost emblematic of a commercial enterprise having had a positive impact on the social and environmental well-being of the City.

By looking to secure a single contractor with the financial capability to deliver an integrated collection service, LCC recognised that they would automatically exclude most, if not all, social enterprises, such as Bulky Bob's, from the tendering process. In doing so they would lose all claims to the wider social and community benefits these organisations offer, thereby reducing its ability to meet the objectives within its sustainable community strategy.

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A decision was therefore made by the Council's Executive Board in 2007 to re-package, market test and procure a separate contract for a bulky waste collection service. The procurement process for the waste and recycling contract (integrated contract) continued separately.

The approach

LCC procured the bulky waste collection contract using the EU restricted procurement procedure approach. For more information see the Legal Framework section which can be accessed through the Bulky Waste Guidance webpage.

During this period of procurement, LCC needed to fill the gap between the current service and future arrangements. Therefore, Bulky Bob's was given a three-year extension to continue the bulky household waste collection to maintain a consistent service for Liverpool residents.

Following feedback from a soft market testing consultation in 2007, and to maintain and increase the economic and social benefits from this procurement process, LCC decided to establish to separate the bulky household waste collection service from the larger waste collection contract.

Tender document development

During a two-month phase of soft market testing in 2008, the Council invited input from all companies to help shape and scope the content of the contract in terms of the economic, environmental, performance, quality and social components of service delivery. The experience and ideas of contributors were incorporated into the tender documentation including the Invitation to Tender (ITT), performance mechanism, payment mechanism and the final contract specification.

The payment of incentives for an improved recycling performance was recommended by many respondents, which led LCC to design a multiplier mechanism into the payment and reward system. The reward becomes greater as the achievement of higher recycling rates becomes harder:

Recycling Rate:

50-60% = 1 x incentive value

60-70% = 1.7 x incentive value

In the unlikely event that a contractor should achieve a 100% reuse and recycling rate from the prescribed bulky waste item list (see below), the Council can discuss with the contractor the possibility of collecting other items of bulky waste, but this would be subject to negotiation.

One crucial revision to the original 2007 financial evaluation of the draft PQQ concerned the financial resources of all respondents.

In the original PQQ financial evaluation process, if the value of the collection contract exceeded 15% of an organisation's turnover, it would be automatically disqualified from the tendering process. Financial instability and a lack of confidence in the organisation's ability to provide a long-term service

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on behalf of the Council were the key reasons for disqualification. LCC recognised this could compromise any opportunity to maximise value for money and community benefit outcomes if they disqualified TSOs from the process.

For all TSOs and some SMEs, the value of, and the income derived from this contract would represent a high percentage of an organisation's financial turnover. LCC needed assurances that the on-going financial security of any bidder was not heavily dependent upon securing this contract.

The standard PQQ question of "Does the value of this contract exceed 15% of your turnover?" would have prevented all TSOs and some SME's from qualifying to the next round – Invitation To Tender.

Working with their in-house finance, legal and procurement teams, LCC reassessed the risk rating of the contract package and adopted a more flexible approach to the financial checks applied to the PQQ. For bulky waste collections the council assessed the contract as low risk, and therefore applied lower financial threshold checks than would be applied to a high-risk contract.

It was essential to apply this degree of flexibility at the PQQ stage, to ensure organisations could satisfy the quality assessment criteria and not fail due to a rigid financial assessment. Interested SMEs and TSOs could then progress to the Invitation To Tender stage.

All shortlisted organisations passing the PQQ evaluation were invited to tender for the contract, and evaluated against a set of criteria contained within the Invitation to Tender document as follows:

■ Price:	50%
■ Base Service Operational Delivery & Quality:	30%
■ Service improvement/change management/flexibility:	13.5%
■ Management, Governance and Reporting Arrangements:	5%
■ Presentations:	1.5%

Quality of service was just as important to the local authority as recycling performance. Therefore, Key Performance Indicator (KPI) objectives were set that included:

- number of daily collections;
- number of collections made on time; and
- number of collections the contractor failed to collect, and within the designated time period.

For Bulky Bob's, the contract parameters and conditions had changed dramatically since the original 2000 contract, one key factor being the 50% price criterion. The organisation had to demonstrate their commercial approach by looking at efficiencies, examining procedures and reducing their cost base in order to satisfy the demands of the tender documentation, and their ultimate ability to provide a collections service for 6 six years, and potentially 13 years if an extension was agreed. Bulky Bob's had reasonably strong capital reserves and an existing capacity to provide the bulky household waste collection service.

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Contract specification and implications

Once the PQQ stage was completed (December 2008 – January 2009), the council invited six organisations to tender.

Here is an extract from LCC's Invitation to Tender (ITT) document detailing the social and community benefit outcomes from the procurement process:

Service delivery objectives and desirable outcomes

The successful Service Provider will be expected to assist the Council in achieving the following outcomes and objectives:

- [...] to prioritise staff training and development and to create employment / career progression opportunities.
- To ensure that implementation and enforcement of operational management systems is consistent with City Council policies including:
 - Equality of Opportunity;
 - Health and Safety;
 - Customer Care;
 - Inclusivity; and
 - Diversity and Social Inclusion.
- [...]to identify opportunities, develop and provide assistance to social enterprise and to the community-based non-for-profit sector to provide aspects of the service.
- [...]promoting sustainable social, economic and environmental regeneration.
- Providing a quality environment where people want to live and work.
- Dedication to educating and up-skilling today's communities for tomorrow's challenge.

The new contract has financial defaults for failure to meet collection and recycling/reuse targets (minimum 50% per annum), but also has a financial reward mechanism for increasing reuse/recycling performance. The defaults are issued when a percentage failure rate is hit, i.e. failure to do a collection in a designated time period. There are seven Key Performance Indicators (KPIs) on which Bulky Bob's is reviewed each month:

1. Service certainty - collections not completed within appointment target (am/pm) within six days of receiving the booking;
2. Service timeliness - collections not completed within target;
3. Percentage of abortive visits;
4. Customer complaints;
5. Diversion from landfill;
6. Provision of management reports; and
7. Quality of management information.

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Contract monitoring

Bulky Bob's records and monitors the collection activity, the number of items and tonnage. A 4 weekly performance review meeting is held between LCC and Bulky Bob's to ensure that targets are met, and that payment for the service can be made, with defaults or with bonuses.

LCC was mindful of Bulky Bob's cash-flow needs in order to deliver the contract. Payments are made two weeks in advance and two weeks in arrears in four-week periods. Therefore, LCC pays Bulky Bob's in 13 equal instalments every four weeks following the performance management meeting between both parties. Rewards are paid annually after Bulky Bob's and LCC agree the final figure. Bulky Bob's then submit an invoice to LCC for payment. Penalty deductions are made for failing to meet contractual KPI's. Deductions are made on a monthly basis.

For budget management purposes, and to put a limit on escalating costs, LCC reserves the right within the contract to cap bulky waste collections to 200 per day. Bulky Bob's must not exceed this.

The current integrated waste management contract ends in 2015, or 2022 if extended, making both the bulky household waste and general kerbside collection contracts finish simultaneously.

Conclusions

- LCC adopted an alternative risk-based approach to commissioning, and demonstrated a high degree of innovation and flexibility to achieve the best outcomes from the process.
- When looking at an integrated contract for all the waste collection services, LCC recognised that they would automatically exclude most, if not all, social enterprises from the tendering process, and would therefore lose out on the associated social benefits.
- Focusing on *outcomes* (for example, the customer satisfaction levels, training and volunteering opportunities and/or the benefits to recipients of reused items) led to innovative ways of satisfying the needs.
- Talking to the market-place before designing the contract specification enabled a range of solutions and customer service improvement opportunities to be discussed. The length of time for the tender to be completed by respondents was 6 weeks. The quick time frame was possible by going to the market-place earlier in the process, when potential contractors had the opportunity to better understand the local authority's requirements, to part-influence the design specification and to respond positively to the procurement process.
- Innovation during the procurement process is possible. Designing and applying a flexible risk-based set of financial checks to a PQQ submission, and devising a financial risk solution, ensured that organisations with experience of the service were not excluded through the application of a rigid set of financial checks.

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- Building in an incentive payment mechanism can help achieve targets.

Key learning points

1. For Bulky Bob's, the process was very challenging but ultimately positive. They understood that complacency would be penalised and the historical working relationship with the Council was no guarantee of securing the new contract.
2. Bulky Bob's successful bid was predicated upon taking ownership of the collected waste. If they were unable to own the waste, their business model would be undermined and LCC would have lost the wide range of service, recycling and community benefits this contractual arrangement brings to the City.
3. Contractual performance should be set against appropriate performance targets. Bulky Bob's has a collection capacity of up to 50,600 collections per annum, and the defaults deducted and rewards made are based upon this figure. The contract value and price are revised each year. The 50,600 collections figure was based on historical collecting data pre-recession (2007/08).

Nationally however, bulky waste donations and collections have dropped during and since the recent recession. Flat numerical targets are not always the best reference point to use, and historical performance is no indicator of future collections. An alternative is to consider using target bands rather than setting specific thresholds for performance.

4. Price per collections can be a risky pricing model for TSOs, particularly if there is no historical collections data to work from. It can also pose a risk to the local authority, as it may result in it paying out more for the service than is necessary. To overcome some of the risk LCC carries out an annual review, and considers if demand is above or below the agreed level, and adjustments can be made as appropriate. From the TSO side, the advice is that a local authority should consider using target bands.
5. The duration of contracts has an impact on a TSO's ability to be innovative. Innovation requires development time, and therefore funding/finance extended over a sufficient period to cover the investment. For TSOs with short-term contracts, the primary focus is to maintain their current operations and service delivery. They are not focusing on investment to improve the security or develop the organisation. A contract length of six years minimum is essential for a TSO.
6. Working cash flow. As contracts have become much larger, the amount of working capital needed to buffer payments in arrears becomes very significant for TSO finances. Designing innovative and creative solutions will help to overcome these cash-flow issues.

For more information on ways to support a TSO financially see the 'Working Cash Flow' section (page 47) of the Improvement for Growth report which can be accessed through www.realliance.org.uk/sites/default/files/InvestmentforGrowthFinalReport.pdf

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