

Agenda Item No. 6 – Appendix B

Advantages and Disadvantages of Short- and Long-Term Contracts

	ADVANTAGES	DISADVANTAGES
Short Term Contract	<ul style="list-style-type: none"> • A shorter term contract will provide the County Council with the ability to get an operational understanding of the track record of the MBT Facility in terms of composition and volume of RDF being produced. It can then enter into a more detailed procurement with a better understanding of the technical operational information regarding the composition and volume of RDF which the facility can comfortably and consistently deliver. • A shorter term contract will provide the County Council with greater flexibility in being able to take advantage of advancements/changes in the waste sector (such as changes in waste technology and fluctuations in waste streams). • There may be no contractors prepared to pay for RDF as a commodity product at this time, but that could change in time. 	<ul style="list-style-type: none"> • More frequent procurement of RDF Services throughout the term of the MRMC, increasing costs for the County Council and bidders in the market place. • Less security and comfort for the County Council in the provision of a long term solution for the RDF and digestate being produced at the MBT Facility. • The Contractor may not be able to offer as good a price (compared to a longer term contract where the Contractor would have greater certainty in terms of income stream). • The shorter the contract term, the less likely bidders are to commit capital for the design, build and finance of a new facility specifically for the County Council. It follows that the pool of bidders may be smaller as the market is likely to consist of those providers who already have operational facilities and those who are proceeding with facilities whether or not a contract is awarded to them by the County Council.
Long Term Contract	<ul style="list-style-type: none"> • Provides the County Council and the Contractor with long term certainty and perhaps more beneficial contract terms. • A Contractor may be in an improved position and thus able to offer a reduced gate fee because it will have greater certainty as to income streams and able to benefit from economies of scale. • Likely to achieve a greater variety of bids – the longer the contract term, the more likely bidders will be to invest capital for the design, build and finance of a new facility specifically for the County Council with certainty as to source of input RDF. • Ensures less frequent procurement for RDF Services throughout the term of the MRMC, saving costs for the County Council. • Provides a complete solution for a longer period. 	<ul style="list-style-type: none"> • May not provide maximum flexibility for the County Council to take advantage of advancements in waste technology and any changes in legislation. • Prevents the County Council from taking advantage of a possible income stream if RDF becomes a commodity product that the market would be willing to pay for. • Increased difficulty in taking account of changes in waste composition over time, with consequential effect on RDF output and composition. A longer contract term places a burden on the County Council to ensure that it is able to deliver the contracted output and composition for the full contract term.

Note: Many of the above risks may be mitigated or removed by inclusion of appropriate contractual mechanisms (for example, a robust change control procedure). Such flexibility is likely to have a cost consequence for the County Council (as well as being a potential source of delay for negotiations during the procurement)