The Nature of Markets

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Background on Waste

The July 2006 NAO Report “Reducing the reliance on landfill in England” observed that local authorities in the UK rely much more on landfill for municipal waste disposal than many EU countries.

The 1999 EU Directive targets for the reduction of biodegradable waste therefore represent a more significant challenge for UK authorities and failure to meet the targets can lead to punitive fines and limit ability to deliver on promises relating to other important public services…

This is serious stuff!

History

Autumn 2002 PBR asked OGC to consider what steps could be taken to increase competition and encourage better long-term capacity planning in markets where government (public sector) has significant need and purchasing power.

The ensuing “Kelly” report advocated that authorities should (1) provide clear information on future needs, (2) pool market intelligence, (3) strive to improve client capability, (4) plan procurements to minimise bidder costs, (5) make bid processes more predictable.

History

OGC, working with authorities and respective industries, investigated three markets in detail:

construction
waste
independent (health) treatment provision

This short presentation draws on the first two of these

Lessons from construction

Orders for schools, colleges, hospitals and several *very large projects* (for instance Crossrail, 2012 Olympics) leading to a future mismatch between construction demand and capacity to supply.

Analysis shows disproportionate activity (value and number of projects) in Liverpool-London corridor but evidence shows when activity is high, geography and local population determines capacity.

Derriford (Plymouth) Hospital and Northumberland Schools lost their bidders!

Lessons from construction

Bid, management and engineering capacity become limiting factors before trade skill shortages become an issue.

Contractors are becoming more sophisticated in qualifying out projects that don’t excite them…

…the choice of procurement route, bid costs, timescale, stakeholder complexity and decision-making ability are influencing factors.

In times of high activity contractors will bid close to home…unless other markets are more attractive!

Waste in England

The work on the waste market, based on information gathered from a survey of over 70% of Local Authorities, shows that even if:

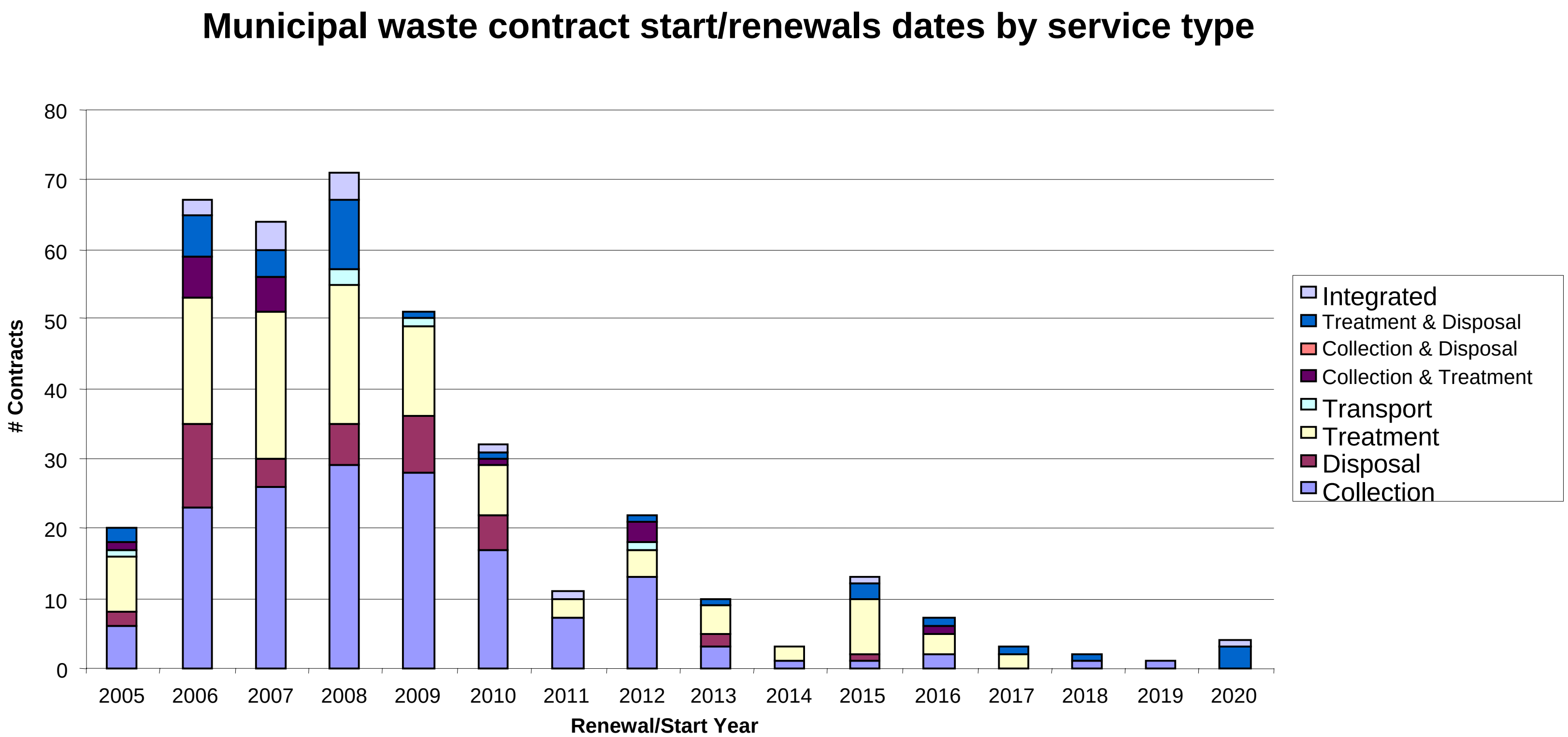
- Sufficient market capacity was available to bid.
- Waste growth remained at an average of 1.5% pa
- 100% of planned facilities could be delivered on time.
- All facilities operating/utilised at full capacity from day one

There is a serious risk that England will still exceed its landfill allowances in 2009/10

There are serious market failure issues and there is (correction - was) no cohesive plan to engage the market.

Waste in England

Current contracts pipe line is not deliverable within existing market capacity. No steady flow of projects to market.



Waste in England

A few suppliers dominate the waste treatment/ disposal market – consolidation proceeds.

Policy planning & regulatory landscape is complex and confusing & energy policy is non-existent!

Bid costs are high and there is limited bid capacity – the cost of bidding and failing is a substantial issue.

There are significant issues regarding the appropriate deal structure, length & levels of risk transfer.

Professional advisers are selling the same services over again.

So, why tell us about England?

In response to the “Kelly” work on Waste a *national* (England) infrastructure strategy has been established:

- The programme board is chaired by DEFRA, members include DTI, DCLG, PUK and 4Ps.
- Promoting better client skills, toolkits and arrangements with expert advisers.
- Overseeing the total programme of projects.
- Managing the market.

So, why tell us about England?

- The *population* of Wales is about the same as Greater Manchester!

- The *land area* of Wales is about 180X!

- Greater Manchester has *no mountains*!

- Greater Manchester has *only ten member authorities*

And what does all this mean?

Wales is in competition with authorities in England (and Scotland) for limited resources

Local Authorities in Wales must act to become clients of choice:

Collaborate – develop policy and strategy as one Nation

Systemic sharing of plans and tools across the sector

Develop reputation for unambiguous policy and decisions

Systemic approach to early communications with industry