

# North Somerset Council

## REPORT TO THE COUNCIL

**DATE OF MEETING: 19 JULY 2016**

**SUBJECT OF REPORT: AWARD OF CONTRACT FOR RECYCLING AND WASTE COLLECTION AND HOUSEHOLD WASTE RECYCLING CENTRES**

**TOWN OR PARISH: ALL**

**OFFICER/MEMBER PRESENTING: EXECUTIVE MEMBER FOR ENVIRONMENT**

**KEY DECISION: N/A**

## RECOMMENDATIONS

- i. To note and acknowledge the excellent progress made since the award of the last contract
- ii. To award the new contract for recycling and waste collection and household waste recycling centres (HWRCs) to Biffa Municipal Ltd, noting the following:-
  - An initial contract term of 7 years from 1 March 2017, with an option for multiple extensions for up to a further 13 years to 28 February 2037
  - A final evaluation price (Annual Sum) of £6,927,871 noting that this does not represent the actual estimated annual contract payments, which are detailed in paragraph 5.
- iii. To note the service improvements described in paragraph 3.4 that will arise with the delivery of the new contract
- iv. To note the financial implications described in paragraph 5. and agree that they are taken into account as part of the Medium Term Financial Plan and the 2017/18 budget setting process
- v. To approve the addition of £8.021m to the Council's capital programme to fund the purchase of contract assets (vehicles, equipment and plant), with the capital financing costs of the unsupported borrowing taken into account in the final evaluation price and considered in paragraph 5.
- vi. To approve an addition to the Council's capital programme of up to £1.3m to fund the purchase of new garden waste bins, with the capital financing costs being recovered through subscription payments from residents.
- vii. To approve an increase in the Council's 2016/17 revenue budget of up to £267,000 to provide for the remaining procurement and mobilisation costs, which will be funded from the Council's Corporate Risk Reserve.
- viii. To approve the setting up of three new earmarked reserves for the income and expenditure associated with the recycling risk share mechanism, the income and

expenditure associated with the performance mechanism, and the smoothing of annual cash-flows in respect of the borrowing costs referred to in paragraph 5.

- ix. To note the financial risks described paragraph 5.3 and the strategic risks described in paragraph 6.
- x. To authorise officers to conduct a consultation process in relation to the service options of a reduction in HWRC opening hours and charging for “DIY” waste at HWRCs (paragraph 3.5).
- xi. To note the high level medium term issues that the service needs to focus on in the future (paragraph 3.6)

## **1. SUMMARY OF REPORT**

1.1 The report is split into 9 sections:-

- 1. Summary**
- 2. Policy**
- 3. Details**
  - 3.1. Achievements and key issues
  - 3.2. Contract background
  - 3.3. Tender process
  - 3.4. Key elements of the new service
  - 3.5. Options in relation to HWRCs
  - 3.6. Medium term considerations
- 4. Consultation**
- 5. Financial implications**
  - 5.1. Revenue
  - 5.2. Capital
  - 5.3. Financial risks and other issues
- 6. Equality implications**
- 7. Corporate implications**
- 8. Options considered**
- 9. Risk management**

## 1.2 This report:-

- **Summarises the Council's achievements to date in managing its municipal waste**, noting that:-
  - The amount of residual waste (rubbish) collected per household has fallen by 36% from 705 kgs per household in 2009/10 to 448 kgs per household in 2015/16
  - Recycling rates have increased from 37.2% in 2009/10 to 58.6% in 2015/16; over 60,000 tonnes of household waste is now recycled, compared with around 38,000 tonnes in 2009/10.
  - The proportion of municipal waste sent to landfill has fallen from 59.1% in 2009/10 to 19.9% in 2015/16, reducing the Council's landfill tax bill over that period by around £15m
- **Describes the comprehensive and robust process that has been undertaken in order to deliver a cost effective contract that is sustainable for the future**
- **Describes the improved services that will be made available to residents and businesses** through the letting of the new contracts, in particular
  - Increased materials available for recycling at kerbside and HWRC's
  - Improved recycling facilities at communal properties
  - Better re-use facilities at HWRCs
  - Commercial waste arrangements for small and medium sized businesses
  - Improving the social value to be derived from the contract
  - An £8m investment in new, more energy efficient fleet and machinery

## 2. POLICY

2.1 One of the Council key ambitions, as articulated in the Corporate Plan, is to create "Quality Places". Ensuring sustainable and cost effective waste services is a key enabler of this.

2.2 The Council's Municipal Waste Management Strategy has five strategic objectives as follows:-

- Reducing waste arising
- Promoting re-use
- Increasing recycling and composting
- Finding more alternatives to landfill for residual waste
- Working with our contractors to improve service delivery

### 3. DETAILS

#### 3.1 Achievements

3.1.1 Since the current contracts began in March 2010 significant improvements have been made in performance. Improved services include:-

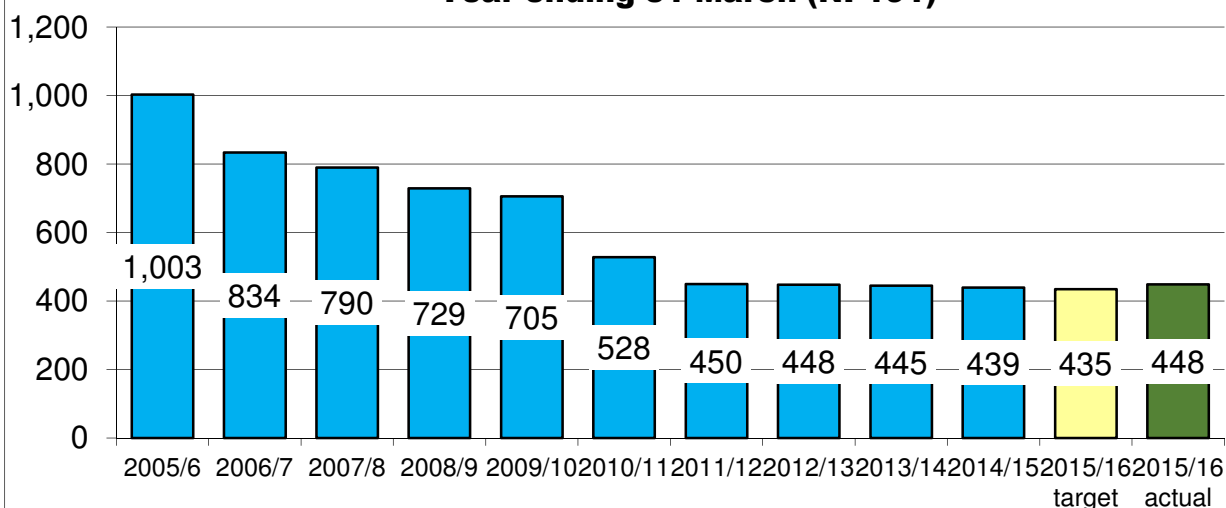
- 2010 - the roll out of a weekly collection of dry recycling and food waste, combined with an alternative weekly collection of residual waste and garden waste
- 2011 - diversion of 18,000 tonnes pa of residual waste from landfill to treatment [New Earth Solutions]
- 2012 - new Transfer Station and improved HWRC at Weston-Super-Mare
- 2014 - opening of Cory's Anaerobic Digester Plant in WsM
- 2014 - diversion of additional residual waste to treatment (up to 10,000 tonnes pa) [Boomeco]
- Continuation of a number of marketing campaigns designed to improve recycling and reduce residual waste, including "Don't Waste it!", "Feed Me and Win" and the Parish Recycling Incentive Scheme
- Top three performing Council in relation to carbon savings made

3.1.2 This has led to significant improvements in performance in relation to our key outcome objectives as follows.

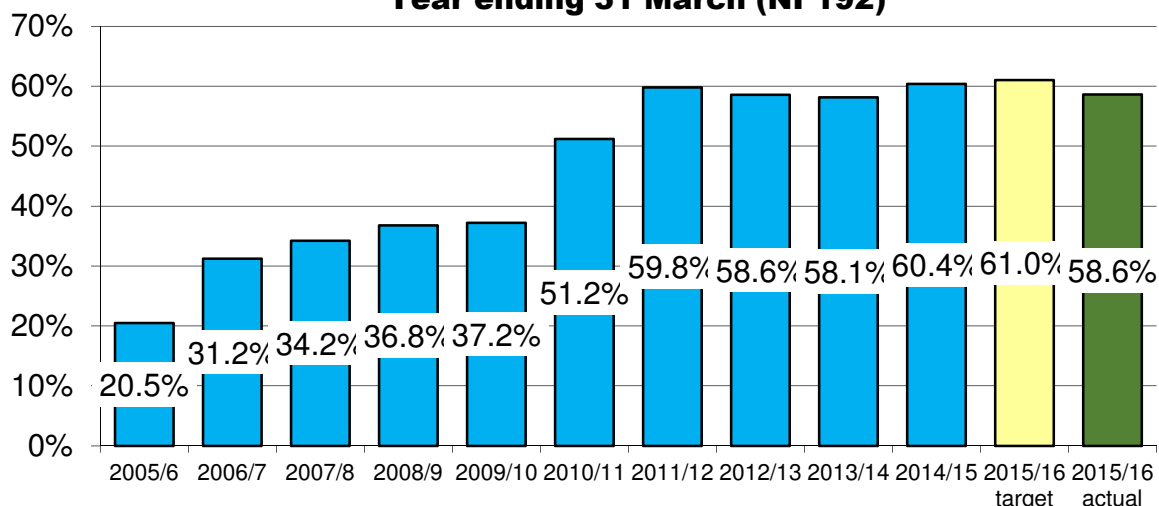
**Table 1 - Key Performance Data**

	2005/6	2009/10	2015/16	Change 2009/10 to 2015/16	Change 2009/10 to 2015/16 %
<i>% of household waste recycled or composted</i>	20.5%	37.2%	58.6%	+21%	pts
<i>Residual household waste per household (kgs)</i>	1,003	705	448	-257	-36%
<i>% of municipal waste landfilled</i>	75.9%	59.1%	19.9%	-39%	pts

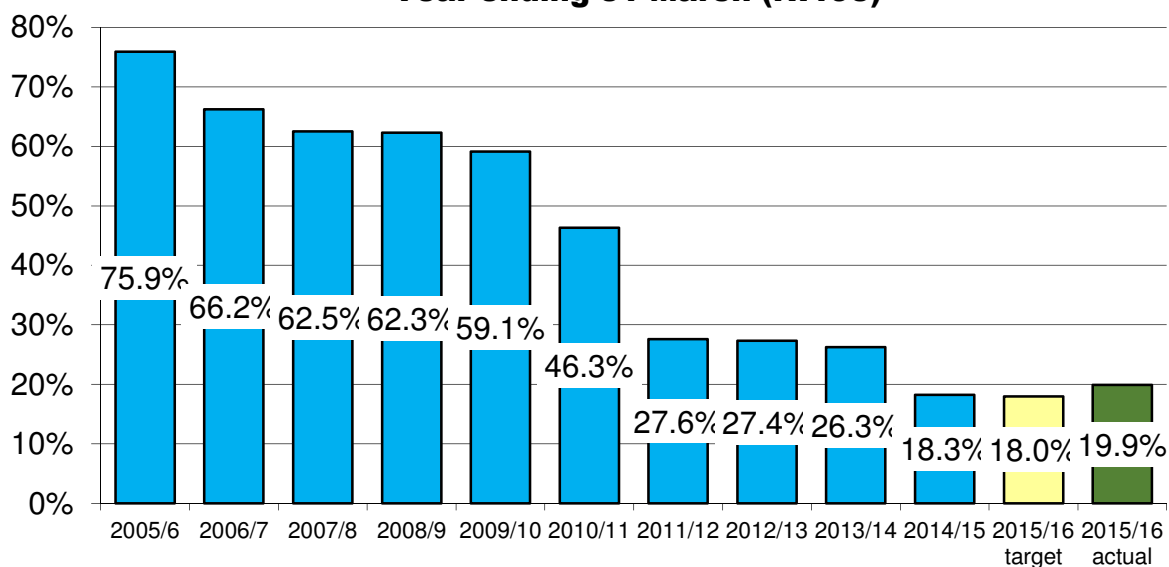
**Kgs of residual household waste arising per household  
Year ending 31 March (NI 191)**



**% of household waste recycled or composted  
Year ending 31 March (NI 192)**



**% Municipal waste landfilled  
Year ending 31 March (NI193)**



## 3.2 **Contract Background**

3.2.1 The Council's current waste and recycling and Household Waste Recycling Centre (HWRC) contracts were let from 1 March 2010 for an initial period of 7 years. Extension of those contracts was not possible and, as a result, planning for the procurement of a new services began in earnest in the summer of 2015.

3.2.2 The current contract delivers extremely good value for money and excellent performance in relation to the key objectives. However, from the start of the process, the Council was cognisant of two main areas where changes were needed – a) finance, value for money and commercial arrangements; and b) retention of existing service levels with the introduction of some service improvements.

### ***Financial and commercial arrangements***

3.2.3 Whilst the current contract provides excellent value for money, the project team was aware from the start that a number of factors were likely to put significant upward pressure on the price of the contract, the main concerns being:-

- Mismatch between the price payable to the current contractor for the services and the resources required to deliver the service
- Falling value of recycling materials
- Legislation on vehicle emission standards
- Economic market conditions, e.g. end of recession, inflation
- Population / household growth

The procurement process focussed heavily on value for money and also on ensuring that cost effectiveness could be sustained in the medium term if significant mid-contract changes were required.

### ***Service improvements***

3.2.4 Although no major changes to services were foreseen, there were a number of issues, primarily derived from the Council's Waste Strategy that needed to be addressed. These included:-

- The need to improve recycling and food waste collection services for communal properties / flats
- The need to support small business in finding accessible and cost effective waste collection and disposal services, whilst, at the same time, ensuring that Council Tax payers only pay for the collection of household waste
- Better re-use services
- A more effective bulky waste collection service
- Addressing the health and safety risks inherent in the garden waste collection service and encouraging home composting
- Increasing the materials available for recycling at kerbside and HWRCs where possible
- More cost effective HWRCs
- Improving technology in order to provide better access to information about collections and performance

- Improving the social value to be derived from the contract in terms of local employment, apprenticeships and traineeships and providing employment for those who traditionally find it difficult to get into work
- Future proofing to allow for service changes throughout the term of the contract
- In built capacity to allow for education and campaign work
- Twice yearly assessments to measure resident engagement by area.

### **3.3 Tender Process**

#### ***Procedure and Timetable***

- 3.3.1 Given the need to introduce commercial arrangements that could improve value for money and to bring service developments, the Council chose to conduct the procurement under the Competitive Dialogue procedure pursuant to the Public Contracts Regulations 2015.
- 3.3.2 Often this procedure has three stages – an outline solution, a detailed solution and a final solution. The Council chose to eliminate the outline stage; lessons learnt from the experience of other authorities and soft market testing pointed the Council to a more streamlined and focussed procurement process to cut down on bid time and costs. Avoiding an outline stage assisted in achieving that objective.
- 3.3.3 The main features of the programme were as follows:-

**Table 2 – Procurement Timetable**

<b>Timing</b>	<b>Event</b>
September 2015	OJEU Notice published
September 2015	Bidders' Day
October 2015	Expressions and interest and Pre-qualifying Questionnaires (PQQs) received
November 2015	Shortlist of five companies approved <ul style="list-style-type: none"> <li>– Biffa Municipal Ltd</li> <li>– Cory Environmental Municipal Services Ltd</li> <li>– FCC Environment Services (UK) Ltd</li> <li>– Kier Services Ltd</li> <li>– SITA UK Ltd</li> </ul>
November 2015	Invitation to submit detailed solutions (ISDS) issued
November - December 2015	Detailed dialogue sessions with shortlisted bidders in relation to service requirements, legal, financial and commercial arrangements and ICT
December 2015	Final ISDS documents published, with closing date of 2 February 2016
February 2016	Evaluation of tenders and approval of final shortlist of three <ul style="list-style-type: none"> <li>– Biffa Municipal Ltd</li> <li>– Cory Environmental Municipal Services Ltd</li> <li>– SITA UK Ltd</li> </ul>
March 2016	Final dialogue with bidders, focussing on proposals for reducing costs
April 2016	Issue of invitation to submit final tenders
May 2016	Receipt and evaluation of final tenders
June 2016	Board recommendation to Council of preferred supplier
<b>July 2016</b>	<b>Council approval of contract award</b>
<i>August 2016</i>	<i>Formalisation of contract award</i>
<i>August 2016 - February 2017</i>	<i>Mobilisation</i>
<i>1 March 2017</i>	<i>Contract start</i>

**Specification**

3.3.4 The main elements of the specification are as follows:-

- Kerbside recycling services, similar to the current service, but including the collection of small electrical items
- Allowance for the incremental introduction of different coloured boxes to assist residents with materials sorting and improve collection efficiency
- Residual waste collection as current system
- Addition of food waste collections from communal properties
- A subscription based garden waste collection service with materials predominantly collected in wheeled bins as opposed to bags. Residents to pay a one-off subscription charge per bin to cover the cost of the bin and its delivery
- Clinical waste and assisted collection services as currently offered.
- Co-collection of commercial waste from small businesses on the household rounds
- Continued provision of three HWRCs at Weston, Backwell and Portishead
- Improvements to re-use facilities at HWRCs
- HWRC's to accept additional materials of hard plastics and plate glass.



- Weston and Portishead HWRCs to take small volumes of commercial waste from SMEs at certain times
- Introduction of residents' permits at HWRCs
- Closed Circuit Television (CCTV) and Automatic Number Plate Recognition (ANPR) to assist with policy enforcement / contraventions
- ICT – real time information on route progress, reports on side waste, double bins, contamination and participation
- Social Value
  - Employment opportunities – apprenticeships/traineeships for local people and young people not in education, employment or training
  - 3-5% of workforce to be apprentices or in traineeships
  - Target for 90% of workforce to live in North Somerset
  - Use of existing social enterprise partners
- Following dialogue discussions the bulky waste service was excluded from this contract and the Council will seek to commission this service through a charity / social enterprise

3.3.5 In addition to the specifications described above and the financial and commercial mechanisms described below, a number of other options / changes were introduced following the dialogue process in order to reduce costs; these included

- Allowing an earlier start to the working day
- Route and crew collection efficiencies
- Relaxing specification on spare and ancillary vehicles
- Not insisting on recycling / re-use of materials at HWRCs where recycling is more expensive than disposal
- Removing duplication in relation to responsibility for replacement containers
- Various clarifications in relation to the pricing schedule

### ***Conditions of Contract and Payment Mechanism***

3.3.6 Legal, commercial and financial arrangements played a key part in the dialogue process and were instrumental in developing a pragmatic and partnership-based contract that shares risks and reduces costs. Some of the key components are as follows:-

#### **3.3.7 Depreciation of assets**

New assets on the contract (largely vehicles) will be depreciated over 10 years (as opposed to the 7 years of the contract duration). This reduces annual costs by around £350,000, but is clearly dependent on the assets having useful life beyond the initial term of the contract. All evidence suggests that vehicle life is at least 10 years and conditions of contract include clauses in relation to maintenance and the condition of the vehicles. However, there are some risks to consider:

- In the event of an extension with continuation of same services, no real issues would arise – the contractor would continue operating with assets for a further three years or we would combine this with other extension negotiations depending on the period of the extension
- In the event of termination at 7 years, the Council will own assets, with 3 years left on financing costs, but a contract that requires retendering.

In the event of termination after 7 years, the relatively small risk is that the Council will own “stranded” vehicles worth considerably less than their net book value that cannot be applied to a new contract. This will only apply if EITHER

- the vehicles are not fit for use (condition / safety) – this is extremely unlikely and mitigated by conditions of contract in relation to condition of vehicles on hand back); OR
- the vehicles do not fit with any revised service delivery model (e.g. move to comingled recycling). This is only likely to affect the recycling vehicles and the best guess is that the lost value could be in the region of £750k - £1m at the end of year 7. This is significantly exceeded by the saving over the 7 year period, which is over £2.4m. It is not considered that setting any funding aside for this at this stage is necessary, but the Council needs to be aware of this risk in the future.

### 3.3.8 Purchasing and financing of assets

The Council offered bidders three options in relation to the purchase and financing of assets, in order to drive out the most cost effective solution

- i. Council will finance and own the assets on the basis of 10 year prudential borrowing
- ii. Contractor will finance and own the assets through either internal or external borrowing
- iii. Contractor will finance and own the assets through a loan from the Council over 5 or 7 years

The winning tender uses option i. and the financial implications are discussed in paragraph 5.

### 3.3.9 Recycling Material Risk Share

Given the falling prices for recycling materials over the past few years, many suppliers cited the risk of variations in value as a significant barrier to competitive bidding. As a result, the Council has agreed a mechanism by which the differences in the values of materials are shared between the Council and the contractor. The key principles are as follows:-

- The base value of the dry recycling materials is calculated at the time of tender, based on 2015/16 tonnages and the latest published prices
- The value of materials is recalculated on a quarterly basis (with revised tonnages and prices)
- The increase / decrease in value from the base is shared 50:50 between the Council and the contractor
- The loss / gain will depend on how volumes and prices change over time

### 3.3.10 HWRC incentive scheme

Each supplier was required to bid back a target recycling rate at HWRCs and the benefit was monetised as part of the tender evaluation. The supplier is then penalised or rewarded depending on achievement against the bid target, based on the cost of disposing of residual waste. The average annual HWRC target recycling rate for the preferred supplier over the first 7 years of the contract is 52.9%, compared with the current rate of 46.2%.

In effect, the bid back recycling rate is “guaranteed” because, should it not be achieved, a value roughly equal to the average cost of disposal / treatment of residual waste (£100 per tonne) will be payable by the contractor to the Council.

### 3.3.11 Performance mechanisms

Various deductions are built into the contract in relation to, for example, missed collections, boxes / bins not returned properly, spillage, and queuing at HWRCs. For example, each missed collection above the threshold of 0.045% will incur a deduction equivalent to ½ hour of administrative time. It is worth noting that there is no threshold for assisted collections, clinical collections or non-return of bins or boxes. Incentive payments to the contractor for exceptional performance will also be made.

### 3.3.12 Annual price review mechanism

The new contract ensures that future increases in cost are minimised.

- On increases in property numbers, our current contract requires us to pay an additional amount for each additional property. The new contract takes a threshold approach and no additional payments will be made until the threshold is reached (e.g. for recycling collections, this is an additional 1,500 properties). Even when the threshold is reached, the contractor has to evidence the additional resources needing to be deployed before any additional payment is made. This mechanism is likely to lead to additional resources being required less frequently but with higher values and is consistent with our approach to medium term financial planning.
- In relation to price inflation, no inflation will be applied to the costs that relate to assets. Costs in relation to fuel will be indexed in accordance with the published diesel price index and all other costs will be indexed in accordance with the Consumer Price Index (CPI).

### 3.3.13 Excess profit share

An excess profit share mechanism is also being introduced, whereby suppliers indicate their annual profit share threshold as part of their bid (and this is evaluated as part of their tender) and any profit in excess of this is shared 50:50. This will ensure that any future efficiency savings are shared between the Council and the contractor.

### 3.3.14 Depot

Before and during the procurement process, it was recognised that a key risk in delivering this contract was the identification of a suitable depot base for the successful contractor to operate from. The risk relates to the lack of suitable, well-located sites in the area and the short time a contractor would have in identifying and securing a depot after the award of the contract but before the start of the contract. . As a result, at its February meeting, the Executive recommended to Council that approval be given to enter into leases on units 6, 6a/6b and 2a and either unit 7b or part unit 5 located on the Westland Distribution Park, Winterstoke Road, Weston-super-Mare to provide a waste transfer station and depot.

The winning supplier intends to use this depot as part of their solution and the financial implications are considered in paragraph 5.

The Council has now secured planning permission for unit 6 to be used as a transfer station to bulk up the recycling collected by kerbside rounds and is also in the process of applying for the Environmental Permit which is required to operate this site. The planning permission runs to 31 March 2024.

### 3.3.15 Contract Term

The initial contract term is 7 years, although multiple extensions of up to 20 years are possible. The initial break at 7 years coincides with the expiry of the Council's main waste disposal contract and will allow the Council to consider options in relation to further integration of contracts should that be evidenced to be beneficial.

### *Evaluation criteria*

3.3.16 As described in 3.3.3, the procurement process had two stages of evaluation. The first after the submission of detailed solutions, which reduced the shortlist to three, and the second after the submission of final tenders. The initial stage of evaluation was based on 60% quality and 40% price. The second stage of evaluation was based on 70% price and 30% quality with no reductions in quality or increases in price allowed from detailed submission to final tender without agreement from the Council.

3.3.17 The financial evaluation is calculated as follows:-

- 700 marks awarded to the bidder with the lowest evaluated annual sum
- Each of the other bids awarded points on a pro-rata basis by reference to the lowest bid

3.3.18 The quality element of the evaluation is calculated as follows:-

- 300 marks for quality
- 32 questions in the following areas
- Individual project team members scored each question and a moderation process was conducted to ascertain the final scores

**Table 3 – Quality Evaluation Criteria**

<b>Criteria</b>	<b>Maximum Points</b>
Management and Culture	50
Monitoring and Information	40
Capacity and Resources	80
Service Delivery Methods	100
Health and Safety	30
<b>TOTAL</b>	<b>300</b>

### *Results of the Final Tender Evaluation*

3.3.19 The three shortlisted suppliers – Biffa Municipal Ltd, Cory Environmental Municipal Services Ltd, and SITA UK Ltd all submitted final tenders by the deadline of 26 May 2016. The tenders were evaluated in accordance with the above criteria and the results are shown in the table below. As a result, the Council is recommended to award the contract to Biffa Municipal Ltd.

**Table 4 – Final Tender Evaluation Results**

Supplier	Evaluation Price	Financial Score	Quality Score	Total Score	Rank
<b>Biffa Municipal Ltd</b>	<b>£6,927,871</b>	<b>700.00</b>	<b>247.30</b>	<b>947.30</b>	<b>1</b>
<i>Bidder X</i>	<i>£7,028,832</i>	<i>689.95</i>	<i>245.00</i>	<i>934.95</i>	<i>2</i>
<i>Bidder Y</i>	<i>£6,975,376</i>	<i>695.23</i>	<i>210.50</i>	<i>905.73</i>	<i>3</i>

3.3.20 It is worth noting that, comparing like with like, the final evaluation price of the winning bidder is c. £1.1m less than that of the leading bidder at the ISDS stage. Around £375k of this relates to the Council's decision to depreciate the contract assets over 10 years rather than seven and a reduction in interests between detailed solutions and final tender. The remainder (c. £700k) represents a 9% reduction from the ISDS price, and this excludes any further service changes that are subject to consultation (paragraph 3.5).

3.3.21 The conversion of the evaluation price into the expected budget requirement for 2017/18 is illustrated in paragraph 5.

#### 3.4 **Key components of the new service**

3.4.1 In addition to key elements of the specification described in paragraph 3.3.4, it is worth noting here some of the specific elements and improvements brought by the preferred supplier as follows:

- Changes in collection routes which recognise rural and urban split and is crewed accordingly.
- Changes in collection days will be introduced 6 months from contract commencement to allow sufficient time to ensure good contractor knowledge of the area and time for communication with residents
- Use of recycling vehicles with stainless steel compartments (stillages) and improved payloads for plastics and cardboard. Off-loading of material is more efficient without the need of a fork lift to remove individual material stillages as this is now done automatically.
- Arrangements are in place for partnering with our existing reuse social enterprise partners; James Scott North Somerset Reuse Project and Somerset Wood Recycling.
- Provision of traineeships and apprenticeships through Weston College are also at an advanced stage
- Use of the contractor's IT solution by client officers to ensure real time information on crew performance and any service issues.

#### 3.5 **Potential further service revisions**

3.5.1 Given the need for all Council services to contribute to reducing the Council's budget gap and in order to provide a more cost effective solution, the procurement process has considered two options to reduce the costs of operating HWRCs, as follows:-

- A reduction (of approximately 30%) in opening hours at HWRCs

- Charging residents presenting “DIY” waste at HWRCs

3.5.2 Many other local authorities have taken these measures to reduce costs and charging for DIY waste in particular is common. The key principles of the two measures are described below, and this report seeks approval for officers to conduct a consultation process to assess the views of residents, with a view to a decision being taken prior to the end of the calendar year, with any implementation to be achieved by the start of this contract. It is expected that these options could save in the region of £150k and £100k per annum respectively.

#### Charging for DIY waste

- 3.5.3 The Council only has a legal obligation to provide recycling centre facilities for household waste (which is waste arising from the day to day running of a household). However, items from the repair or improvement of houses (e.g. DIY type waste) is classified as construction waste and there is no requirement for the Council to provide any service for the disposal of this material or accept it free of charge.
- 3.5.4 Household waste comprises of the unwanted contents of the house and not part of the house itself. Construction waste also includes waste created from landscaping or garden alterations such as dismantling a rockery or digging up a patio / concrete hardstanding. Examples of non-household waste include rubble, plasterboard, windows and doors, and baths or shower trays. In addition, vehicle tyres and gas canisters are also not classed as household waste and therefore there is no requirement for the Council to accept them or accept them on a free of charge basis.
- 3.5.5 However, it is recognised that facilities are still needed for local residents to dispose of small amounts of DIY type waste (especially just for a few bags of waste when it is not worth hiring a skip) and tyres, and so rather than taking the drastic measure of withdrawing this discretionary service completely, the Council could choose to make arrangements with the site operators for such waste to be accepted for a small charge. It is estimated that this would have the combined impact of both offsetting costs with additional income, but also reducing the amount of waste that is brought into HWRCs.
- 3.5.6 Given that the contract also now allows for the acceptance (with a fee) for small scale commercial waste at HWRCs, this would give a consistent approach, with both householders and businesses required to pay for the presentation of construction waste and would prevent businesses trying to disguise this material as coming from their own household
- 3.5.7 Evidence indicates that the majority of fly tipping incidents relate to small scale businesses not residents. As a result, it is not expected that the implementation of charging householders will have a significant impact in fly tipping. Indeed, providing small businesses with an outlet for small amounts of commercial waste may help mitigate the risk.
- 3.5.8 It is also worth recognising that adjacent authorities have or are planning to introduce charges for DIY waste and residents permits. This has the potential of making our HWRCs more vulnerable to DIY waste being brought in from residents outside of our district, if this policy change is not made

## Reduced opening hours at HWRCs

- 3.5.9 Reducing opening hours at HWRCs is another way of reducing costs, which many authorities have chosen to implement. The tender documentation included indicative alternative opening hours, and the tender returns illustrate that this could save in the region of £150k per annum if implemented at the start of the new contract.

## **3.6 Medium term considerations**

- 3.6.1 Whilst this report focusses largely on the letting of the collection and HWRC contract, and some potential service changes, it needs to be recognised that there are other strategic and medium term issues that will need to be addressed in the coming months and years. These are briefly highlighted below, and will be the subject of consideration by the Waste Working Group and future reports to the Executive Member, the Executive and / or the Council as appropriate.

### **3.6.2 Maintaining and improving performance**

Whilst North Somerset remains a high performing authority in the sense of volumes of residual waste, recycling rates and the proportion of waste sent to landfill - maintaining and improving that performance will require consideration of issues such as maximising recycling potential and waste minimisation through education, engagement, enforcement and, potentially, limiting residual waste capacity for residents. Members will be aware that, despite our high recycling performance, over 40% of our residual waste (refuse) bin consists of material that can be recycled. To counter this, some authorities are introducing or are planning to introduce a 3-weekly collection of residual waste or reducing the size of residual waste bins to 140 litres. Evidence indicates that this can be extremely effective in increasing recycling, reducing residual waste and making substantial financial savings.

### **3.6.3 Improving efficiency and making medium term financial savings**

As discussed in paragraph 3.3.13, there is provision in the contract for sharing efficiency savings through an excess profit share mechanism. There is also provision for a Joint Management Board, which will consider potential innovation and efficiency saving projects. Given the long term nature of the contract and the likely need for the Council to make significant revenue savings in the future, there will be a need to review the service levels in the contract in the future.

### **3.6.4 Infrastructure**

Given the predicted housing growth in the area, consideration will also need to be given to future needs in relation to depots and HWRCs.

### **3.6.5 Residual waste treatment capacity**

Around 43,000 tonnes of residual municipal waste is generated in North Somerset, of which around 18,100 tonnes is sent for MBT (Mechanical Biological Treatment) through a joint contract with the West of England, and 25,000 tonnes is sent to landfill. The West of England contract expires in 2020 and work is continuing to identify options for future treatment. Landfill costs continue to rise and are currently c. £105 per tonne.

#### **4. CONSULTATION**

- 4.1 Multiple consultation exercises have illustrated high levels of satisfaction with the current waste and recycling collection service. As a result, no significant changes have been made to the service.
- 4.2 In relation to the garden waste service, a public consultation was carried out in autumn 2012 when the council's waste strategy was being prepared. Residents were asked their opinions of the green waste service. While a slight majority of residents responded in favour of keeping the green waste service unchanged, significant numbers also favoured limiting the amount of green waste put out for collection, which is what is being implemented through the introduction of bins. The council does not believe that the proposed change from bags to bins represents a significant enough change to the service to warrant to further, wide-scale public consultation. In broad terms, the service itself is staying largely the same and arrangements will be put in place to deal with circumstances where a bin is not practical. In addition, whilst residents' views are extremely important, in these circumstances we believe that the important health and safety considerations must dictate our actions.
- 4.3 Any changes to HWRCs described in paragraph 3.5 will be the subject of a consultation process.



## 5. FINANCIAL IMPLICATIONS

### 5.1 Revenue

- 5.1.1 2017/18 will see the full year financial impact of the new contract, which starts on 1 March 2017. The Council's current budget and future revenue budget requirements are summarised in the table below.

**Table 5 – 2017/18 Budget Requirement**

	<b>2016/17 budget</b>	<b>2017/18 budget requirement</b>	<b>Surplus / (deficit)</b>
Residual waste collection	1,625,450	1,311,174	314,276
Recycling waste collection	1,748,324	3,445,813	(1,697,489)
Garden waste collection	593,610	972,229	(378,619)
Other waste collection	357,170	198,285	158,885
HWRCs	891,387	1,336,948	(445,561)
Depot	0	181,390	(181,390)
Financing - contractor discount	0	(1,334,821)	1,334,821
Financing - authority financing costs	0	878,250	(878,250)
HWRC disposal savings	0	(104,042)	104,042
<b>Sub-total</b>	<b>5,215,941</b>	<b>6,885,226</b>	<b>(1,669,285)</b>
<b>Client-side costs</b>	<b>18,320</b>	<b>70,481</b>	<b>(52,161)</b>
<b>Sub-total</b>	<b>5,234,261</b>	<b>6,955,707</b>	<b>(1,721,446)</b>

- 5.1.2 In summary, the new contract is expected to lead to an increase in budget requirement of c. £1.7m. This could be mitigated by up to £250,000, should a decision be made to implement one or both of the HWRC options identified in paragraph 3.5
- 5.1.3 In addition to the 2017/18 budget requirement highlighted above, there will also be some current year and one-off costs as follows, which are not currently reflected in annual revenue budgets.

**Table 6 – One-off revenue costs and funding sources**

<b>Item</b>	<b>Cost</b>	<b>Commentary / funding source</b>
As the contract starts on 1 March 2017, there will be one month's worth of additional costs in the current financial year, which has not been budgeted for.	£142,000	Will be a budget pressure in the current year and without any offsetting underspends, will require a contribution from reserves. Will be reported as part of the 2016/17 budget monitoring process.
2016/17 depot lease costs	Up to £90,000	Agreed by the Executive to be funded from the corporate risk reserve
2016/17 procurement and mobilisation costs, covering:- <ul style="list-style-type: none"> <li>• Service and contract monitoring in the initial mobilisation and contract start up period</li> <li>• Communicating and dealing with services changes</li> <li>• ICT integration</li> <li>• Procurement and project management costs</li> </ul>	Up to £266,700	To be funded from the corporate risk reserve, with £190k initially available to release

***Treatment and disposal costs***

5.1.4 Although largely unaffected by this new contract, an opportunity has been taken to review the adequacy of revenue budgets in relation to waste treatment and disposal costs, following the cost and volume model that has been in operation since 2011.

5.1.5 The table below indicates that additional resources of at least £225,000 are likely to be required in 2017/18 to cover the additional costs of treatment and disposal and this is also likely to be reflected in the 2016/17 budget monitoring. It is worth noting that the forecast tonnages for 2016/17 are based on optimistic assumptions about reducing residual waste and this will need to be reviewed further as part of the 2017/18 budget setting process, together with any inflation impacts.

**Table 7 – Waste disposal and treatment – cost and volume analysis**

	<b>2016/17 budget</b>	<b>2016/17 unit cost</b>	<b>2016/17 budgeted tonnes</b>	<b>2015/16 actual tonnes</b>	<b>2016/17 estimated tonnes</b>	<b>Gap (tonnes)</b>	<b>Gap (£s)</b>
Residual waste to landfill	£2,463,159	£105.52	23,343	19,589	25,261	1,918	£202,382
Residual waste to treatment (NES)	£1,687,460	£94.89	17,791	17,672	18,100	309	£26,393
Residual waste to treatment (Boomeco)	£0		0	7,672	0	0	£0
Garden waste	£385,920	£21.12	18,273	18,508	18,500	227	£4,800
Food waste	£399,560	£60.58	6,596	6,640	6,500	-142	£-5,790
Parks and Street Scene waste	£217,580	£63.27	3,439	2,381	3,405	-34	£-2,146
<b>TOTAL</b>	<b>£5,153,679</b>		<b>69,442</b>	<b>72,462</b>	<b>71,766</b>		<b>£225,639</b>

## Financial Planning Assumptions

5.1.6 The published version of the MTFP assumes that an additional £750k would be required to service the costs of the new waste contract. Further intelligence from the procurement process led to the current working draft financial planning assumptions indicating a potential annual budget growth figure in the region of £1.9m from 2017/18. The detailed workings summarised in the table below indicate that it is possible that the actual cost growth could be largely contained within this envelope, although this will depend on how waste arisings change during the course of the financial year, compared with our assumptions. This will be revised in detail during the coming months in preparation for the finalisation of the 2017/18 budget in February 2017.

**Table 8 – Impact on financial planning assumptions**

	<b>2016/17 budget</b>	<b>2017/18 budget requirement</b>	<b>Surplus / (deficit)</b>
Collection and HWRC costs	5,234,261	6,955,707	(1,721,446)
Additional disposal costs	0	225,639	(225,639)
<b>TOTAL</b>	<b>5,234,261</b>	<b>7,181,346</b>	<b>(1,947,085)</b>
Planning assumptions (budget growth)	1,900,000		1,900,000
<b>GRAND TOTAL</b>	<b>7,134,261</b>	<b>7,181,346</b>	<b>(47,085)</b>

## 5.2 Capital

5.2.1 As described in paragraph 3.3.8, suppliers were offered three options in relation to purchasing and financing the contract assets. The winning tender is based on the Council funding the purchase of the assets through prudential borrowing over 10 years. Funding using this mechanism represents a significant saving (c. £500k over 10 years) when compared with financing provided by the supplier.

5.2.2 The annual repayments have been calculated using the following assumptions:-

- Total capital requirement - £8,020,551
- Repayment period - 10 years
- Interest rate - fixed rate and assumed at this stage at 1.8% (with current PWLB [certainty] rate at 1.17%). It is worth noting that interest rates have fallen since the final tender documents were prepared and may fall further. Each 0.1% fall in interest rates will reduce the average annual capital financing costs by around £4k per annum.
- Equal Instalments of Principal (EIP) / reducing balance repayment method
- Payments made to Public Works Loan Board (PWLB) every 6 months
- Annual average repayment used in revenue budget calculation above - £877,849

5.2.3 It is worth noting that payments made using this method reduce over the term of the contract from £942,816 in year 1 to £812,883 in year 10. It is expected that this variation from the budgeted figure (£877,849) can be managed through the use of a treasury management smoothing reserve.

### 5.3 Other financial issues / risks

5.3.1 Members will be aware of the existing risk in relation to variation in tonnages. Despite prudent and robust estimating and regular monitoring and analysis of waste tonnages (residual waste, food waste and garden waste), the actual tonnages arising will vary from the Council's estimates and the risk of actual spend variance cannot be easily mitigated. If costs increase due to increased tonnages, the use of reserves may be necessary to meet legitimate costs should a greater tonnage require managing.

5.3.2 In addition to this, there are several other risks / issues in relation to the new contract, which are worthy of note:-

- i. The new garden waste service requires residents to subscribe to the service and materials will be collected in bins as opposed to the current bag system. The Council will need to purchase an initial **stock of green bins**, but the expenditure will be recovered by subscription payments from residents. It is estimated that c. 65,000 bins will need to be purchased at a cost of c. £1.3m, although it is anticipated that purchases will be made in batches to avoid the risk of purchasing significantly more bins than there are subscriptions. It is proposed that any shortfall in funding will be met from the Council's Corporate Risk Reserve.
- ii. As described above, any changes in the **value of dry recycling** collected at kerbside and HWRCs will be shared between the Council and the contractor. No budget has been set aside for this, which means that if values fall, use of reserves may be required. If values rise, it is recommended that any receipts are set aside in an earmarked reserve to cover any future payment in relation to falling values.
- iii. The estimated revenue budget requirement described in this report assumes that **65,000 residents subscribe to the new garden waste service** at a 2016/17 cost of £14.82 per household per annum. Subscriptions in excess of this will result in a budget pressure (with possible mitigation through reduced disposal costs); subscriptions less than this will result in a budget underspend (but with potential increased disposal costs).
- iv. The contract also allows for the payment **of rate items for recycling of certain items at HWRCs** such as rubble and plasterboard. The revenue budget estimates described here make assumptions about the tonnes of these materials that will be deposited as household waste. Any changes from these assumptions will result in budget variances
- v. As described earlier, the Council has secured **the lease of units at Winterstoke Road to provide a depot**. Its use is subject to planning permission (which, has now been granted) and environmental permitting. Should these not be forthcoming, the Council would have to revert to supplier's contingency / alternative depot arrangements, which, in the case of the winning supplier, would lead to an additional cost of c. £12k per annum

- vi. Currently, around 1,800 tonnes of **residual waste** from household rounds is **delivered direct to our treatment provider**, New Earth Solutions (NES), in Avonmouth, as opposed to it being taken back to the Transfer Station in Weston-super-Mare for onward delivery. The NES contract expires in 2020 and should any new treatment contract be delivered from a different location, additional haulage costs may arise. This could lead to additional costs of c. £13k per annum.
- vii. As mentioned in paragraph 3.3.11, **deductions** will be made for performance failures and payment will be made for exceptional performance. No budget has been set aside for this. It is recommended that any receipts are set aside in an earmarked reserve to cover any future payments or to fund initiatives designed to improve recycling and reduce residual waste.

## 6. RISK MANAGEMENT

- 6.1 Key risks with direct financial consequences are discussed in paragraph 5.
- 6.2 Other key strategic risks are as follows

**Table 9 – Strategic Risk Assessment**

<b>Risk</b>	<b>Impact</b>	<b>Mitigation</b>
Residents do not understand / engage with the new services	<ul style="list-style-type: none"> <li>– Low levels of participation in recycling</li> <li>– Incorrect materials put out</li> <li>– Public dissatisfaction and impact on reputation</li> <li>– Failure to meet recycling and residual waste targets</li> <li>– Reduction in value of recyclates</li> <li>– Increased cost of treatment and disposal</li> </ul>	Planned and costed mobilisation and communications plan
Significant changes are required to the contract during its initial term	Changes to resources and assets are difficult to achieve in a cost effective way	Joint Management Board Change mechanism Excess profit share clause

## 7. EQUALITY IMPLICATIONS

- 7.1 The service to be provided is universal and variations depend only on relevant factors, such as property type
- 7.2 For all collections provided usually from the edge of the householder's property, special arrangements will be agreed where the only residents in the property are infirm, frail, elderly, or disabled.

- 7.3 The way in which any service changes are communicated is crucial in ensuring that all members of the community can participate in and take advantage of all of the services. Significant resources and effort will be put into a communications and mobilisation programme.
- 7.4 Equality considerations will be taken account of in any future decision about HWRC options that are subject to consultation.

## **8. CORPORATE IMPLICATIONS**

- 8.1 The Waste Futures Project Board has overseen the progress of this project. Its members include The Leader of the Council, the Executive Member for Environment and the Director of Development & Environment, together with members of the project team. Colleagues from finance, property, legal and communications have all been heavily involved in the project. In addition, external support from Eonomia Research and Consulting has provided expert, experienced and knowledgeable assistance in relation to the procurement process.
- 8.2 Key cross-cutting, corporate considerations such as health and safety, environmental sustainability, efficiency and innovation, social value, ICT, customer care and equality and diversity were all considered as part of the evaluation process.

## **9. OPTIONS CONSIDERED**

- 9.1 As described earlier in the report, few significant changes in relation to service delivery are being proposed, largely because the current service is highly valued by residents and is producing excellent outcomes.
- 9.2 As described in paragraph 3.5, options in relation to HWRCs are being considered and a decision will be made following public consultation.
- 9.3 Early in the procurement process, consideration was given to an in-house delivery option, via a Local Authority Trading Company (commonly known as Teckal companies). There are potential advantages to this approach, particularly in relation to the ability to make changes more easily and the lack of a requirement to make a profit. However, given the scale, complexity and importance of the service, and the lack of a track record in direct operation of these services, it is considered that the risks associated with this option – e.g. workforce management, fleet management, sale of recyclates, route optimisation, financial risks, etc. – outweigh the benefits.

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## **NON-EXEMPT BACKGROUND PAPERS**

- North Somerset Council Corporate Plan
- North Somerset Council Municipal Waste Management Strategy
- Report to the Executive 2 February 2016
- Report to the Council 9 October 2009
- Tender documents, e.g. specification, conditions of contract
- Waste Futures Project Board agendas, papers and minutes

## **EXEMPT BACKGROUND PAPERS**

Exempt under paragraph 3 of schedule 12A of the Local Government Act 1972

- Tender returns
- Tender evaluations