

Appendix A - Executive Summary

With the termination of the non-recyclable (residual) waste disposal contract in March 2014, Cheshire East Council (CEC) commissioned AMEC Environment & Infrastructure UK Ltd to assess four potential service delivery options for the procurement of its contracts and arrangements for the delivery of the authority's household waste and recycling services. The purpose of the study was to identify a preferred option with the potential to deliver required savings (a reduction of at least £2 million from the Service's annual budget) and to identify and assess the risks, benefits, asset and procurement implications. The four service delivery options were:

1. Outsourcing the collection service with an integrated procurement of disposal and recycling processing contracts;
2. Outsourcing the collection service with separate or combined procurements of the collection operation, residual disposal and recycling processing contracts;
3. Creating an arm's length company to run the collection operation and manage disposal and recycling contracts; and
4. Retaining the in-house collection service and procuring new contracts for disposal and recycling processing.

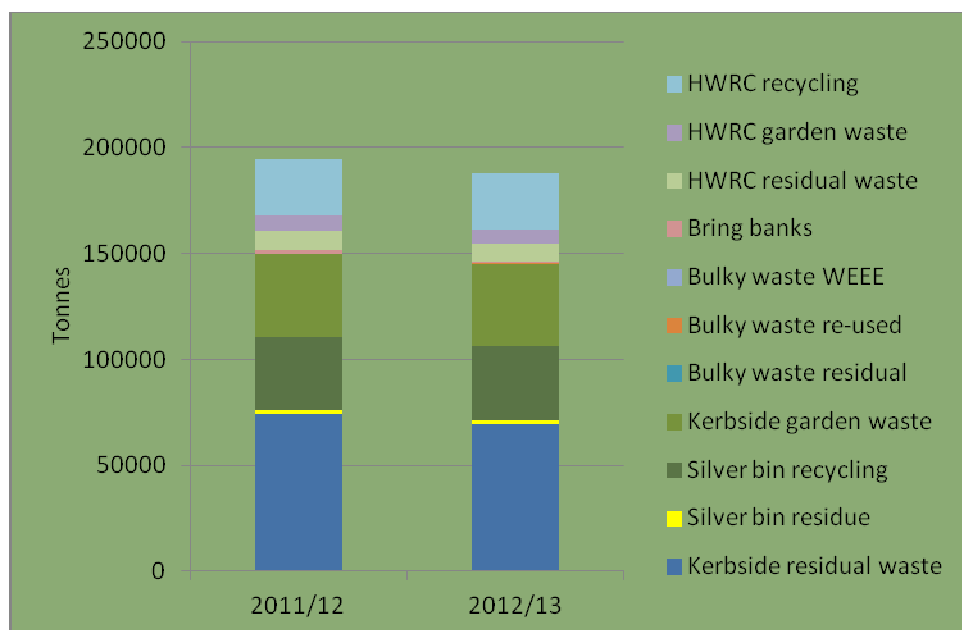
Cheshire East Council is a large unitary authority covering 116,338 hectares with around 166,110 households. These properties are forecast to generate over 188,000 tonnes of household waste in 2012/13. In 2011/12 the authority recycled and composted 52.9% of its household waste making it the highest performing unitary authority in the North West of England and the 6th highest performing unitary authority in England¹.

The figure below provides a breakdown the household waste arisings in Cheshire East. Of the 188,000 tonnes of household waste forecast to be collected in Cheshire East in 2012/13 the single largest proportion arises from the kerbside collection of residual waste (the 'black bin service') – just over 69,000 tonnes. The next two largest proportions are also generated by the kerbside collection service – garden waste and mixed recycling, both around 39,000 tonnes each.

The nine household waste recycling centres (HWRCs) generate around 42,000 tonnes of waste – the majority of which is recycled or composted.

In total CEC is projected to landfill around 77,500 tonnes of waste in 2012/13 at a cost of £7.7 million (of which just under £5 million is landfill tax).

¹ Taken from data published by Defra in November 2012 - <http://www.defra.gov.uk/statistics/environment/waste/wrfg23-wrmsannual/>



As a unitary authority Cheshire East has both waste collection and waste disposal responsibilities as defined in the Environmental Protection Act 1990 and associated regulations. In meeting its obligations the Authority has in place a number of contracts and arrangements for the collection, recycling, treatment and disposal of household waste. The key contract for the disposal of non-recyclable waste expires in March 2014 and cannot be extended.

The authority's contractual and operational arrangements for the collection, treatment, recycling and disposal of household waste are summarised in the table below. Values and costs are based on the forecast outturn position for 2012/13.

Waste Type/Facility	Operator	Contract Duration	Contract Value (2012/13 outturn forecast)	£/tonne equivalent
Residual waste disposal	FCC Environment (formerly Waste Recycling Group)	Expires 31 March 2014 with no extension options remaining	£7,698,118	£97.36
Dry recyclate processing	UPM Kymmene	Expires 31 March 2014 with extension options remaining up to three years in one year increments	-£409,992	-£10.30
Garden waste processing	CRJ Services Ltd	Expires 31 March 2014 with extension options remaining up to three years in one year increments	£969,082	£25.50
Dry recyclate bulking	Henshaws Envirocare Ltd	Expires 31 March 2014 with extension options remaining up to three years in one year increments	£480,330	£25.00
Household Waste Recycling Centres	HW Martin Ltd	Expires 31 March 2018 with an extension option	£2,854,292	£70.16

		for up to five years		
Waste Collection (including bulky waste collection, WEEE and transport)	CEC	No contract in place with the exception of the transport element which relates to in-house vehicle maintenance in the South	£9,906,997	£69.04
Fleet servicing and supply	May Gurney	Expires 31 March 2018 and relates to the supply and maintenance of the waste collection fleet in the North	Cost of this is included in the waste collection line above	
Joint Waste Team		Internal shared service team	£268,893	
Waste Strategy & Minimisation & Head of Service		Internal team	£566,858	
Forecast outturn position including the contract costs above plus other services such as Waste Minimisation and Strategy			£22,334,578	

Business Case Development

To be able to develop comparable savings profiles for each of the four service delivery options a number of assumptions had to be applied covering several aspects of each contract ‘element’. In summary these assumptions are:

- The cost of residual waste treatment taken to be £90/tonne based on the Waste and Resources Action Programme’s (WRAP) annual survey of waste facility gate fees. In this survey the most applicable technology for the treatment of residual waste is “incineration with energy recovery”. This generates an estimated saving of just over £720,000 over the current landfill baseline;
- The private sector would apply higher productivity rates to waste collection than those currently in place (in doing so employee terms and conditions may have to be altered to, for example, lengthen the working week). In identifying waste collection savings it was assumed for service delivery options 1 and 2 increased productivity would reduce operation costs by £2.5 million based on a ‘higher’ (but not the highest) productivity scenario drawn from AMEC’s knowledge of how the private sector might approach such a contract;
- There would be no change to the kerbside garden waste processing contract costs;
- Income generated from the sale of kerbside dry recyclate is increased to reflect the values quoted in the WRAP gate fees survey and taking haulage into account. In effect this produces a £6/tonne increase in income;
- The forecast outturn cost of bulking the North’s dry recyclate at a third party transfer station for 2012/13 is retained in the cost calculations as a proxy for the provision of required waste transfer facilities in the North; and

- HWRCs – no change in costs is modelled as the re-letting of this contract (in 2018) does not align with the other contracts.

Assessing the Service Delivery Options

Each of the service delivery options was explored at length, including procurement route and timescale, contract duration, market appeal, management implications, infrastructure, impact on human resources and cost estimates. Benefits and risks were also identified. Here, each option is summarised below.

Option 1 - Outsourcing the collection service with an integrated procurement of disposal and recycling processing contracts

This option would see all the contracts (residual waste treatment/disposal, waste collection (with fleet provision and maintenance), garden waste processing, dry recyclate processing and waste bulking) let as an integrated bundle. This could reduce the number of possible bidders excluding niche or specialist companies from directly bidding for the integrated contract. However, depending in contract durations and procurement timescales this still likely to generate liquid competition.

Competitive dialogue was identified as the most appropriate procurement route as it would generate flexibility and innovation where the Authority is less certain of its requirements. However, where services are well developed and the Council does not wish to see them changed dramatically competitive dialogue may be of limited benefit.

Competitive dialogue can be tailored to fit the needs of the Authority but it is not considered that in this case a full process could be run adequately in the available timescales (i.e. seeing contract closure and mobilisation for April 2014).

The key benefit of this option is that the contractor is in control of contract interfaces i.e. where the different contract elements interact. This reduces or eliminates the risk of disputes arising between contractors and also reduces the number of points of contact between the contractor and Council. An efficiency saving of 1% of total contract value has been applied to this option to recognise the benefit of an integrated procurement.

Timescale issues aside, the financial estimates indicate that Option 1 could generate estimated (like for like) revenue savings of £3.1 million compared to the 2012/13 forecast outturn position.

Option 2 - Outsourcing the collection service with separate or combined procurements of the collection operation, residual disposal and recycling processing contracts

All contracts would be let to the private sector either individually or as lots depending on their priority and inter-relationships. This approach allows for prioritisation in the letting of contracts (i.e. allowing for the residual waste contract to be let first and separately to try to meet the April 2104 deadline). Equally offering contracts in lots allows for some synergies to be developed which may result in some reduced costs.

However, evaluating lots and their inter-relationship with each other can be complex and as a result generate risks that the Authority will have to address.

This option allows, to some extent, for a 'mix and match' approach to selecting the optimum procurement process for each contract. The residual waste treatment/disposal contract could be let via competitive dialogue. If the Authority was certain about its waste collection arrangements then the restricted procedure could be adopted, and garden waste and dry recycle contracts could be bundled with collection.

The provision of waste bulking facilities in the North could equally sit within either the waste collection or residual waste treatment/disposal contracts. If these procurements were run concurrently then the waste transfer station could be included in both and the most favourable option of the two selected at the final stage. However, running the collection and residual waste treatment procurements separately but simultaneously would add complexity to the procurements in relation to interface matters.

Again, delivering the key contract within the time remaining to the expiry of the current landfill contract is tight and successful contract closure could not be guaranteed in the time available.

Timescale issues aside, the financial estimates indicate that Option 1 could generate estimated (like for like) revenue savings of £2.9 million compared to the 2012/13 forecast outturn position.

Option 3 - Creating an arm's length company to run the collection operation and manage disposal and recycling contracts

In this case the Authority would set up a 'wholly owned company' (WOC) which would then be contracted to deliver its waste and recycling contracts. The 2003 Local Government Act gives councils the power to set up WOCs to deliver services commercially under specific circumstances. The authority (or authorities if more than one is involved) will be the principle shareholder and can receive any trading surpluses as dividends (subject to corporation tax). WOCs are of particular interest to authorities who wish to commercialise their services to build up a customer base (for example in commercial waste collection, facilities management and cleaning).

In this case it was envisaged by the Authority that the WOC would let the contracts and operate the waste collection service itself. In this form the WOC could increase waste collection productivity through amending terms and conditions or operating a different commercial ethos, although the principle shareholder could have an input into how far changes went. As such the WOC could let contracts as in Option 2 which it would then manage. The Authority would then have to contract manage the WOC to ensure its obligations were met.

Deliverability within the required timescale is, again, unlikely. The formation of the WOC (which would require the development of a comprehensive business case) could be a distraction from the crucial letting of the residual waste treatment/disposal contract. The latter

could be let separately as in Option 2 but the same comments on deliverability apply. Without a driver to build competitive services such as a commercial waste offering then the benefits of setting up a WOC are unclear.

Savings were identified in this option – estimated at £1.9 million – arising from the reduction in residual waste costs and some efficiencies in waste collection (but less than those applied in Options 1 and 2).

Options 1, 2 and 3 have significant impacts for CEC staff as the waste collection service employees would be transferred to the successful contractor/WOC. The TUPE process will require considerable work to ensure staff are kept informed and that the process runs smoothly.

Option 4 - Retaining the in-house collection service and procuring new contracts for disposal and recycling processing

This is effectively mirrors current service provision and would see all contracts except waste collection being let (although a new fleet provision and maintenance contract would be required). No assumptions on improvements to productivity in the waste collection service were made (although that does not mean to say they could not be applied with a change in terms and conditions and working practices).

Savings therefore only arise from the letting of the residual waste treatment/disposal contract and from additional income generated from the sale of recycle.

Comments regarding deliverability and procurement route are effectively the same as for Option 2.

Identification of the Preferred Option

An exercise was undertaken with Members and key officers to identify financial, strategic, political and environmental criteria against which each option could be ranked to identify a preferred service delivery option. A prioritisation exercise was undertaken to score the relative importance of these criteria. Each option was then assessed against each criterion to measure the level of applicability.

This process identified that Option 1 was the preferred option with option 2 close behind. The process did not score “deliverability within timescales” as a pass/fail so effectively this criterion made little impact on the final outcome of the prioritisation.

Therefore the Authority will need to fully understand the implications of this and develop a strategy for ensuring a continuity of waste disposal/treatment for when the current contract expires.

Other Service Considerations

AMEC were asked also to investigate the estimated costs of weekly food waste and nappy waste collection services to see whether these could be introduced within any savings identified. A modelling exercise was completed and the costs summarised below:

- Weekly standalone nappy waste collection service: based on resourcing and yields identified during a service being trialled in Cheshire West and Chester the costs per annum are estimated to be £262,000 which takes into consideration avoided landfill disposal costs but excludes capital costs for receptacles; and
- Weekly standalone food waste service: the cost of this service is estimated to be £1.4 million per annum. This includes avoided landfill costs but excludes capital investment for containers (vehicle and staffing costs are included).

Costs could be reduced if the services were combined and materials collected in separate compartments on the same vehicle.

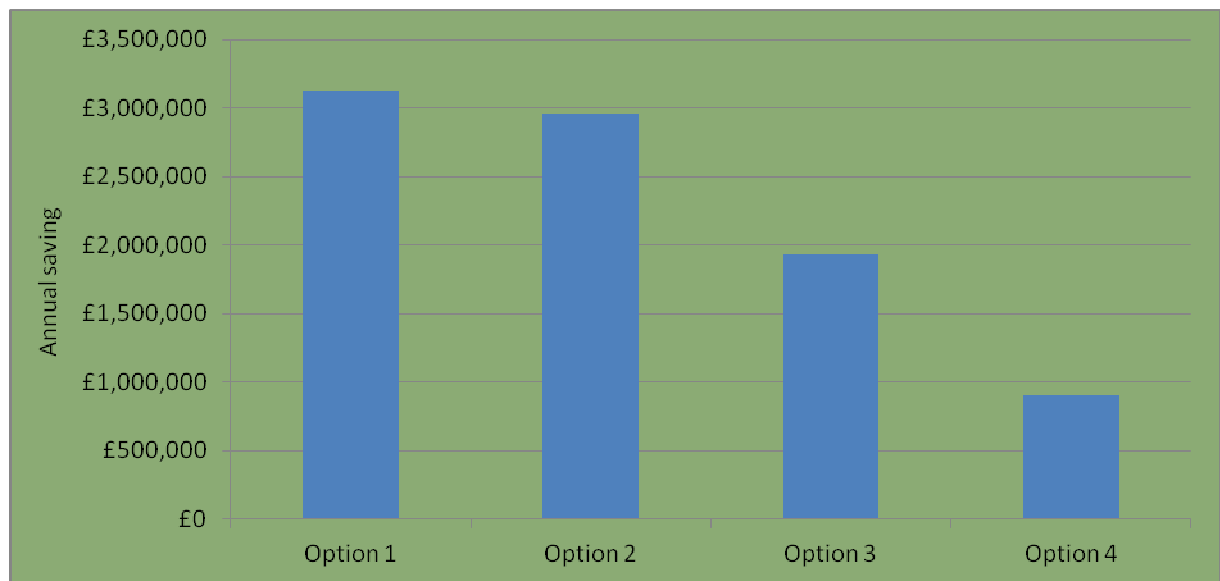
AMEC also considered the implications of introducing a chargeable garden waste collection service. This would reduce the quantity of garden waste collected at the kerbside but would potentially increase its capture at HWRCs (generating additional costs). In modelling the impacts AMEC assumed an annual subscription charge of £38.75 (the average of schemes currently being operated elsewhere) and a take up of 30% (representing around 50,000 homes). This generated a gross income of £1.9 million but required operational costs of £1.1 million plus nearly £450,000 in garden waste processing gate fees. The net position is an income estimated at £392,000 per annum.

The introduction of a chargeable garden waste service would mean the resources already accounted for in the budget would not be required – this would then see an estimated reduction of £2.4 million.

Additionally, AMEC examined any savings that might arise from other methods of working. For example, changing the waste collection frequency (for each bin) to a three weekly cycle accompanied by a weekly food and nappy waste collection service results in forecast savings of just over £1 million. This could increase further if a chargeable garden waste collection service was considered.

Key Conclusions and Recommendations

The assessment of the four service delivery options has identified that to a greater or lesser extent savings can be made against the waste and recycling service's projected 2012/13 outturn position (see the graph below). The scale of the savings depends on the option selected but could be tempered by the need to ensure continuity of the residual waste treatment/disposal contract.



It would be extremely challenging (if not unachievable) for any of the service delivery options to be delivered by April 2014. Option 1, due to its size and complexity increases the challenge further and there is a severe risk that it is undeliverable as more dialogue meetings would be required to develop the right solution.

One option that could be deliverable within the timescale (but again challenging) is to seek an interim/short term solution through letting a short term waste disposal contract and extending other contracts. This would generate the longer term savings in the order predicted could still be generated through pursuing Option 1. However, this would see costs increase in the short term (as any investment in infrastructure would have to be recovered over a shorter period) and a significant reduction in the number of likely bidders. Additional contract costs could be mitigated by, for example, introducing a chargeable garden waste collection service prior to 2014/05.

It is recommended that Cheshire East Council take the following steps to commence the procurement process:

- Commence work without delay on the Authority's procurement objectives and strategy;
- Commence work without delay on the documents bidders will require to inform their tender submissions;
- Decide on any interim/short term measures that are required to ensure continuity of residual waste treatment/disposal arrangements;
- Review existing contracts to assess the viability and impact of extending them;
- Instigate a waste composition analysis to inform the residual waste procurement; and
- Identify any procurement frameworks that may have secured residual waste treatment/disposal capacity.

Identify any short term procurement options but recognising the implications as discussed above.