

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
CHIEF EXECUTIVE	OPERATIONAL MANAGEMENT COMMITTEE	6 SEPTEMBER 2022	4

CONTRACT PRICE FOR THE PROVISION OF WHEELED BINS

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

The current supplier for the provision of wheeled bins to the council has notified the council that the world market price for the primary material in the manufacture of the bins has increased significantly and that the cost will need to be passed to the customer (the council). The supplier has an existing agreement with a fixed price for the bins that it can no longer honour and has proposed an increase for the remainder of the contract period. The report outlines the circumstances that have resulted in this position and options available to the council with a recommendation for an increase in the fee for the purchase of new and replacement wheeled bins to mitigate some of the impact from the increased costs.

RECOMMENDATIONS

1. To approve increases in the fees chargeable to residents for the purchase of replacement wheeled bins as set out in Table 1 of the report and to reflect the resultant estimated additional income of up to £12,000 per annum in a full year that will be included in the next iteration of the council's financial forecast as part of the Medium-Term Financial Strategy update.
2. To note that the implications of the increase in the cost of purchasing wheeled bins will continue to be assessed during the year and any changes required will be reflected in the next update of the council's financial forecast.
3. To note the policy statement in respect to the repair, re-use and the application of charges for replacement wheeled bins.

SUMMARY OF PREVIOUS DECISIONS

March 3rd, 2022 Budget Council – Fees and charges agreed

CORPORATE PRIORITIES

Economy – To create a vibrant and healthy economy	✓
Environment – To deliver services customers expect	✓
Efficiency – By spending money in the most efficient way	✓
Tourism – To create a great place to live and visit	✓

REPORT

THE CONTRACT AND THE PRICE INCREASE

1. The council currently has a two-year contract with IPL Global for the provision of wheeled bins from September 2021 which was procured through the Eastern Shires Purchasing Organisation (ESPO) national framework agreement. The contract provided for a fixed price to September 2022, with the price for the remaining year to be agreed in accordance with the terms of the contract. IPL Global have confirmed that they will keep the pricing for the following year at the current rates. In April 2022 IPL Global advised that it could no longer supply bins at the fixed price and requested a price variation. This is a result of an unforeseen significant increase in the cost of polymer, which is the primary material required to make wheeled bins, the increase is such that supplying the bins at the contract price is economically unviable for the contractor. IPL Global have stated that to retain the contract price would result in losses that would have significant detrimental impact on the organisation, all providers are in the same position with current contracts and have implemented price increases to remain viable.
2. Two significant suppliers of polymer to the world market are Russia and Ukraine, the sanctions on Russia and the inability to produce polymer in Ukraine has created a shortage of supply on the world market that has driven up the price. IPL Global presented supporting information that demonstrated the price they were paying for polymer has increased from £1400 per tonne in April 2021 to approximately £2000 per tonne in April 2022. Prices since April 2022 have not increased further as of July 31st, 2022 and there has been a small reduction. It is now hoped that we are past the peak of the polymer cost, but it will remain high while oil prices are high, and production is impacted by the conflict.
3. Increased fuel costs are also impacting on haulage businesses further hyperinflating raw material supply with a 20% increase in haulage prices along with energy costs more than doubling. Other suppliers of polymer in the world market have been working to increase production to meet demand that would reduce the world market price. However, the inability to secure the labour and raw materials for production which has been a common position for many business sectors post pandemic which has further limited supply. The information provided by the supplier is accurate and this has been confirmed by ESPO. Whilst the polymer costs appear to be settling rather than increasing, from October 2022 the energy cost of running the machinery to manufacture the bins is expected to increase by as much as 70%.
4. Suppliers on framework agreements are prequalified and vetted by the framework holder, in this case ESPO, who would normally be concerned to see that suppliers on the framework were not able to meet their commitments and intervene to offer advice or mediation, ESPO advised that the supply chain problems are so acute and unusual that they are unable to intervene.
5. The contract includes the option for a price variation request in September 2022 which IPL Global would have triggered given the circumstances however, this would require mutual agreement. IPL Global have confirmed that they will keep the price fixed at the current rates for the remainder of the contract essentially meaning that the price increase that would have been requested in September was imposed in April resulting in a six-month earlier increase.

STEPS TAKEN TO MAINTAIN SUPPLY

6. The market has been tested by obtaining spot purchase quotes from the other main suppliers in the market and on the ESPO national framework. The other suppliers have quoted prices that are more than the IPL Global revised price from April 2022, equally the quality of the bins and the lead in time for delivery are less favourable from the other suppliers – these are primary reasons that IPL Global was awarded the contract. IPL Global at present remain the best value for money option from whom to purchase wheeled bins, even with the price increase which has been applied across the market.
7. Due to the current volatility of the polymer market, the other suppliers advised that all spot purchase quotations for wheeled bin orders are only valid for a period of 48 hours. The council has had to place an order with IPL Global at the revised rate because of low stocks to meet current demand and ensure service continuity. However, it has been formally stated in writing that this does not constitute the Council accepting the price variation request as a new contract rate and that all rights in relation to the contract are retained. Officers will continue to take professional advice to protect the council's position in respect to the contract and any future

tender process.

BUDGET PROVISION

8. The volume of wheeled bins requiring replacement has been increasing over the last few years because more of the original units first issued in 2004 and 2005 when the service was introduced at Fylde are coming to their 'end of use'. The industry standard estimated 'life' of a wheeled bin is 10 years, many of the bins in circulation across the Borough have been used for more than 15 years with more and more becoming beyond reasonable repair or reuse. This has led to pressure on the budget provision for wheeled bins prior to the price increase triggered by the polymer supply shortage. Replacement wheeled bins are charged to the customer even if they are in excess of 10 years in use however, if the damage is caused as a result of the collection process i.e. the bin falls into the back of the truck or is cracked when shaken to empty contents etc. there is no charge for the replacement bin.
9. The price increase for wheeled bins, the additional replacement bins required, and extra sacks that are being used to support the additional litter collection across the Borough will result in the £75,000 budget being exceeded by up to £25,000 in the current financial year. The implications of the price increase and additional demand on the budget will continue to be assessed during the year to the end of second financial quarter (September 30th) as part of the right sizing exercise changes required to the budget will be reflected in the next update of the council's financial forecast. This will allow full consideration of any further price increases that may be applied in September, a more detailed assessment of alternative providers including any that may be viable outside of the ESPO national framework as well as the opportunity to understand the implications and options on the legal contract with IPL Global which are currently being assessed from both a legal and operational perspective.
10. To mitigate the impact of the additional costs already applied with further increases forecast it is proposed that members consider increasing the fee charged for replacement wheeled bins from October 1st, 2022 as per Table 1 below:

Table 1: Proposed Fee Increase for Replacement Wheeled Bins

Wheeled Bin Package (delivered)	Current Fee	Proposed Fee from October 1 st
Single bin	£34	£39

*the private market price for a 240-litre wheeled bin is between £50 and £65

11. The charge for wheeled bins is based on the cost to the authority of the bin with an on cost applied for the administration and delivery of the bin, all elements of the cost have increased post pandemic. Based on like for like unit sales the increased fees, if approved, would realise approximately £10,000 to £12,000 of additional income in a full year. Most bins are purchased in sets of 3 or 4 when occupying properties primarily by housing developers, estate agents and associations for newly built premises on behalf of new occupants. Sets of bins will be charged based on multiples of £39.
12. The current situation is not unique to Fylde, price increases are being felt by other Lancashire District Authorities. Officers have contacted neighbouring Authorities to enquire about the procurement of wheeled bins and how the current market conditions have impacted on the service. Fourteen authorities have been contacted with responses from six, five of the authorities have experienced price increases. Prices ranged from £21 to £24 per bin as of July 2022, depending on bin specification. All authorities confirmed that they are spot buying and are not in a contract so have no grounds for legal recourse and that charges to the customer are under review.
13. There are six suppliers on the ESPO framework for Lot 1A (wheeled bins), as set out in table 3, Fylde is required to use the framework under tendering regulations because of the level of expenditure. The three most competitive suppliers are IPL Global, Craemer UK and Contenur UK all based in the UK which reduces the transport and logistics costs as well as import arrangements that add cost and time to the delivery.

Table 3: Current ESPO framework pricing structure compared to our contract offer

Supplier				

	180L Blue	180L Brown	240L Grey	240L Green
Weber UK Limited	£21.70	£21.70	£22.90	£25.65
Contenur UK Limited	£20.57	£20.23	£20.70	£21.53
Craemer UK Limited	£21.90	£20.35	£21.30	£21.30
ESE World Ltd	£24.68	£24.68	£26.97	£26.97
SSI Schaefer	£24.70	£24.70	£22.50	£23.20
MGB Plastics (IPL Global) (Contract Offer until September and for the remainder of the contract)	£18.40	£18.40	£19.20	£20.00
Difference per unit between contract offer and lowest ESPO direct award price	£2.17	£1.83	£1.10	£1.30

Officers requested spot purchase prices from Craemer UK Limited and Contenur UK Limited, the price of 180 litres blue and brown bins ranges from £18.65 to £20.20, the price of 240 litre grey bins ranges from £19.40 and £20.15 and 240 litre green bins ranges from £19.40 and £21.14 the rates are more expensive than the current contract offer from IPL Global. The data available on price, quality, and delivery times indicate that the most favourable option is to continue with IPL Global from September 2022 at the current rates.

REPLACEMENT BIN POLICY STATEMENT

14. When the wheeled bin service was first introduced in 2004/05 the bins were provided at no charge to the household and were funded through the capital budget for the project. Replacement bins have been subject to a charge on the householder since April 1st 2009, if the bin has been lost, stolen, damaged, taken by the previous occupier, been in use for years etc. There is no requirement to fund replacement wheeled bins, this is consistent with the approach at all local authorities and was the case with galvanised containers before wheeled bins were introduced.
15. A charge to the householder is not applied when the damage or loss that would require a replacement wheeled is caused during the operation of the service for example, the bin falls into the truck or cracks / damages when being shaken in the process of emptying the contents.
16. All wheeled bins are charged at the agreed price per bin with no reduction applicable for multiple bins or a set of each colour purchased at the same time.
17. Residents on benefits who require a replacement bin will be eligible for a 50% reduction in the cost of a replacement bin subject to demonstrating their benefit status and that the bin was not damaged deliberately (fire, heavy items thrown in etc).
18. All damaged bins returned to the depot will be assessed by the depot operations team for onsite repair, this includes fitting replacement lids or wheels and axels for re-use as 'second hand' where possible. Reconditioned bins will be reissued at a discounted rate of £20 per bin. Any bins damaged beyond repair such as cracked bins, will be sold at the market price for recycled plastic generating an income to the Council.

LEGAL REMEDIES

19. On the face of it, it is not open to the provider to unilaterally change the terms on which it has agreed to provide bins. Officers will advise on what legal options might be available in due course, when the extent of any losses has been quantified.

IMPLICATIONS	
Finance	The report requests approval of increases in the fees chargeable to residents for the purchase of replacement wheeled bins as set out in Table 1 of the report and to reflect the resultant estimated additional income of up to £12,000 per annum in a full year to be included in the next iteration of the council's financial forecast as part of the Medium Term Financial Strategy update, and to note that the implications of the

	increase in the cost of the purchase of bins will continue to be assessed during the year and any changes required will be reflected in the next update of the council's financial forecast.
Legal	The Head of Governance, the Procurement Officer and the Head of Place and Culture will consider the legal ramifications of the present situation and what actions may be open to the council. Any action would need to be considered in the wider context of the highly unusual circumstances and the need for a functioning supply market.
Community Safety	None arising directly from this report.
Human Rights and Equalities	There are no direct human rights or equalities implications.
Sustainability and Environmental Impact	None arising directly from this report.
Health & Safety and Risk Management	No implications.

LEAD AUTHOR	CONTACT DETAILS	DATE
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BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
None		