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**DELEGATED AUTHORITY – WASTE, RECYCLABLES AND GREEN WASTE COLLECTION SERVICES**

<b>Objective Reference:</b>	<b>A2474055</b> <b>Reports and Attachments (Archives)</b>
<b>Attachment:</b>	<a href="#"><u>Confidential Tender Process Report</u></a>
<b>Authorising Officer:</b>	<b>Peter Best</b> <b>General Manager, Infrastructure &amp; Operations</b>
<b>Responsible Officer:</b>	<b>Kevin McGuire,</b> <b>Group Manager, Water &amp; Waste Operations</b>
<b>Report Authors:</b>	<b>Paula Kemplay, Principal Waste Planner</b> <b>Robert Walford, Service Manager RedWaste</b> <b>Trish Thomson, Procurement Transformation</b> <b>Manager</b>

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**PURPOSE**

The purpose of this report is to seek Council resolution to delegate authority to the Chief Executive Officer to negotiate, make, vary and discharge a contract (T-1834-16/17-WST) over \$2,000,000.00 and enter into a Schedule of Rates Contract for the supply of Waste, Recyclable and Green Waste Collection Services for a period of 12 years.

**BACKGROUND**

As part of the development of the Waste Reduction and Recycling Plan 2015-2020, Councillors supported initiatives to explore further regional collaboration opportunities for waste management and associated value for money benefits.

Waste and recycling collection services are a long standing essential service provided to the community and the levels of service and customer standards are similar amongst many South East Queensland (SEQ) Councils. Redland City Council (RCC) has a waste disposal agreement in place with Brisbane City Council (BCC) to take all waste for disposal until June 2020.

Therefore a Memorandum of Understanding (MOU) between BCC and RCC was executed on 24 November 2014 to jointly procure the supply of waste, recyclables and green waste collection services.

To align contract periods for a new regional waste collection contract, a short term contract (1715-14/15-WST Part A) with JJ Richards and Sons Pty Ltd for the collection of waste, recycling and green waste was awarded by RCC on 6 May 2015 and commenced on 30 June 2016. This contract will expire on 30 June 2018 and has a two year extension provision available.

An application to the Australian Competition and Consumer Commission (ACCC) was made by RCC, seeking approval for the joint procurement activity. The application was approved in October 2015 and remains effective until October 2034.

The accompanying Confidential Tender Report provides further information on the procurement process undertaken, including evaluation criteria, weightings, scoring methodology and assessment of price and non-price tender components.

## ISSUES

### Tender period

Council's current contract falls due for renewal on 1 July 2018. Council requires experienced contractor/s for Waste, Recyclables and Green Waste Collection Services. The joint Request for Proposal (RFP) for Waste and Resource Recovery Services was publicly advertised via BCC's Supplier Portal on 6 July 2016 to coincide with release of the tender documents. The RFP closed on 21 December 2016.

The nature of the Waste Recovery market means that contracts are awarded up to 12 months ahead of the start date to allow the successful tenderer to implement its mobilisation plan and arrange for the procurement of fleet and equipment necessary to execute the contract.

The Category 1 tendered services included business as usual levels of service for:

- mobile garbage bin collection services;
- bulk and waste transfer station bin collection services;
- public place waste and recycling bin collection services; and
- bin supply and maintenance.

The tender incorporated pricing for other strategic considerations such as:

- starting optional island kerbside green waste collection services (based on demand);
- introducing a weekly Food Organics and Green Organics (FOGO) collection service, with general waste collection moving to the alternative fortnight to the co-mingled recycling collection. Note this service will not be introduced without a separate Council resolution. This will be subject to a business case and be largely driven by external state government legislation changes, e.g. landfill levy or landfill ban;
- changes to disposal points, e.g. new FOGO processing facility or waste disposal destination. Note further negotiations may be required using an open book methodology at the relevant point in time.

At the close of tender, three submissions were received for RCC mainland and island waste, recyclables and green waste collection services. One submission was set aside early in the process and negotiations continued with two short-listed tenderers.

### Non-financial tender evaluation summary

The accompanying Confidential Tender Report provides further information on the procurement process undertaken, including evaluation criteria, weightings, scoring methodology and assessment of non-price components. A summary of the non-price evaluation is provided below.

Criteria	Criteria weighting	Company A score	Company B score
Experience and track record	23%	18.3%	20.5%
Capability and capacity	34%	28.6%	28.5%
Compatibility	15%	12.0%	11.4%
Commercial matters	22%	14.1%	17.9%
Innovation and value add	6%	4.2%	4.1%
<b>Total</b>	<b>100%</b>	<b>77.1%</b>	<b>82.3%</b>

### Financial tender evaluation summary

The accompanying Confidential Tender Report provides further information and assessment of price components. A summary of the financial evaluation is provided below.

The values below are represented as the total contract value including annual growth and CPI adjustments, and are exclusive of GST.

The maximum annual saving represents the difference between the current contract Schedule of Rates, and the Schedule of Rates tendered by Company B averaged over the 12 year term for business as usual services.

Scenario	12 year contract term			
	Current contract (total)	Company A tendered price (total)	Company B tendered price (total)	Maximum saving (total) – Company B
Business as usual (12 year term)	\$145,033,057	\$114,650,405	\$107,624,772	\$37,408,285
Average cost per annum (total)	\$12,086,088	\$9,554,200	\$8,968,731	\$3,117,357

## STRATEGIC IMPLICATIONS

### Legislative Requirements

The collection and disposal of waste and recycling products is considered an essential health and safety service that is required to comply with the *Environmental Protection Act 1994*, including the safe disposal of waste, minimisation of environmental harm, control of prohibited or regulated waste.

The optional island kerbside green waste collection service is an initiative designed to assist Council to meet resource recovery targets in the *Waste Reduction and Recycling Act 2011*.

As these types of contracts are typically long term durations, and in this case a preferred term of 12 years, the contract has considered strategic changes that could occur in this timeframe. Provision has been made for introducing optional green waste services on the islands, negotiating in an open book manner changes to disposal locations and introducing any future potential FOGO collection service.

These strategic changes will be subject to separate Council resolutions based on a consideration of regulatory changes, waste strategy reviews, financial business case, and community consultation.

The procurement is carried out in accordance with Council's Procurement Policy POL 3043 and once approved the contract management will be carried out under delegated authority by the RedWaste Business Unit.

### **Risk Management**

The joint tender with BCC was part of a strategic procurement process aimed at delivering value for Council. The process has afforded Council market leverage, and thus the ability to negotiate competitive rates for the benefit of all ratepayers. The tender results demonstrate the success of the joint approach to market. Had Council chosen not to collaborate with BCC, a separate RCC only tender process would have been undertaken directly with the market. It is probable that Council would have been unable to improve upon the result derived through the collaborative process.

Due to the size and complexity of this procurement activity, an external probity advisor was appointed to oversee the RFP process.

### **Financial**

The accompanying Confidential Tender Report contains full details of the tender process, the evaluation criteria and weightings, scoring methodology, financial modelling and final results. The required, full financial modelling and methodology to support recommendations and decisions will be available for review by the Chief Executive Officer (CEO) prior to contract execution.

Council, in conjunction with BCC, undertook substantial Financial Modelling Analysis of the tendered offers to inform the Tender Evaluation and Negotiation Team.

The financial evaluation included pricing a number of waste and recycling scenarios:

1. business as usual services;
2. introduction of FOGO in 2020; and
3. introduction of FOGO in 2022.

If Council determines that it wishes to introduce FOGO collection services, this may result in an additional total cost of \$2,831,621 (excluding GST) average per annum if introduced at 2020 or by an extra \$2,431,370 (excluding GST) average per annum if introduced at 2022.

Council has forecast growth rates in each waste, recycling and green waste collection service type, and bin supply and maintenance, consistent with historical growth rates for collection services. Under the proposed new contract, costs associated with bin supply and maintenance will be fully borne by Council resulting in a minimum additional annual expenditure of \$360,000 compared to the current contract. The full annual costs for bin supply and maintenance will not be fully realised until at least Year 2 after which annual expenditure should stabilise and Council will have better intelligence of bin maintenance activities. The additional annual expenditure for bin supply and maintenance has been factored into the financial evaluation.

## Environmental

Council must undertake all reasonable and practical measures to prevent and/or minimise the likelihood of environmental harm caused by the waste collection and recyclable material recovery services. Reasonable and practical environmental, safety and risk measures as tendered and negotiated with the respective contractors have been fully considered. This, along with Council systems, ensures all expected environmental matters have been fully considered.

## Social

The efficient collection of waste, recycling and green waste will have a positive impact on the residents of Redland City. Council's existing high customer service standards and delivery timeframes will remain unchanged.

There needs to be a seamless transition from the expiry of the existing contract to the establishment of the new contract so there are no disruptions in customer service.

Tenderers have committed to provide a consistent and meaningful level of funding for community engagement, marketing and educational activities related to Council's waste and recycling activities.

## Alignment with Council's Policy and Plans

The tender for Waste, Recycling and Green Waste Collection Services supports Council's vision of forward thinking and strategic procurement to strengthen customer service and deliver better value for money. The proposed contract aligns to Council's Corporate Plan 2015-2020 outcome of green living through implementation of Council's waste management strategy by applying best practice principles in pricing, public awareness, resource management, recycling and recovery.

## CONSULTATION

Internal consultation has occurred with the following during preparation of this report:

- General Manager, Infrastructure & Operations;
- Group Manager, Water & Waste Operations;
- Group Manager, Water & Waste Infrastructure;
- Finance Manager, Business Partnering;
- Senior Management Accountant, Business Partnering;
- Principal Waste Planner, Infrastructure & Operations;
- RedWaste Service Manager, Infrastructure & Operations;
- Procurement Transformation Manager, General Counsel Group; and
- Legal Officer, General Counsel Group.

External consultation has occurred with the following during preparation of this report:

- Category Manager, BCC Tender and Evaluation Negotiation Team, Brisbane City Council (BCC);
- Independent Probity Advisor, O'Connor Marsden & Associates.

## OPTIONS

1. That Council resolves as follows:
  1. To delegate authority to the Chief Executive Officer, under s.257(1)(b) of the *Local Government Act 2009* to enter into a Schedule of Rates Contract over \$2,000,000.00 with the preferred tenderer and to make, vary and discharge the Contract (T-1834-16/17-WST) in accordance with the agreed contract terms and conditions, and sign all relevant documents;
  2. Pursuant to the award of contract, to approve the successful contractor's use of the lease of the Council owned facility known as the Waste Contractors Depot, 240A South Street (part of Lot 164 Lot A, SP187521 SP101318) for use by the successful contractor; and
  3. That this report and attachment remain confidential until the contract is awarded, subject to maintaining the confidentiality of legally privileged and commercial in confidence information.
2. Decline the request to delegate authority to the Chief Executive Officer to enter into a Contract with the preferred Tenderer which will result in Council not realising financial benefits from the joint RFP process, and issue an extension notice under the current waste, recycling and green waste collection services contract to extend the contract to 30 June 2020 during which time a secondary procurement process will occur.

## OFFICER'S RECOMMENDATION

That Council resolves as follows:

1. To delegate authority to the Chief Executive Officer, under s.257(1)(b) of the *Local Government Act 2009* to enter into a Schedule of Rates Contract over \$2,000,000.00 with the preferred tenderer and to negotiate, make, vary and discharge the Contract (T-1834-16/17-WST) in accordance with the agreed contract terms and conditions, and sign all relevant documents;
2. Pursuant to the award of contract, approve the successful contractor's use of a lease of the Council owned facility known as the Waste Contractors Depot, 240A South Street (part of Lot 164 Lot A SP SP187521, SP101318) for use by the successful contractor; and
3. That this report and attachment remain confidential until the contract is awarded subject to maintaining the confidentiality of legally privileged and commercial in confidence information.

**TENDER PROCESS REPORT FOR A LARGE-SIZED CONTRACTUAL ARRANGEMENT  
UNDER SECTION 228 (1-9) OF THE LOCAL GOVERNMENT REGULATION 2012**

<b>Title of Tender</b>	Waste, Recyclables and Green Waste Collection Services
<b>Tender Number</b>	T-1834-16/17-WST (BCC RFP 510514)
<b>Authority</b>	Peter Best General Manager Infrastructure & Operations
<b>Responsible Officer Name and Title</b>	Kevin McGuire, Group Manager Water & Waste Operations
<b>Responsible RCC Units</b>	Group Strategic Unit, Water & Waste Infrastructure and RedWaste, Water & Waste Operations
<b>Responsible Procurement Officer</b>	Trish Thomson, Procurement Transformation Manager
<b>Authors</b>	Paula Kemplay, Principal Waste Planner; Robert Walford, Service Manager RedWaste Trish Thomson, Procurement Transformation Manager
<b>Probity Adviser</b>	Iain McIndoe, Principal, O'Connor, Marsden & Associates

**DETAILS OF ARRANGEMENT**

<b>Current Arrangement Details</b>	The current arrangement for the provision of waste collection services (T-1715-14/15-WST Part A) commenced on 30 June 2016 and expires on 30 June 2018. The current arrangement has one option to extend the contract period for a further two years at Council's discretion.
<b>Term of New Arrangement</b>	12 years with effect from 1 July 2018

**BACKGROUND TO THIS ARRANGEMENT**

As part of the development of the Waste Reduction and Recycling Plan 2015-2020, Councillors supported initiatives to explore further regional collaboration opportunities for waste management and associated value for money benefits.

Under a Memorandum of Understanding (MOU) agreed between Brisbane City Council (BCC) on 24 November 2014, Redland City Council (RCC) entered into an arrangement to jointly procure and negotiate the supply of waste, recyclables and green waste collection services.

The MOU, in part, agreed BCC would develop and lead the contract strategy for waste collection services, and RCC would recognise BCC as being responsible for the tender process and post-tender negotiations. Key personnel from RCC have been part of the Tender Evaluation and Negotiation Team for the Collections Category (Category 1), since inception.

An application to the Australian Competition and Consumer Commission (ACCC) was made by RCC seeking the approval for the joint procurement activity. The application was approved in October 2015 and remains effective until October 2034.

Both councils agreed that, should it become clear during the tender evaluation process that it would be more beneficial for each council to pursue its own negotiated contracts, then that would be possible. Regardless, BCC agreed it would continue to support RCC in the procurement process until contracts were awarded.

On 1 June 2017 BCC completed its own portion of the joint tender and publicly announced its successful tenderers, and awarded contracts.

In accordance with the intention of the MOU, on 30 May 2017, BCC and RCC agreed that RCC would assume responsibility for completing the remainder of its procurement process – from Round 3 negotiations to contract award – with involvement and support from BCC on an as required basis.

RCC's procurement lead (RCC Procurement Transformation Manager) is satisfied with BCC's procurement, evaluation, negotiation and probity processes. BCC has provided RCC with copies of all relevant tender response and evaluation documentation for record and future audit purposes.

RCC has completed its own due diligence checks of BCC's data and assumptions to the date of handover. Additional Financial Modelling and Sensitivity Analysis have been conducted by RCC's Finance Team, using BCC's modelling software.

RCC has continued to engage the services of the same Probity Adviser as BCC for continuity purposes.

RCC's contract will be reviewed and developed in conjunction with RCC's General Counsel and Legal Services Unit.

BCC and RCC will jointly conduct tender award and tender debrief sessions at the conclusion of the process.

### **AIM OF THIS ARRANGEMENT**

Each Council (BCC and RCC) requires suitably qualified contractor/s for Waste and Resource Recovery Services covering the following operations:

- Category 1 – Waste, Recyclables and Green Waste Collection Services (Collections) (BCC and RCC);
- Category 1 – Collection Services - was further split into separable portions to allow Tenderers to submit proposals for:
  - BCC area only
  - RCC Mainland only
  - RCC Islands only
  - RCC Mainland and Islands only
  - RCC and BCC combined (excluding RCC Islands)
  - All areas Combined
- Category 2 – Resource Recovery Innovation Alliance (Alliance) (BCC Only);
- Category 3 – Waste Disposal Services (Landfill) (BCC Only);
- Category 4 – Green Waste Processing Services (Green Waste) (BCC Only).

The joint Request for Proposal (RFP) for Waste and Resource Recovery Services was publicly advertised via Brisbane City Council's Supplier Portal on 6 July 2016 to coincide with release of the tender documents. The RFP closed on 21 December 2016.



The Category 1 tender services include business as usual levels of service such as:

- Collection of waste from mobile garbage bins (MGBs) and transport to delivery point
- Collection of waste from bulk bins and transport to delivery point
- Collection of RCC transfer station waste bins only + transport to delivery point
- Collection of waste from park and footpath infrastructure (litter bins) and transport to delivery point
- Marketing contribution for education
- Bin management – bin repairs, maintenance and purchase.

The tender incorporated pricing for other strategic considerations such as:

- Starting island greenwaste optional collections (based on demand)
- Introducing a weekly food organics and green organics (FOGO) collection service, with general waste collection moving to the alternative fortnight to the co-mingled recycling collection. Note this service will not be introduced without a separate Council resolution. This will be subject to a business case and be largely driven by external state government legislation changes and policy changes, e.g. landfill levy or landfill ban.
- Changes to disposal points, e.g. new FOGO processing facility or waste disposal destination. Note further negotiations may be required using an open book methodology at the relevant point in time.

#### Large-sized contractual arrangement

This tender is in accordance with the processes and procedures for establishing a Corporate Procurement Arrangement (CPA) under the *City of Brisbane Regulation 2012*.

Key procurement objectives include maintaining high levels of customer satisfaction whilst limiting any cost increases, and mitigating risks around ageing and capacity constrained infrastructure.

#### **EVALUATION PLAN AND PROBITY REQUIREMENTS**

The evaluation plan details how the evaluation of the responses will be conducted. The evaluation plan which was approved on 29 September 2016 is available on request.

Given the complexity of this evaluation process, and the scale and scope of the procurement, O'Connor, Marsden & Associates (OCM) were appointed by BCC as Probity Advisers for the overall Waste and Resource Recovery procurement process. The role of the Probity Adviser is to ensure the process is conducted fairly and in all respects with probity. The Probity Adviser agreed to address any issues or queries in relation to the probity and fairness of the evaluation process should they arise.

OCM have in turn been appointed by RCC to advise in respect of the finalisation of the RCC separable portion for waste recyclables and green waste collection services. OCM have confirmed that, as of the date of this evaluation report, they have no unresolved probity issues, and they will provide their full probity report at the completion of the procurement, after debriefs with unsuccessful participants.

**TENDER PERIOD**

Addendums issued	Fifteen (15)	
Close of tender	21 December 2016 – Brisbane City Council Supplier Portal	
Number of submissions received (note: some tenderers submitted a tender for more than one separable portion)	Category 1	Three (3)
	Category 2	BCC Only
	Category 3	BCC Only
	Category 4	BCC Only
	<b>Total</b>	<b>Three (3)</b>
List of companies that submitted an offer for RCC (Mainland and Islands):		
<ul style="list-style-type: none"> <li>• Company A</li> <li>• Company B</li> <li>• Company C</li> </ul>		

**EVALUATION PERIOD**

This tender is in accordance with the processes and procedures for establishing a CPA under the *City of Brisbane Regulation 2012*.

This tender process complies with section 228 of the *Local Government Regulation 2012* as well as relevant RCC policies, guidelines and procedures.

To ensure that this arrangement provides value for money to Council, the tender was developed in accordance with the following evaluation criteria. Appropriate weightings were applied against each criterion. The allocated weightings for the respective criteria are summarised in the table below:

<b>Criteria</b>	<b>Weighting %</b>
Experience and Track Record	23%
Capability and Capacity	34%
Compatibility	15%
Commercial Matters	22%
Innovation & Value Add	6%
<b>Totals</b>	<b>100%</b>
Pricing Importance (Ratio between non-price and price)	50/50

All submissions received were dealt with in accordance with the approved Tender Evaluation Plan. The below table provides details of the evaluation, shortlisting and negotiation process.

Preliminary checks identified:	Clarifications required
Number of conforming tenders deemed by the Evaluation Team as addressing the pre-determined evaluation criteria in the tender document:	Three (3)
Number of non-conforming tenders	Zero (0)
Date/s submissions were evaluated in line with pre-determined evaluation criteria and Evaluation Plan	21 December 2016 to 05 July 2017
<p>The Evaluation and Negotiation Team discussed and agreed to the following regarding the Tender received from Company C:</p> <ul style="list-style-type: none"> <li>• Company C progressed to Round 1 negotiations after the initial evaluation of RFP responses.</li> <li>• Company C tendered the least attractive offer to Council after Round 1 negotiations and was not selected to progress further at that stage.</li> </ul>	
<p>The Evaluation and Negotiation Team agreed to shortlist the following tenderers to progress to Round 2 negotiations:</p> <ul style="list-style-type: none"> <li>• Company A</li> <li>• Company B</li> </ul>	
<p>On <b>17 March 2017</b> a post-tender negotiation meeting was held at BCC offices with Company A to clarify and negotiate issues such as:</p> <ul style="list-style-type: none"> <li>• Schedule of Rates – a number of clarifications</li> <li>• Alternative Proposal – re FOGO on the Islands</li> <li>• Public Place Waste Infrastructure - Collection Services</li> <li>• Management / Operational Procedures – Workforce Plan and Safety Management System</li> <li>• Value Adds</li> </ul> <p>On <b>17 March 2017</b> a post-tender negotiation meeting was held at BCC offices with Company B to clarify and negotiate issues such as:</p> <ul style="list-style-type: none"> <li>• Schedule of Rates – a number of clarifications</li> <li>• Fleet – Fleet maintenance</li> <li>• Bin Management – Bulk Bins</li> <li>• Contract Term</li> <li>• Value Adds</li> </ul> <p>Following the meetings, formal Requests for Clarification were issued to each tenderer.</p> <p>On <b>30 May 2017</b> a further post-tender negotiation meeting (Round 3) was held with Company A to clarify and negotiate issues such as:</p> <ul style="list-style-type: none"> <li>• Scenario planning and costing for the possible introduction of FOGO in 2020 or 2022</li> <li>• Other minor clarifications relating to pricing and non-pricing components</li> </ul> <p>On <b>30 May 2017</b> a further post-tender negotiation meeting (Round 3) was held with Company B to clarify and negotiate such issues as:</p> <ul style="list-style-type: none"> <li>• Scenario planning and costing for the possible introduction of FOGO in 2020 or 2022</li> <li>• Other minor clarifications relating to pricing and non-pricing components.</li> </ul>	

## **SUMMARY OF EVALUATION MEETINGS AND PROCESS**

*The summary evaluation for Evaluation Meetings 1 and 2 below has been provided by BCC's Procurement Lead, as the evaluations were conducted in accordance with BCC's Evaluation Plan and RCC's procurement team had no involvement at that stage.*

### **Evaluation Meeting - Round 1**

The first evaluation meeting was held after the closing of tenders in December 2016.

- An initial round of evaluation and moderation was conducted.
- All tenderers progressed to Round 1 negotiations.
- Face-to-face meetings were held at BCC offices to provide tenderers with feedback on submissions, both price and non-price aspects and all were given a set of issues to specifically address.
- Tenderers were given time to complete written responses to the issues.
- Following receipt of Round 1 responses, reassessment of proposals was conducted and one RCC Category 1 tenderer (Company C) was put aside from further evaluation as it was not as competitive as the others.
- The remaining two tenderers were invited to Round 2 negotiations.
- The external Probity Adviser was present at all meetings.

### **Evaluation Meeting - Round 2**

The second tenderer feedback meeting was held on 17 March 2017 at BCC offices.

- On receipt of clarification responses, Round 2 of evaluation and moderation was conducted.
- The Tender Evaluation and Negotiation Team met to assess responses and scoring.
- Tenderers were invited to BCC offices and were provided feedback on their relative positions and further issues were raised for response.
- Tenderers were given time to complete written responses to the issues.
- Both tenderers were invited to progress to Round 3 negotiations.
- The external Probity Adviser was present at all meetings.

### **Evaluation Meeting - Round 3**

The third tenderer feedback meeting was held on 30 May 2017 at BCC offices.

- On receipt of clarification responses, Round 3 of evaluation and moderation was conducted.
- The Tender Evaluation and Negotiation Team met to assess responses and scoring.
- Tenderers were invited to BCC offices and were provided feedback on their relative positions and further issues were raised for response.
- Tenderers were given time to complete written responses to the issues.
- The external Probity Adviser was present at the meeting.
- The tenderers were introduced to RCC's Procurement Lead who would be responsible for the remainder of the RCC procurement process, with assistance from BCC, through to contract award.

- RCC issued two more rounds of clarifications, in writing, to tenderers for response. BCC and Probity were party to all communications and had input into their formation.
- The Tender Evaluation and Negotiation Team met to assess responses and scoring with BCC and the Probity Adviser joining the meeting via teleconference.
- For consistency, BCC updated the Master Scoresheet Matrix and returned it to RCC.

Following the last round of clarifications, which included the addition of 3 scenarios related to the status quo, and the possible introduction of FOGO in 2020 and 2022, the RCC Finance Team undertook final Financial Modelling and Sensitivity Analysis to assist the evaluation team to reach a decision on the Financial (Pricing) component of the tenders.

## **TENDER EVALUATION SCORING SUMMARY**

### **MODERATED NON-PRICE EVALUATION SCORING SUMMARY**

Criteria	Criteria Weighting	Company A Score	Company B Score
Experience and Track Record	23%	18.3%	20.5%
Capability and Capacity	34%	28.6%	28.5%
Compatibility	15%	12.0%	11.4%
Commercial Matters	22%	14.1%	17.9%
Innovation and Value Add	6%	4.2%	4.1%
<b>Total</b>	<b>100%</b>	<b>77.1%</b>	<b>82.3%</b>

#### Experience and track record

The panel evaluated submissions for experience and track record on issues including previous contracts and referee reports. The submission by Company B provided a more extensive list of municipal waste collection contracts of similar size and scope to the services required in Redland City. Referee reports also indicated very strong performance and service delivery.

#### Capability and capacity

The panel evaluated submissions for capability and capacity on issues including fleet, vehicle technology, workforce, reporting and data, and integration with Council. Overall, both tenderers scored high in this criteria and are equally capable of undertaking the services for Council. Both tenderers demonstrated strong understanding of Council's service requirements, however Company B provided greater assurance of fleet capacity and spare vehicles when compared to Company A. Both tenderers had strong workforce training, policies and industrial relations track record. Company A provided a superior proposal relating to IT systems, reporting, and real time data access for Council.

#### Compatibility

The panel evaluated submissions for compatibility on issues including account management, governance, customer service and imbedding Council's vision and values, and key performance indicators. Company A scored marginally higher in this criteria demonstrating strong customer interaction, complaint escalation processes and dedicated, well resourced account management methodology. Company B provided detailed comparison and alignment to Council's vision and values substantiated by actual implemented examples. Tenderers' response to key performance indicators were both strong, however Company A provided greater methodology and performance standards from contract experience.

### Commercial Matters

The panel evaluated submissions for commercial matters on the tenderers' financial viability, and systems and processes including workplace health & safety systems.

The financial analysis is made of two parts: 1) A bankruptcy test (Altman Z Score) and 2) A financial evaluation based on Council's needs and requirements which, when combined, results in an overall score out of ten.

- 1) The Z score incorporates five key financial ratios which measure profitability, debt, liquidity and solvency to predict the probability for insolvency.
- 2) The financial evaluation provides a weighted score that measures the capacity for the Council contract, profitability, gearing and liquidity.

#### **COMPANY B – Overall score 8.4**

Company B scored highly in its Z Score with a rating of 9 indicating a “strong” outcome in its bankruptcy test. Company B also rated well in its Financial Evaluation Test with a weighted score of 7.8. Driving this result was a 2/2 Capacity score, 1.6/2 Gearing score and 1.6/2 for Credit Worthiness. The remaining indicators exceeded 1.

Company B has strong gearing with \$828M in assets, \$401M of which are current, and \$224M in liabilities, \$111M of which are current. They also have growing retained earnings up to \$604M in the last financial year.

#### **COMPANY A – Overall score 4.44**

Company A scored poorly in its Z Score with a rating of 3 indicating a “risky” outcome in its bankruptcy test. Company A scored an “acceptable” rating in its Financial Evaluation Test with a weighted score of 5.9. Driving this result was a 2/2 Capacity score, 1.4/2 Profitability score and 1.2/2 for Credit Worthiness. The remaining indicators scored below 1.

Looking at Company A's capacity, they had an operating revenue of \$1.4 Billion in the last financial year and scored well. They earned 1.4/2 for profitability after making \$61.6M in operating profit in the last financial year; this was after making an operating loss in the previous year of \$31M. They scored a 0.9/2 for liquidity and 0.4/2 for gearing with \$2.9B in total assets, \$323M of which are current; in comparison to \$1.1B in total liabilities, with \$323M as current. Along with this, Company A also has negative retained earnings of \$301M.

Both tenderers demonstrated mature Workplace Health & Safety, Quality Management, and Environmental Management systems and processes, with both providing evidence of accreditation to ISO9001, ISO14001 and AS/NZS4801 systems.

### Innovation and Value Add

The panel evaluated submissions for innovation and value add including alternative fuel and energy considerations, technology value add and efficiency opportunities. Value add and innovation will be sought by both tenderers, where possible and throughout the term of the contract. Examples of value add include integration with Council's Property & Rating system. Company B has proposed a modern fleet of vehicles with a high standard of vehicle emissions technology.

#### **MODERATED PRICE/VALUE FOR MONEY (VFM) EVALUATION SCORING SUMMARY**

Financial analysis and modelling scope includes collection services, MGB repairs and maintenance, purchase and depreciation, as well as a marketing contribution. Risk and sensitivity analysis was performed by using Monte Carlo Simulation with 100,000 iterations to mathematically and objectively compute and track 3 scenarios with the different length of

contract terms for collection services. It calculated most likely outcomes that summarise, in the table below, the probabilities and risk associated with each different tender and scenario.

The total contract value is estimated at \$107.62 million (ex-GST) over the 12 year life of the contract. The total value is based on rise and fall conditions and growth assumptions over the 12 year period.

A risk analysis calculation was performed during the financial evaluation which determined that the total contract value would have the greatest probability of falling within a range from a minimum cost of \$97.9M to a maximum cost of \$119.74M. The main cost variables that could impact the total final cost will be wage growth rate assumptions up to \$5.7m variance over the life of the contract, fuel price assumptions resulting in a variance of \$5.6m and CPI growth rate assumptions resulting in a variance \$3.3M.

**Total contract value (excl. cleaning and purchase of bulk bins, special events)**

		<i>in \$ 1,000,000</i>					
Scenario		10 Year		12 Year		16 Year	
		Nominal Value		Nominal Value		Nominal Value	
		Total	Avg. per Yr	Total	Avg. per Yr	Total	Avg. per Yr
Scenario 1	Company A	89.6	9.0	114.7	9.6	170.3	10.6
	Company B	88.8	8.9	107.6	9.0	164.8	10.3
Scenario 2	Company A	110.9	11.1	142.7	11.9	204.8	12.8
	Company B	115.8	11.6	141.6	11.8	216.9	13.6
Scenario 3	Company A	106.8	10.7	138.2	11.5	201.3	12.6
	Company B	110.8	11.1	136.8	11.4	212.5	13.3

The above costs both compare favourably to the current contract cost listed below. The average saving is approximately \$2.8m per annum depending on contract term. For Council’s preferred term of 12 years, the maximum average annual savings are estimated at \$3.1m.

**Current contract value (Scenario 1 – BAU only)**

		<i>in \$ 1,000,000</i>					
Scenario		10 Year		12 Year		16 Year	
		Nominal Value		Nominal Value		Nominal Value	
		Total	Avg. per Yr	Total	Avg. per Yr	Total	Avg. per Yr
Scenario 1	Current Contract	114.0	11.4	145.0	12.1	219.9	13.7

The VFM score is based on combined price and non-price components with ratio of 0.5:0.5.

Non Price Score	
Company A	77.10%
Company B	82.33%

*VFM Factor 1000000000*

**VFM Scores**

Scenario		10 Year			12 Year			16 Year		
		Total	VFM	Rank	Total	VFM	Rank	Total	VFM	Rank
Scenario 1 - BAU	Company A	\$89,604,115	<b>8.60</b>	<b>2</b>	\$114,650,405	<b>6.72</b>	<b>2</b>	\$170,344,606	<b>4.53</b>	<b>2</b>
	Company B	\$88,832,766	<b>9.27</b>	<b>1</b>	\$107,624,772	<b>7.65</b>	<b>1</b>	\$164,830,205	<b>4.99</b>	<b>1</b>
Scenario 2 - BAU + 2020 FOGO	Company A	\$110,924,944	<b>6.95</b>	<b>2</b>	\$142,666,533	<b>5.40</b>	<b>2</b>	\$204,760,593	<b>3.77</b>	<b>2</b>
	Company B	\$115,824,611	<b>7.11</b>	<b>1</b>	\$141,604,219	<b>5.81</b>	<b>1</b>	\$216,903,597	<b>3.80</b>	<b>1</b>
Scenario 3 - BAU + 2022 FOGO	Company A	\$106,794,680	<b>7.22</b>	<b>2</b>	\$138,225,408	<b>5.58</b>	<b>2</b>	\$201,299,341	<b>3.83</b>	<b>2</b>
	Company B	\$110,758,549	<b>7.43</b>	<b>1</b>	\$136,801,208	<b>6.02</b>	<b>1</b>	\$212,516,903	<b>3.87</b>	<b>1</b>

### **Final scoring and analysis**

The Tender Evaluation and Negotiation Team agreed that following Round 3 negotiations, together with final financial modelling and sensitivity analysis, it could make a recommendation that:

1. **Company B** offered Council best Value For Money (VFM) for a 'business as usual contract', with a 12 year term offering the optimal value. For further details of the VFM indicator and contract value assumptions, reference should be made to the supporting Financial Modelling and Sensitivity Analysis.
2. **Company B** offered Council best Value For Money (VFM), where a scenario date of 2020 or 2022 was accepted as the introductory date for FOGO collection services. For further details of the VFM indicator and contract value assumptions, reference should be made to the supporting Financial Modelling and Sensitivity Analysis.

A meeting was held with the Steering Committee on 5 July 2017 to report and discuss the Evaluation and Negotiation Team's findings and recommendations.

At this meeting, it was agreed that the Tender from **Company B** offered the best Value For Money for Council on the grounds that:

1. Council will realise the rewards of lower 'Business as Usual' costs, with estimated average maximum savings of up to \$3.1m per annum against current contract rates; and
2. If a date for the introduction of FOGO is announced, contract pricing has already been negotiated as far as possible.

### **Recommendation**

The Tender Evaluation and Negotiation panel recommend:

1. **Company B** as the successful tenderer for the schedule of rates contract Category 1 – Waste, Recyclables and Green Waste Collections – RCC and Islands. If approved, the contract will commence on 1 July, 2018 for a term of 12 years. There are no extension options proposed for this contract. The value is estimated at \$107.62 million (ex-GST) over the 12 year life of the contract. The total value is based on rise and fall conditions and growth assumptions over the 12 year period;
2. Pursuant to the award of contact, Council approves a lease of Council's South Street Vehicle Depot for use by the successful contractor; and
3. That this report and attachments remain confidential until the contract is awarded subject to maintaining the confidentiality of legally privileged and commercial in confidence information.