

Report to:	Council Public Excluded	
Date:	30 June 2021	
Subject:	Awarding of Solid Waste Service Contract	
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Input sought from:		
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1. SUMMARY:

Council approval is sought for the awarding of a new contract for solid waste services with some associated changes to planned service components.

2. RECOMMENDATION

THAT:

1. Out-of-district disposal of residual refuse commences as soon as is practically possible.
2. The construction of a refuse transfer station at the Kaikoura Resource Recovery Centre to enable such out-of-district disposal is brought forward from the 2023/24 year (as previously indicated in the draft Long Term Plan) to the 2021/22 year, with a target of having the facility commence operation on 1 July 2022.
3. Transfer station construction is to be loan funded, with this loan funding to be repaid through a component of user pays charges for future refuse disposal through the transfer station.
4. A kerbside refuse collection in the Kaikoura urban area shall commence on 1 October 2021, using KDC branded refuse bags that may be purchased for \$4.00 per bag (GST inclusive). This bag price shall cover the full cost of the service, making it a 100% 'user pays' activity.
5. KDC Contract 169 (Solid Waste Services) that incorporates the items above is awarded to Innovative Waste Kaikoura for a 57 month term commencing on 1 October 2021 with a tender price of \$2,265,003 + GST.
6. Delegates the Chief Executive to determine the release of the public excluded report.

3. BACKGROUND

Since late 2019 there have been extended discussions regarding the form of solid waste services to be provided to the community.

It became apparent that some elements of the current services were relatively expensive, and that the omission of an urban kerbside refuse collection – an approach that had been previously adopted in support of 'Zero waste' principles – was not supported by many people in the community.

Accordingly a revised package of services which excluded some less cost effective elements and added a kerbside refuse collection in Kaikoura was agreed by Council.

A complexity in tendering these services was the decision made for the Kaikoura landfill to be closed in the near future, requiring a significant change in contract activities. Accordingly tenders were invited for service delivery over either or both of the two following periods:

- Option 1: From 1 October 2021 to 1 February 2024 (expected date of closure of Kaikoura Landfill)
- Option 2: From 1 October 2021 to 30 June 2026.

Whilst from a contract management perspective the longer term would appear preferable it was recognised that the need to price two different levels of service added complexity for tenderers.

4. TENDERS RECEIVED

Tenders closed for Contract 169 at 10.00am on Monday 10 May, with tenders received from 3 tenderers.

Tenders were assessed using a price quality premium methodology, where tender prices are balanced against a financial premium assigned in proportion to the quality of the tender in respect of the following attributes:

- Relevant Experience
- Technical Skills
- Resources
- Health and Safety Performance
- Environmental Performance
- Waste Minimisation Strategy and Methods
- Good Character

All of the tenders were from experienced contractors who held existing local authority contracts for solid waste services, and assessments of non-price attributes were correspondingly all relatively good, ranging between 72% and 85.6%.

With this similarity of relatively good tender quality (and associated small differences in price quality premiums) it was clear that tendered price was likely to be the dominant factor in shaping the awarding decision.

Tender prices were found to be much more variable than tender quality, with differences of around 35% between the lowest and 2nd lowest prices, as shown in the table below.

Tender Option	Lowest Tender Price	2 nd Lowest Tender Price
1 (28 months)	\$2,011,432	\$2,711,223
2 (57 months)	\$3,267,257	\$4,604,751

It should be noted that the tender price included substantial provisional sums for some items that were funded on a user-pays basis, such as the refuse disposal. These items were however included in the tender to ensure that the community received the best value service overall, and that a contractor did not win the contract by submitting low prices for the items funded by Council whilst offsetting this with higher prices for user-pays funded services.

The lowest prices for both tender options were provided by IWK (who also had some of the highest scores for non-price attributes) and for the purposes of tender evaluation this substantial price advantage of IWK was further extended by application of the 5% 'local supplier premium' that has been previously agreed by Council.

With such a margin in its favour it was clear that IWK was the preferred tenderer, and that there was little point in further exploring the tenders from the other contractors.

5. LANDFILL CHARGES

The landfill charge element of IWK's tender was however considered to require further discussion as the tendered rate for this appeared to be very high. It was accordingly agreed by the Tender Awarding Panel (which included the Mayor and the Chief Executive) that all tenderers be notified of IWK's 'preferred tenderer' status and that clarification or adjustment be sought from IWK in respect of landfill charges.

Subsequent discussion with IWK revealed that their tendered rate for landfill refuse disposal was incorrect since it was inclusive of GST and Landfill Levy charges, when these should have been excluded. Accordingly the tendered rate was revised from \$350 per tonne to \$290 per tonne. This had the effect of further lowering IWK's tender price.

IWK confirmed that this was the true cost of landfill operations and was not used to subsidise other solid waste activities.

Even at this lower rate it was however noted that the cost of refuse disposal at the Kaikoura landfill would be substantially higher than the cost of transporting it to another landfill outside of the District. Based on the revised IWK tender rate public charges for general refuse disposal at the Kaikoura Landfill (which are inclusive of GST and the cost of associated carbon credits, which is expected to be \$40 per tonne of refuse) would be \$370 per tonne, whilst the cost of out-of-district disposal (at the Kate Valley or Bluegums landfills, inclusive of haulage costs and all other components including GST) IS likely to be around \$230 per tonne.

Such a lower rate of charge applied to the 1500 tonnes of refuse that currently goes to the Kaikoura landfill represents a potential cost saving of approximately \$200,000 per year, and in addition there are the local environmental benefit of not operating the Kaikoura landfill.

With these potential benefits available and no apparent disadvantages it seems desirable to transition to such out of District disposal as soon as possible.

6. ACCELERATED TRANSFER STATION CONSTRUCTION

Moving to out-of-district refuse disposal would require construction of a transfer station on the Resource Recovery Centre site. It has been previously planned for the Transfer Station to be constructed in the 2023/24 year, but this was based on the assumption that continuing use of the Kaikoura landfill would be the least expensive disposal option whilst capacity remained in it.

With that not now being the case it would seem sensible to construct the transfer station as soon as possible, and it believed that having completion by the end of the 2021/22 financial year is a realistic objective and IWK has indicated their agreement to Contact 169 being varied to incorporate this accelerated move to out-of-district refuse disposal.

It has been previously suggested that the capital cost of constructing a transfer station on the RRC site might be between \$600,000 and \$800,000 but further work is required to prepare a conceptual design upon which a more reliable cost estimate could be based.

It is proposed that transfer station construction would be funded by debt, but that this debt would repaid relatively quickly using revenue from user pays charges for refuse disposal, which would be maintained at a level similar to what is currently charged (\$350 per tonne) even after the landfill is closed.

In this way refuse deposited at the transfer station would provide a contribution of at least \$100 per tonne towards the repayment of the associated debt, which might potentially be repaid within 7 or 8 years without a need to use rates funding.

A larger somewhat cost – perhaps in the order of \$1.0 to 1.2 million, which would also be debt funded - has been indicated for undertaking the final closure and capping of the landfill, but this work could be done after the transfer station is put in place.

7. KERBSIDE REFUSE COLLECTION

As was permitted by the Tender Document, IWK submitted 2 alternative tenders.

These tenders were variations of Option 1 and 2 in which a fortnightly kerbside refuse collection service using 60 litre branded recycled plastic bags was provided instead of the wheelie-bin based collections that were specified in the tender document.

This alternative service was proposed to be provided on an entirely user pays basis, with the cost of service fully covered by the purchase price of the bags, which was proposed to be set at \$4.00 per bag (GST Inclusive). Branded bags could also be disposed of at no charge at the Resource Recovery Centre.

Based on Schedule Items 1.1 and 3.2 in IWK's conforming tenders and previous assumptions made about the extent to which such a service might be used it is believed that the overall total cost per empty of a wheelie bin (on average containing 10kg of refuse) is likely to be around \$7.50 (\$0.75/kg). Based on rates for refuse disposal within IWK's tender it would be expected that this \$7.50 would be recovered through a user pays (sticker or tag) component of around \$6.00 and a rates component of about \$1.50.

A typical 60 litre refuse bag typically contains around 6kg of refuse, for which the charge would be \$4.00 (\$0.67/kg), which would be entirely recovered through a user pays charge.

It is recognised that such a bagged service might have some advantages over the previously proposed wheelie-bin based service, including:

1. Simplicity of administration: The proposed concept of providing wheelie bins and then charging for empty through purchase of a sticker or tag will be more complex and have greater potential for problems (both at set-up and routine operational stages) than with the type of simple bagged service proposed by IWK.
2. Simplicity of use: Having a Council provide a wheelie bin but requiring separate payment for its contents to be collected is not a common approach, and has potential to be confusing for users, particularly for visitors or short-term residents, who make up a significant proportion of the community.
3. Meeting wider waste disposal needs: Being fully funded by the bag purchase price, the people who produce extremely small quantities of waste would obtain a benefit for doing so, whereas with the wheelie bin service proposed in the tender document they would have to pay at least \$25 per year for the service, even if they never used it.
4. Such a bag-based system would also potentially be preferred by larger families who generate more waste over 2 weeks than can fit into a 120 litre wheelie bin.
5. Maximising user-pays: Recovering all of the cost of the kerbside refuse service through user pays charges aligns well with the waste minimisation principle of making the creators of waste directly responsible for the cost of its disposal.
6. Reducing rating impact: Following on from point 5 above, the 100% user pays bag-based service proposed by IWK would eliminate the need for \$33,600 of annual operational cost to be funded through rates and would also eliminate the need for an initial investment of around \$80,000 to purchase wheelie bins. As such this should yield a rates reduction of at least 0.5% for the properties receiving the service.

Advantages of the proposed wheelie bin service might however include the following:

- a) Safety: Wheelie bins eliminate a number of potential risks for the customer and the contractor that are associated with handling bagged refuse.
- b) Discouraging production of large waste volumes: An intention of restricting the volume of wheelie bins to 120 litres and undertaking a collection only each second week was that this would encourage customers to restrict their waste generation to what could be accommodated by this service (though this would be compromised if multiple bins were permitted, as seems reasonable – see item d) below).

- c) Customer housekeeping: Wheelie bins generally offer easier and tidier means of storing and presenting refuse for collection, with reduced potential for issues of odour and spillage.
- d) Broader Environmental Issues: 60 litre plastic refuse bags are understood to typically weigh around 15 grams, and in the order of 50,000 bags per year are likely to be used to service Kaikoura, meaning that around 675 kg of additional plastic goes to landfill each year.

On the other hand a typical 120 litre wheelie bin has an empty weight of around 9kg, is usually guaranteed for 10 years, and its likely average useful life is likely to be at least twice this. As such, based on 1847 bins being supplied to Kaikoura with a total weight of just under 17 tonnes, an annual 'turnover mass' of wheelie bins might be around 850kg, but a key difference here is that wheelie bins can be recycled.

It could perhaps be argued that this potential small environmental advantage could be balanced or overridden by other environmental advantages of a bagged collection.

An advantage of any form of kerbside refuse collection relative to the status quo is that the frequency of vehicle trips to the Resource Recovery Centre will be reduced. Because the bagged service can accommodate larger quantities of refuse most households would not often need to make fewer trips to the RRC than they would if the kerbside service was based on a single 120 litre bins per household, with associated reduced vehicle fuel consumption. It is however also recognised that there does not appear to be any reason why households should be limited to having only a single wheelie bin under a user pays emptying system, provided that they purchased the additional bins. Because of this it is believed that on balance a wheelie bin service is likely to be preferable in respect of broader environmental impact.

Whilst the safety and housekeeping benefits of wheelie bins were considered to be significant (and the general trend in NZ is towards such bin services) it was however also recognised that currently for Kaikoura a bagged service might have some worthwhile advantages.

Initial implementation of a bagged service would also leave the potential for changing to a bin based service in the future.

Recent workshop discussions have indicated that Councillors have a preference for the bagged service, and hence that is reflected in the recommendations of this report.

8. VALUE ISSUES

The accelerated construction of the transfer station and the implementation of a bag based kerbside refuse collection would have some significant associated effects on the schedule of quantities and rates for Contract 169, with the revised version being shown overleaf, with changed numbers highlighted in red. These changes would result in the contract being awarded to IWK with a 57 month term an amount of \$2,265,003 + GST, of which \$1,444,956 + GST is rates funded.

IWK Tender - Option 2 (Revised)					
	Unit	Quantity	Rate	Amount	Amount Type
1 KERBSIDE SERVICES					
1.1 Kerbside Refuse Collection Round	Month	57	\$0.00	\$0.00	Lump
1.2 Kerbside Recycling & Food Waste Service	Month	57	\$3,250.00	\$185,250.00	Lump
2 STREET LITTER BINS					
2.1 Single Use Bin Empties (refuse to landfill)	No. of daily bin empties (for a month)	40	\$3,000.00	\$27,000.00	Provisional
2.2 Single Use Bin Empties (refuse to transfer)	No. of daily bin empties (for a month)	0			Provisional
2.3 Multi-Bin Station Empties (refuse to landfill)	No. of daily station empties (for a month)	12	\$1,620.00	\$14,580.00	Provisional
2.4 Multi-Bin Station Empties (refuse to transfer)	No. of daily station empties (for a month)	50	\$6,750.00	\$324,000.00	Provisional
3 REFUSE OPERATIONS					
3.1 Landfill Management	Month	9	\$3,669.00	\$33,021.00	Lump
3.2 Landfill Refuse Disposal	Tonne	1081	\$290.00	\$313,490.00	Provisional (User Pays)
3.3 Transfer Station Management	Month	48	\$3,280.00	\$157,440.00	Lump
3.4 Transfer Station Refuse Disposal	Tonne	5769	\$53.00	\$305,757.00	Provisional (User Pays)
4 RESOURCE RECOVERY CENTRE					
4.1 Recycling & Food Waste Services	Month	57	\$7,425.00	\$423,225.00	Lump
4.2 Green Waste Service	Tonne	396	\$80.00	\$31,680.00	Provisional (User Pays)
4.3 Green Waste Service (post Kaikōura landfill)	Tonne	2114	\$80.00	\$169,120.00	Provisional (User Pays)
4.4 Re-Use Activities	Month	57	\$2,680.00	\$152,760.00	Lump
4.5 Hazardous Waste Disposal	Month	57	\$830.00	\$47,310.00	Lump
5 RURAL RECYCLING FACILITIES					
5.1 Lynton Downs & Kekerengu Facilities	Month	57	\$1,410.00	\$80,370.00	Lump
6 WASTE MINIMISATION PROMOTION					
6.1 Education and Promotion	Month	57	\$0.00	\$0.00	Lump
			Total	\$2,265,003.00	

It is good practice to compare received tender prices with an independently derived estimate, to gauge the reasonableness of those prices.

The relatively complex and interlinked nature of the KDC's solid waste services does however make reliable theoretical estimation of the costs of individual components very difficult. This difficulty is clearly reflected in the large variations in prices submitted by the tenderers, and there is a risk that if an estimate is made it may be misleading.

For this reason KDC staff have not attempted to make such an independent estimate of overall contract price. Some estimates have been previously made of likely costs for solid waste activities that are relatively discrete and well defined (for example the street litter bin service and the kerbside refuse collection) and these align very well with those schedule items in the IWK tender, but it is not considered realistic to make similar estimates for more complex activities such as recycling.

Overall the rates funded GST exclusive portion of IWK's conforming Option 1 tender at \$328,000 was similar to what is currently paid, and what has been budgeted for 2021/22. That IWK has been able to deliver the services at this price for a number of years suggests that this may reasonably reflect actual costs.

IWK'S alternative tender, incorporating a 100% user pays funded kerbside bag-based refuse collection reduces this annual rates funded portion to around \$300,000 + GST.

It should be noted that whilst these rated components may be similar or lower than what has been paid previously does not mean that IWK has cut its prices, since there have been some reductions of service scope under the new contract, in particular the elimination of some rural recycling services.

This should not however be interpreted as meaning that IWK'S pricing does not represent good value; In contrast the rates funded portions of the other tenders are far higher – in every case more than twice as much – as that of IWK.

The tender process is considered to have provided a very conclusive answer to the questions that have been previously posed regarding whether or not IWK's delivery of services has represented the best achievable value for the community.

The other two tenders received, from experienced, middle sized solid waste contractors, one of whom provides similar services to a neighbouring district, and with which some service delivery to KDC could have been integrated, were nevertheless more than 40% higher than IWK's overall tender price.

This result supports the view that has often been expressed by Council staff that the small and isolated nature of Kaikoura significantly limits the potential for fundamental cost savings through sharing of physical works and services with other districts, even where those services are provided by very capable contractors.

The works and services required by the Kaikoura District are likely to be of too small a scale to provide any significant economies of scale for operators servicing other larger districts, and potential for cost savings is also offset by the logistics of our relatively large separation from those other centres.

That the largest waste contractors – the likes of Envirowaste, Smart Environmental and Waste Management - did not express interest in this contract was not surprising given its scale, location and limited strategic commercial significance.

There also does not appear to be any reason to believe that if such 'big players' had tendered their prices that these have been significantly lower than the prices that were received from the two other contractors who did tender, let alone sufficiently low to compete with the pricing of IWK.

Whilst it is believed that questions might still be asked about the fundamental cost-effectiveness of some elements of the package of solid waste services provided by Council, such as recycling, the answer to whether or not the means of delivery of those services is cost-efficient is now considered to be very clear.

Based on the results of the recent tender it is also strongly suspected that the current level of cost efficiency is only likely to be maintainable if solid waste services continue to be delivered by IWK, KDC or some other similar local community-based entity.

It is believed that the outcome of this tender process should suppress any views that might have been held that substantial further costs efficiencies are achievable in the delivery of KDC's core infrastructure services through a shared service approach.

The factors that have suppressed price competition for this contract are equally likely to be present for activities such as operation and maintenance of 3-waters services and roading, and the only likely way in which the cost to ratepayers of such services could be significantly reduced by use of external services without lowering levels of service would be through some form of increased external subsidy, which currently appears very unlikely.

9. TENDER AWARDING PROCESS

A pre-award variation to Contract 169 that reflects the issues described in sections 5, 6 and 7 of this report together with some other minor amendments has been agreed with IWK.

Under the procurement guidelines recently adopted by Council procurements with values over \$100,000 outside of existing contracts require a written proposed awarding report to be presented to a group containing relevant manager, at least one senior manager, CEO and Mayor to demonstrate achievement of good process and value.

Such a report has been presented to and approved by such a group, but the value of the proposed contract exceeds the \$2.0 million delegated authority of the Chief Executive, and as such the final decision to award lies with Council.

10. COMMUNITY OUTCOMES SUPPORTED

The work is in support of the following community outcomes:



Our community is resilient, safe and well and has their essential needs met



Our infrastructure, housing and community facilities are easily accessible, cost effective and able to withstand our natural hazards.



Residents and visitors enjoy an improved quality of life in our District.