

Somerset Waste Partnership Annual Report and Draft Business Plan 2018 - 2023

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Purpose of the Report

1. This report seeks a decision from South Somerset District Council on the Somerset Waste Partnership's Draft Business Plan 2018-2023. The plan provides a framework within which the Somerset Waste Board can make decisions and steer the delivery of waste partnership services. The Business Plan is attached as Appendix A
2. The actions in the draft business plan sets out the most significant set of changes to Somerset's waste services since SWPs inception in 2007. Co-ordinated for maximum impact and value the changes span all three major contracts for waste collection, treatment, disposal and infrastructure (including vehicles). It also develops SWP's capability, in some instances working in partnership with others, to support Somerset residents in wasting less and recycling more, with residual waste becoming a fuel stock to generate energy.
3. Following all partners' approval to implement Recycle More, the original delivery plan was to negotiate this with our current collection contractor (Kier). As it was not possible to reach agreement with Kier in a way which delivered the benefits that partners required, SWB have, by mutual consent with Kier, agreed to bring forward the expiry date of our current collection contract from September 2021 to 27 March 2020. SWB has undertaken a major review of the commissioning options and proposes to undertake a competitive dialogue procurement to secure a new collection contractor following the expiry of the contract with Kier.

Forward Plan

4. This report appeared on the District Executive Forward Plan with an anticipated Committee date of 7th December 2017

Public Interest

5. This report is to inform the Council of the work that is proposed to develop the waste and recycling functions across the area managed by the Somerset Waste Partnership which includes South Somerset, giving reasons behind the proposed future of the services.

Recommendations

6. That the District Executive:
 - a. Approves the Somerset Waste Partnership's Draft Business Plan 2018-23, in particular the proposed approach to the procurement of a new collection contract as set out in this report
 - b. Notes that, in line with their delegated authority and in order to implement Recycle More as requested by partners, Somerset Waste Board have agreed with Kier to bring forward the expiry date of the current collection contract from September 2021 to 27 March 2020.

- c. Approves the projected budget for 2018/19 subject to the comments in section 7 of the SWP Business plan relating to the finalisation of the budget.

Background

7. The Somerset Waste Partnership (SWP) is responsible for providing waste and recycling services on behalf of all six local authorities in Somerset. The partnership is governed through a Joint Committee known as the Somerset Waste Board (SWB). The SWB Constitution requires the preparation of a Business Plan on an annual basis. The plan has a five year horizon with particular focus on the next 12 months, and it provides a framework within which the board can make decisions and steer the delivery of waste partnership services. The Board has delegated authority for decision making across all services and therefore must make proposals to the partners on how savings can be made, taking into account any requirements to make savings and proposals on how this can be achieved.
8. The Board's business planning cycle usually requires a draft report to be approved by the Board in December and circulated to partners for comment prior to the adoption of the Board's Annual Budget the following February. Further to decisions taken by the Board in September 2017 the timetable for approving this plan will change for one year only, with the Draft Business plan presented for Board Approval in November 2017, scrutinised by partner authorities in November and early December and presented for final approval at the December Board meeting. Once approved or noted by all partners, the plan will be formally adopted by the Board to provide a framework within which the Board can make decisions and steer the delivery of Waste Partnership services.

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9. South Somerset District Council, along with other partners in the Somerset Waste Partnership, is consulted on the draft plan prior to the final decision on the being taken by the Somerset Waste Board at their December meeting. The timetable for this consultation has been brought forward, for one year only, to ensure that members are provided with a timely update on the implementation of Recycle More, and to seek their approval to the approach proposed to be taken to securing a new collection contractor.
10. All partner authorities have previously endorsed the implementation of Recycle More and delegated their waste collection functions to Somerset Waste Board. Whilst the original delivery plan was to implement Recycle More with Kier, despite considerable efforts it was not possible to reach acceptable terms with Kier. Recycle More depends upon having a new fleet of vehicles in place. Due to the importance of aligning the procurement of a new fleet with the implementation of Recycle More and due to the need to have sufficient time to undertake a robust procurement process SWB have, by mutual consent with Kier, agreed to bring forward the expiry date of our current collection contract from September 2021 to 27 March 2020.

Draft Business Plan 2018-2023

11. The actions in the draft business plan sets out the most significant set of changes to Somerset's waste services since SWPs inception in 2007. Co-ordinated for maximum impact and value, the changes span all three major contracts for waste collection, treatment, disposal and infrastructure (including vehicles). It also develops SWPs capability, in some instances working in partnership

with others, to support Somerset residents in wasting less and recycling more, with residual waste becoming a fuel stock to generate energy. The business plan sets out three related areas of activity which together will enable us to realise SWP's vision:

a. Building capability

Actions in this area aim to ensure that SWP works intelligently to enable it to realise the Board's vision and includes, improving how the partnership uses data, developing and implementing a technology roadmap and doing more to understand people's behaviour. SWP is working closely with all partners to implement a new website, a new customer service system and a mobile app in order to improve the way we support customers.

b. Action on waste prevention, reuse, recycling and recovery

These actions aim to improve Somerset's recycling rate from 52% towards 60% and potentially beyond, leading to a reduction in residual waste generated per household, and generating energy from materials that cannot be recycled, thus ending the county's long reliance on landfill. Whilst the single most significant driver for these changes will be the implementation of Recycle More, an expanded focus on waste prevention and behavioural change is also a key driver. A pilot reintroduction of working with schools to promote the 'reduce, reuse, recycle' message to children and their parents (funded by Viridor) is a key element of this work in 2018/19. Close working with all partners will be necessary to maximise the impact of our work to change people's behaviours, focussing on reducing the 50% of recyclable waste that is still included in our residual waste.

c. Maintaining services and operational effectiveness

These activities ensure the day to day functions of the SWP are delivered effectively and safely. SWP must give focus to maintaining the quality of services, predicting risks and preventing issues arising from these. It includes a review of SWP's core services contract with Viridor ahead of its expiry in 2022, focussing on whether there is value for money in extending this agreement.

Route map to Recycle More

Background

12. Recycle More was approved by SWB in February 2017 following consultation with all partner authorities.
13. Recycle More involves:
 - Enhanced recycling collections, including; food and beverage cartons, plastic tubs and trays (including black plastic), small items of waste electric and electronic equipment (SWEED) and domestic batteries.
 - 3 weekly refuse collections
 - Additional capacity for properties with children in nappies or for adult absorbent hygiene products (AAHP).

Early expiry of the current contract

14. A lengthy period of negotiations was undertaken with Kier in order to implement Recycle More through them. Despite considerable efforts, it was not possible to secure an agreement which either delivered the financial benefits required by partners or that offered the full range of materials that we wanted to see collected each week (in particular black plastic and food and beverage cartons – e.g. Tetrapaks).
15. Were we to carry on with our current collection contract with Kier to its planned expiry date of September 2021 then we would need to procure a new fleet of recycling and refuse vehicles ahead of that. However, to procure those vehicles without having procured a new contractor to deliver our collection services would be a major risk – we may end up with a fleet of vehicles which did not match how a contractor delivered services. Given that a new fleet of vehicles will cost in excess of £15m this would have been a major risk to all partners. It would also have meant that the implementation of Recycle More would be delayed to at least September 2021.
16. Updates to the Somerset Waste Board in June and September 2017 identified a significant change in the risk profile of the planned implementation and recommended negotiating with Kier to agree early expiry on mutually acceptable terms. This opened up an opportunity to align major improvements in collection services, disposal processes and waste infrastructure to create a fresh, new start for Somerset’s waste services from 2020. This opportunity will bring together enhanced recycling collections; the end of landfill and start of energy-from-waste, and a new fleet of collections vehicles operating out of refreshed depots.
17. To enable this, the SWP have agreed to bring forward the expiry date of our current collection contract with Kier to 27 March 2020. The decision was reached by mutual consent with Kier. Whilst most of our contract with Kier will remain unchanged (in particular the service standards to which they must deliver) to enable this to happen a number of changes to our contract have been agreed through a Deed of Variation, the key elements of which are:
 - The contractual obligation for Kier to only use vehicles less than seven years old has been removed and it enables them to utilise non-branded vehicles (for example those from North Somerset and Bridgend i.e. vehicles appropriate to our service model) but does not relax in any way their service or safety requirements.
 - Leases for depots will be transferred at no cost and SWP will purchase the plant and equipment at the depots.

Options following expiry of the current contract

18. Following a major review of the commissioning options open to SWP, the SWB has agreed to undertake a competitive dialogue procurement to secure a new collection contractor following the expiry of the contract with Kier. The other options considered in detail were:
 - a) providing the services “in house” (DSO/DLO)
 - b) forming a Local Authority Company (LAC)
 - c) out-sourcing the services through a procurement process (and which procurement process was most suitable).
 - d) continuing with the current contract until its expiry in September 2021
19. The outcome of this research was presented to SWB at an informal workshop on 15 September and at the Board meeting on 29 September 2017.

20. A summary of the reasons for rejecting alternative options is provided below:

- **In-house/DSO:** This option was discounted at an early stage because of the additional pension costs of the transferred staff being eligible to join the LGPS. It is estimated that this would add around £1.8M pa to the cost of the services. This makes the DSO option unattractive when compared to a LAC which could exclude membership of LGPS.
- **Local Authority Company:** Whilst cost modelling indicated that the LAC and out-sourced options were very similar, the risk profile of the LAC was significantly higher. For example District Council partners would be exposed to 100% budgetary risk on the fluctuation of materials values, fuel price rises, costs associated with delivering the service in severe weather, materials values, workforce issues. These and other risks (e.g. expertise acquisition, focus on strategic priorities and likelihood in securing the efficiencies which will be crucial to a cost-effective service) meant that the board did not consider an LAC its preferred option. It did recognise that an LAC may be an appropriate contingency plan, and that this should be considered at key milestones during the project.
- **Other procurement options** were discounted because a competitive dialogue procurement procedure would give bidders the opportunity to develop and refine their proposals, drive efficiencies and mitigate risks. It was recognised that this is time consuming but it was preferred for complex procurements where innovation and flexibility were required.
- **Procuring an outsourced service to coincide with the expiry of the existing contract** has the disadvantages that any service improvements and savings related to Recycle More would be delayed and the procurement of a new fleet and the procurement of a new contractor would be misaligned, leading to:
 - Complex buy-back arrangements (depending on who purchased the vehicles) with the outgoing contractor
 - Limiting the choice of the incoming contractor to use their preferred manufacturer and specification of vehicles. This is likely to be reflected in their pricing.

Approach to procurement

21. A robust procurement process will be necessary to optimise the level of financial savings to partners and improve our environmental performance by reducing residual waste and increase our recycling rate.

22. The critical success factors for this project are:

- Achieving best value for SWP member authorities (including any partners that borrow to purchase vehicles/assets) through the procurement and cost sharing;
- Securing a provider who shares SWP's values and vision;
- Attracting and sustaining the interest of credible bidders before and during the procurement process;
- Managing the procurement to ensure compliance with procurement legislation and governance procedures, and to ensure that we progress through the phases of the procurement in a timely and effective way;
- Managing the interdependencies with other key elements of SWP's business plan, in particular:

- SWP's wider communications and engagement strategy (in particular how we will engage with partners and the public to improve recycling capture ahead of the move to recycle more);
- ICT strategy (including how we improve the way we manage customer and performance data in order to improve our customer service, help target and drive behavioural change, and more effectively predict and manage service issues).
- Day to day collection contract service/performance management (especially given we are entering the final years of our current contract with Kier).

23. The overall timetable and phasing have been informed by discussion with the commercial and procurement team at SCC and with Eunomia. Whilst it is manageable, the pace at which we will be required to work in order to make this timetable work should not be underestimated.

Table 1: Procurement Timetable

Phase	Time	Comments
Soft market engagement	Nov 2017 – Feb 2018	To ensure SWP maximises market interest, to help shape our approach
Pre-qualification	Mar 2018 – May 2018	Mandatory phase
<i>Outline Solutions</i>	-	<i>Phase removed as not considered sufficiently beneficial</i>
Dialogue on proposed solutions	May 2018 – Dec 2018	Focussed conversations on key issues (e.g. assets, risk, efficiency and consideration of possible variants)
Final tenders	Jan 2019 – April 2019	Includes, evaluation, governance (ahead of pre-election period for DC elections in 2019) and standstill period.
Mobilisation	May 2019 – end March 2020	New provider gearing up to commence service. Note that a phased transition to Recycle More will be required from April 2020 onwards.

24. It is proposed that the project will be managed with existing resources from SWP and the administering authority (SCC – in particular procurement and legal support) with external support on key commercial and technical matters. It is proposed that the costs associated with the project will be funded from the accrued income generated from the hire of refuse collection vehicles to Kier since 2015. This fund (£421k) was previously identified as providing support for overall roll-out costs for Recycle More.

Table 2: Actual and forecasted expenditure:

Item	£
Recycle More ear-marked reserve funding	421,824
Commissioning options appraisal	14,942
Develop Procurement Strategy (forecast)	7,700

Support for depot optimisation and service modelling	20,000
Commercial and technical support during procurement (forecast based on initial advice and benchmarking similar processes)	250,000
Purchase of baling plant and equipment (committed subject to early expiry)	110,000
Residual Balance	19,182

25. In addition to these costs there will be further expenditure associated with the rollout of Recycle More (in particular from additional recycling containers, communications and operational support during a phased transition). These will be more fully explored throughout the procurement process as the scale and timing of these costs will depend upon the precise scope of the services we procure (i.e. what the contractor does and what SWP has to do), how the contractor proposes to phase and manage the transition and how these costs are spread over the life of the contract. The SWB has previously agreed that savings will not be realised until the costs of implementation are covered.
26. The project will be managed in line with the administering authorities' project management procedure and Contract Standing Orders.
27. The key roles and responsibilities in the project structure are shown in the table below:

Table 3: Key roles and responsibilities

Role	Who	Responsibility
New Service Task & Finish Group	Members from each partner authority	Political steer ahead of key decision points and holding the project true to the SWB's vision.
Senior Responsible Owner	Mickey Green	Ownership of the project. Responsible for direction and ensuring that member task and finish group are consulted appropriately
Project Manager	Bruce Carpenter	To plan, budget, oversee and document all aspects of the project to ensure that the project delivers its aims on time and on budget
Project Board	SMG (senior officers from each partner)	To support the SRO in providing overall direction and management for the project by bringing together a range of expertise

Risks

28. In addition to the corporate risk register maintained by SWP a project risk register is being maintained. The key risks to the project and their mitigation are detailed below:

Risk	Mitigation
Kier continue to change their stance on matters that were considered agreed – this places the deed of variation at significant risk and prevents SWP progressing the approval with partners to procure a new provider, and prevents early market engagement taking place eating further into the timeline.	Kier and SWP have agreed that 13 th November will be the day that the deed is sealed. This is an operational decision to achieving Recycle More which was approved by each partner. Having the final deed signed preventing further changes on Kiers' part and allows the SWP to gain the partner approval required to procure a new service model.
We fail to have a competitive procurement process and achieve our objectives due to a lack of interest from one or more of the limited set of contractors who have significant experience in delivering comparable kerbside sort recycling collections (and in particular three weekly refuse collections).	We need to attract and maintain interest from the market in order to maximise competition, and this is being reflected in the procurement strategy, in particular in the way we will approach soft market engagement stage and the competitive dialogue stage, and how we reflect the procurement pipeline for similar services from other local authorities. An LAC remains our contingency plan.
We fail to achieve the project objectives (economic, efficiency and environmental/social) through the procurement	The competitive dialogue approach is designed to maximise the likelihood of us securing our aims by ensuring that we can explore key elements of the contract (including round efficiency, materials and yield) to ensure that we maximise our chances of securing our objectives. An LAC remains our contingency plan.
Due to the time it takes to procure Recycle More member authorities decide to no longer support recycle more.	Member task and finish group close involvement in the process helps ensure that our approach reflects the collective desires of partners.
Depot configuration and optimisation required for most efficient delivery of RM doesn't align with current sites and we are unable to secure suitable alternatives within time and/or budget	Depot optimisation strategy being developed as part of initial phase of procurement, and to be reflected in dialogue stage of procurement.
Administering authority contract standing orders are not appropriate to the specific circumstances of this procurement (in particular a 70:30 price : quality split)	Close working with SCC's commercial and procurement team as we develop the detailed procurement strategy, informed by expert commercial advice and soft market testing.
The costs of procurement exceed those currently forecast.	Careful ongoing management of expenditure and close review through project board and member task and finish group.

Alternative Options

29. The only alternative option is to not approve the draft business plan. The risk of not approving the draft business plan is that this leads to a failure by the Somerset Waste Partnership to agree the business plan, and possibly the budget – leading to considerable negative financial and reputational implications for all partners.

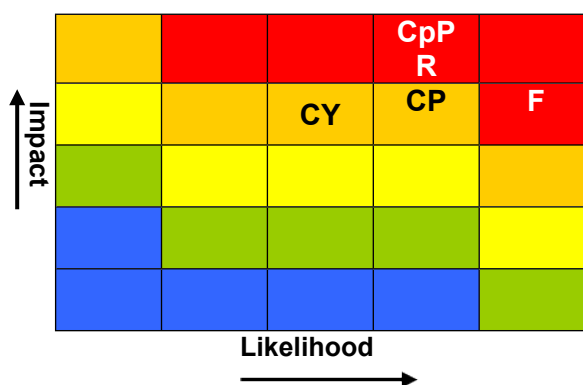
Financial Implications

30. The Board is almost exclusively funded from contributions from partners and, apart from one-off funding bids, has no automatic block grant from Central Government. It is therefore dependent on agreement between partners on the level of funding provided by each of them in line with the cost sharing formula. Business planning and budget setting are therefore usually part of the same process but, due to the revised timetable, this year the Business Plan will be approved in December 2017 and the Budget finalised in February 2018 as is normal practice. The budget presented in this report will remain draft until February and is for one year only.
31. Section 7 of the Business Plan shows the projected year budget for Somerset Waste Partnership. A draft Annual Budget for the forthcoming year will be brought to the December meeting of the Somerset Waste Board. While the figures shown here are subject to refinement, historically projections at the stage have been very close to the final budget due in February 2018, particularly for collection partners, with only minor variations for final customer numbers. It is therefore considered a very low risk to approve the Business Plan ahead of the final Annual Budget for 2018/2019.
32. The current estimate for collection partners is that there will be between a 4.1% and 5.3% budget uplift from the 2017/18 budget. The projection varies for each collection partner, primarily according to household growth and garden waste customer growth. All recycle more one-off costs are excluded from these figures (these are set out later in the report).
33. The key drivers for the variance are:
- Collection inflation – estimate 2.66% (mostly fixed). The key drivers for this are CPI and fuel increases.
 - Household growth estimated average 0.95% (final figures will be available on 1st December).
 - Garden customers growth estimated at 3% (although this provides a corresponding income to each partner).
 - Recycling credits – whilst no growth is assumed, a 3% price increase is reflected in current assumptions.
34. The most significant element of the business plan relates to Recycle More. The work that has been undertaken to review future service models has demonstrated that Recycle More is lower cost than our current collection operations, as well as delivering environmental benefits. The scale of savings will inevitably be subject to the tendering process and what the market will offer in terms of contract price, on the efficiencies which a new contractor will bring (the potential for which SWP believe to be significant) and on the actual tonnages of new material that can be diverted. SWP's aim is to continue to meet with the Partner authority's approval in terms of cost reduction. A robust procurement process will be essential to drive the former, and strong

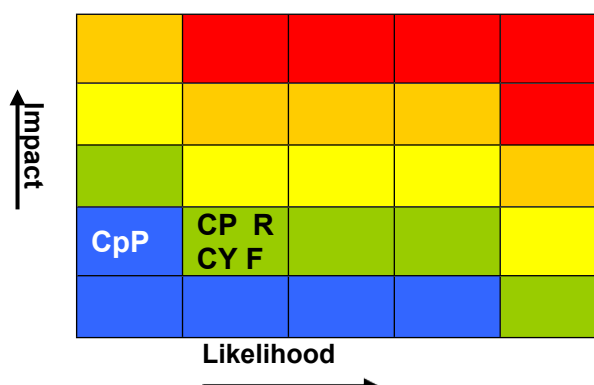
communications with residents will be essential for the latter. The savings delivered will also depend to some extent on the agreement reached with the incoming contractor on dry recycle and material volumes. It is proposed that the project will be managed with existing resources from SWP and the administering authority (SCC – in particular providing procurement and legal support) with external support being sourced on key commercial and technical matters. It is proposed that the costs associated with the project will be funded from the accrued income generated from the hire of refuse collection vehicles to Kier since 2015. This fund (£421k) was previously identified as providing support for overall roll-out costs for Recycle More.

Risk Matrix

Risk Profile before officer recommendations



Risk Profile after officer recommendations



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R = Reputation	Red = High impact and high probability
CpP = Corporate Plan Priorities	Orange = Major impact and major probability
CP = Community Priorities	Yellow = Moderate impact and moderate probability
CY = Capacity	Green = Minor impact and minor probability
F = Financial	Blue = Insignificant impact and insignificant probability

Council Plan Implications

*High quality cost effective services - Work with partners to achieve economies, resilience and influence.

*Environment - Increase recycling

Carbon Emissions and Climate Change Implications

Moving to Recycle more will result in capturing more recycling and generating less residual waste. Amongst other environmental benefits, fewer refuse vehicles will be required and these will be more efficient and generate lower emissions than our current fleet. Through the procurement the possibilities of using bio-fuels or other more environmentally beneficial power sources will be generated.

The diversion of waste from landfill to become a fuel source for energy production significantly reduces the overall environmental impact of Somerset's residual waste and has huge implications for carbon emissions. More details will become available as the project develops.

Other elements of the business plan, including the programme of schools visits promotion and the emphasis on waste prevention should also contribute to promoting the message of the need to take action to combat climate change

Equality and Diversity Implications

Equalities Impact Assessments will be carried out as appropriate with the development of each Business Plan activity prior to proceeding with that activity. In most cases the decision to proceed based on the outcome of the impact assessment will be delegated to the Managing Director and Senior Management Team of SWP. Where significant issues are identified through the assessment process that would have implications for major projects or programmes the decision to proceed will return to the Board prior to commencing development.

Privacy Impact Assessment

A Privacy Impact Assessment is not essential to accompany this report as the information will fundamentally be the same as is currently used and managed.

Looking forwards, as the SWP looks to build capacity and use technology to understand people's behaviour to reduce waste and improve recycling, we will need to assess the management of personal information and an impact assessment may need to be carried out if we are to ensure compliance with both the current and future data protection regimes – the latter of which will be much more stringent.

Background Papers

District Executive report and minutes 1st February 2017
