

**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL**

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<b>REPORT TO:</b>	Strategic Waste and Recycling Review Task and Finish Group	8 <sup>th</sup> October 2009
<b>AUTHOR/S:</b>	Executive Director (Operational Services) / Corporate Manager, Health & Environmental Services	

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**REVIEW OF REFUSE & RECYCLING SERVICE PROCUREMENT****Purpose**

1. This is the final report of three presented to the Strategic Waste & Recycling Review Task & Finish Group (the Group) forming the strategic review of the council's Integrated Recycling and Refuse Collection Service (the Service). It takes into account the decisions made at the previous meetings of the Group.
2. It considers options for the procurement of the collection service, post-collection processing and containers arising out of the preferred service Option 7, as recommended by the Group on the 10<sup>th</sup> September 2009 and recommends the optimum procurement method for each element.

**Background**

3. The refuse collection and street cleansing services were packaged as a single service and subject to Compulsory Competitive Tender (CCT) in 1999. This followed the termination by the council of the previously tendered street cleansing contract with a private contractor for their failure to perform the service to the required standard.
4. The retendered service was won by the council's in-house direct services organisation (DSO), now the environmental operations section within Health & Environmental Services and has been operated as a directly managed, rather than contracted out, service since then.
5. In 2003 the refuse collection service was reconfigured as part of the council's program of continuous improvement. The sack based refuse collection service was replaced with a wheeled bin service; a garden and kitchen waste service using wheeled bins was introduced and the reconfigured service moved to an alternate weekly frequency.
6. A fortnightly Kerbside Box Recycling service was introduced in 2000 and following a CCT process was awarded to a private contractor Cleanaway Ltd, now part of Veolia Environmental Services. The contract was let for an initial 5-year period during which time glass was added to the range of materials collected as a variation to the contract. In 2005 the contract was extended for a further 5-year period until October 2010. Plastic bottles were subsequently added to the range of materials collected and again dealt with as a variation to the contract. There is no provision to extend the contract passed its 2010 expiry.
7. At the time the Kerbside Box Recycling service was introduced the markets for dry recyclables were still developing and extremely volatile. There was limited MRF capacity that could be used to mitigate exposure to these markets by entering into

bulk large-scale contracts with materials reprocessors. The council would have been required to enter into separate materials contracts and risk full exposure to the volatility of the markets. For this reason the DSO did not bid for the kerbside recycling collection service and the contract was let to Cleanaway Ltd.

8. The current Service is therefore based on a mixed market option whereby the council's Environment Operations unit provides the Refuse and Green Bin services and Veolia Environmental provides the Kerbside Box Recycling service.
9. A comprehensive Best Value Review of the service was undertaken and considered by Members in 2005 arising in an approved Best Value action plan. The work being undertaken by the Task & Finish Group is the culmination of that action plan.
10. The scope included in the remit and operating guidelines report presented to the Group on the 2<sup>nd</sup> July 2009 introduced a number of options by which the future Service could be procured.
11. As a result of that meeting the main benefits and outcomes Members wanted the strategic review to achieve, in the following priority order, were:
  - A cost effective & efficient service
  - High levels of customer satisfaction/perception
  - Future flexibility to respond to external influences
  - Minimising environmental impact
12. Members agreed that the following procurement options should be appraised:
  - Provision of the Service in-house
  - Multiple suppliers
  - Shared Services with the private sector or outsourced through a joint venture or Limited Liability partnership
  - Mixed Market approach
13. It was also agreed that the following options would not be considered:
  - Single Supplier/Managing Agents
  - Joint Commissioning

### Considerations

14. The councils Strategic Waste & Recycling Review Task & Finish Group (the Group) considered a number of options for the configuration of the Service and recommended Option 7, as that able to best meet the previously agreed Member priorities and outcomes.
15. Option 7 would require the procurement of:
  - **Collection services** (for residual (black bin) waste, green waste (green bin) and a range of dry recyclable materials (wheeled bin) all collected at the kerbside on an alternate weekly basis)
  - **Post-collection sorting services** (Materials Recycling Facility (MRF))
  - **Additional bins** (for collection of a range of dry recyclable materials)

16. Officers and the portfolio holder have researched the various procurement options associated with each element of Option 7. Discussions, at officer and member level, have been held with local authorities, which have gone through a similar process and with private sector contractors, procurement and industry specialists. The following paragraphs give a brief summary of each of the procurement elements, including options where appropriate, together with associated risks and benefits.

### Collection Services

17. As agreed within the scope for the Group four service options have been considered for the procurement of the collection service element of Option 7:
- (a) **In-house provision** – provision of services by the council’s Environment Operations unit, as currently happens with the residual and green waste elements of the current Service
  - (b) **Multiple suppliers** - splitting the elements of the Service and then negotiating and establishing separate contracts with the preferred outsourced supplier according to the council’s requirements. This option would require a EU compliant tender process.
  - (c) **Shared Services** - with the private sector or outsourced through a joint venture or Limited Liability partnership. More than one directly contracted, outsourced supplier providing integrated services by working together in a joined-up fashion through a partnering arrangement e.g. Joint Venture (JV) or Limited Liability Partnership (LLP). All parties would be responsible jointly for strategic decisions and would share any profits (or losses) on an agreed basis. This option would require a EU compliant tender process.
  - (d) **Mixed Market** - The management of services in the most appropriate and cost effective means and could be a mix of solutions e.g. in-house, private sector, JV, LLP etc.). This option would require a EU compliant tender process.

Table 1: Procurement Options: Summary Benefits/Risks (relating to Option 7)

Procurement Option	Benefits	Risks	Comments/Mitigation
In-house (Environment Operations unit)	<ul style="list-style-type: none"> <li>• Common values and objectives</li> <li>• Direct control over service outputs, strategic decision making and flexibility to respond to change</li> <li>• Direct accountability</li> <li>• Integration benefits of single supplier</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulty in demonstrating cost competitiveness or Value for Money</li> <li>• Access to innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Use of appropriate bench marking</li> <li>• Current service consistently above top quartile performance at below average cost (SPARSE Value for Money analysis)</li> <li>• Relatively straightforward service - limited scope for innovation</li> <li>• Reduced risk of service disruption during</li> </ul>

			implementation of Option 7 as Unit already provide very similar service
Multiple suppliers	<ul style="list-style-type: none"> <li>• Reduced risk of contractor failure affecting all services</li> <li>• Potential access to new investment</li> <li>• Access to innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Differing Council/Supplier values and objectives</li> <li>• Limited ability to control service outputs, strategic decision making and flexibility to respond to change</li> <li>• Service fragmentation and reduced integration resulting in variations in performance and user satisfaction</li> <li>• Inability to optimise cross service investment, resources and process benefits</li> <li>• Barriers to council re-entering direct service provision; loss of internal skills, knowledge &amp; capacity e.g. office/depot space</li> <li>• Exposure to effects of external market factors e.g. access to investment funds by suppliers, corporate takeovers increasing other risk factors</li> <li>• Indicative cost savings through efficiencies for option 7 may not be realised</li> </ul>	<ul style="list-style-type: none"> <li>• Requires increased client management function</li> <li>• Potentially increased risk of service disruption during implementation of Option 7 as capability of external service provider unknown</li> </ul>
Shared Services	<ul style="list-style-type: none"> <li>• Risks better understood by Council / Supplier enabling better risk management</li> <li>• Access to innovation</li> <li>• Element of control</li> </ul>	<ul style="list-style-type: none"> <li>• Requires close match between Council / Supplier values &amp; objectives</li> <li>• Joint decision making limits ability to control service outputs, strategic</li> </ul>	<ul style="list-style-type: none"> <li>• Requires specialist client management function</li> <li>• Set-up and legal costs</li> <li>• Potentially increased risk of service disruption</li> </ul>

	<p>over service outputs, strategic decision making and flexibility to respond to change</p> <ul style="list-style-type: none"> <li>• Potential access to new investment</li> <li>• Integration benefits of single supplier</li> </ul>	<p>decision making and flexibility to respond to change</p> <ul style="list-style-type: none"> <li>• Service fragmentation and reduced integration resulting in variations in performance and user satisfaction</li> <li>• Limited ability to optimise cross service investment, resources and process benefits</li> <li>• Exposure to effects of external market factors e.g. access to investment funds by shared service supplier, increasing other risk factors</li> <li>• Reduced ability to realise indicative cost savings for option 7</li> </ul>	<p>during implementation of Option 7 as capability of partner service provider unknown</p>
Mixed Market (As current service)	<ul style="list-style-type: none"> <li>• Reduced risk of contractor failure affecting all services</li> <li>• Retention of internal skills, knowledge &amp; capacity</li> <li>• Access to innovation</li> <li>• Element of control over service outputs, strategic decision making and flexibility to respond to change</li> <li>• Potential access to new investment</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced control over service outputs</li> <li>• Service fragmentation and reduced integration resulting in variations in performance and user satisfaction</li> <li>• Inability to optimise cross service investment, resources and process benefits</li> <li>• Exposure to effects of external market factors e.g. access to investment funds by supplier, corporate takeovers, increasing other risk factors</li> <li>• Indicative cost savings through efficiencies for option 7 may not be realised</li> </ul>	<ul style="list-style-type: none"> <li>• Increased client management function</li> <li>• Potentially increased risk of service disruption during implementation of Option 7 as capability of external service provider unknown</li> </ul>

18. Option 7 requires a change in the collection method for dry recyclables from kerbside box and sort to wheeled bin with caddy insert and two stream co-mingled collections, essentially a very similar collection method to the current black and green bin collection elements. It may also require changes to collection days for residents in order to optimise use of collection vehicles.
19. This is a major service change for both residents and the Council especially as collection day changes will result. These factors have the potential to cause disruption to service users as they become use to the new arrangements. The choice of procurement option must therefore consider the extent to which each option is likely to be able to minimise service disruption to residents during the implementation of Option 7.

### **Summary**

20. Consideration of the collection service procurement options has identified a number of key themes which have the potential to influence the achievement of the previously agreed Member priorities and outcomes, i.e. a cost effective and efficient service, high levels of customer satisfaction/perception and future flexibility to respond to external influences namely:
  - Control, decision making and flexibility to respond to change
  - Ability to operate an integrated Service
  - Shared values and objectives
  - Barriers to future strategic change – reduced capacity to re-enter service provision
  - Costs & Innovation
21. The risk to Member priorities is likely to be reduced where there is a single supplier; where the council and service supplier have shared values and objectives and where the council retains direct control over service outputs, strategic decision making and flexibility of response.
22. However, a key factor in the choice of procurement options during the implementation phase of option 7 is the risk of service disruption to users. Changing supplier for the major elements of the Service at the same time as introducing significant service changes is considered an unnecessary risk that could jeopardise the successful implementation of the reconfigured Service. It may also add to costs, especially as the service policies may have to be amended to take into account experiences of implementation. Recent experiences from neighbouring authorities illustrate this risk.
23. In view of this it is considered that provision of the reconfigured Service by the council's environment operations unit for a period of 3 years is the most appropriate procurement option at this time, offering an acceptable balance between the identified benefits and risks, in order to minimise service disruption to residents and achieve Member priorities and outcomes. Once the service has been successfully implemented, performance data gathered and evaluated the question of the longer-term procurement of the service can be revisited by means of a Value for Money study.
24. Experience in the past has proved that it is inefficient to spilt the procurement of street cleansing services from that applied to refuse and recycling services. Given the dominance of the refuse and recycling service it is therefore considered

necessary for street cleansing service to remain in-house (as is at present) for the period as mentioned in paragraph 23 above.

### **Post Collection MRF Services**

25. The Task & Finish group in considering the configuration report on 10<sup>th</sup> September noted that suitable MRF capacity was likely to be available for the range of materials to be collected under the preferred Option 7.
26. Since that time three RECAP partners have successfully let a tender for the provision of MRF services, confirming that there is now no shortage of suitable MRF capacity available for the range of materials to be collected under Option 7. Indeed, one of the partners achieved savings in the region of £200 – 300k p.a. due solely to a reduction in the gate fee charged by the winning tender for transporting and sorting materials ready for reprocessing.
27. The gate fee used in the financial evaluation of preferred Option 7 was a conservative estimate based on historical data. If a local MRF was procured, removing the need for bulking and transport, at a similar gate fee to that achieved by the RECAP partners there would be additional saving in the region of £150,000 p.a. to those already identified in the previous configuration report.

### **Summary**

28. There is likely to be suitable MRF capacity available for the range of materials to be collected under Option 7. In view of this it is appropriate that MRF services are procured using a EU compliant tender process, either under the RECAP partners tender if this is contractually available or under an ESPO tender process.

### **Bin Procurement**

29. The council currently procures its bins under a EU compliant ESPO framework contract. Research is being undertaken as to whether this remains the best procurement method. Similarly, the cost of bins has historically been revenue funded. However, there are lease options being made available by certain manufacturers, which are also being researched. Additional bins will therefore be procured and financed in the most economically advantageous way available to the council.

### **Implications**

30.	Financial	The costs of implementing Option 7 have been included within the configuration report presented to the Group on 10 <sup>th</sup> September 2009. Tendering costs for the MRF and bins will be met through tendering under ESPO arrangements and use of existing resources. If this is not achievable a sum of £10,000 for tendering is likely to be required.
	Legal	The kerbside box recycling service contract with Veolia Environmental expires in October 2010 and cannot be extended. Clarification is being obtained on the risks of challenge by external providers to the collection service being provided in house and as to any TUPE implications following the expiry of the kerbside box-recycling contract. The cost of obtaining this specialist advice will be met within existing budgets.

Staffing	No staffing implications, other than relating to TUPE, have been identified arising out Option 7 procurement at this time
Risk Management	Implementation of Option 7 will be project managed. Risk management will be an integral part of the project management process
Equal Opportunities	No Equal Opportunities implications have been identified at this time.

### Consultations

31. Consultations have been held with other local authority officers and Members, private sector contractors, procurement and industry specialists.

### Effect on Strategic Aims

32.	<b>Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all.</b>
	<b>Commitment to making South Cambridgeshire a place in which residents can feel proud to live.</b>
	<b>Commitment to assisting provision for local jobs for all.</b>
	<b>Commitment to providing a voice for rural life.</b>
	Procuring and implementing Option 7 as recommended will deliver the previously agreed Member priorities and outcomes, namely a cost effective and efficient service, high levels of customer satisfaction/perception, future flexibility to respond to external influences whilst minimising environmental impact, thereby contributing to the above commitments.

### Conclusions/Summary

33. Evaluation of the procurement options against the previously agreed member priorities and outcomes demonstrates that the best procurement options for the Council at this time are
- a. To operate the re-configured refuse and recycling service (including street cleansing services) in-house for a period of three years post implementation, after which to undertake an evaluation of the cost effectiveness of the service against external providers.
  - b. To procure the MRF services via EU compliant tendering process. Along side this request that officers negotiate with RECAP partners the viability and acceptability of joining their recently tendered contract so that the most economically advantageous result can be achieved.
  - c. To procure the bins and caddies under a EU compliant ESPO framework contract.

### Recommendations

34. The Task and Finish Group is asked to recommend to the Portfolio Holder:
- d. That the collection service for Option 7 is implemented by the council's In-House environment operations unit as a directly managed service.
  - e. That the MRF services are procured using a EU compliant tender process, either under the RECAP partners tender if this is contractually available or under an ESPO tender process.
  - f. That additional bins and caddies are procured using a EU compliant tender process and financed in the most economically advantageous way available to the council.



- g. That a Value for Money review of the Service is undertaken after a period not exceeding three years from the date of implementation.

**Background Papers:** the following background papers were used in the preparation of this report:

Report to Waste & Recycling Task & Finish Group dated 2<sup>nd</sup> July 2009.  
Report to Waste & Recycling Task & Finish Group dated 10<sup>th</sup> September 2009.  
SCDC Procurement Strategy for Service Delivery 2003

**Contact Officer:** Paul Quigley – Environment Services Manager  
Telephone (01954) 713134  
Dale Robinson – Corporate Manager, Heath & Environmental Services  
Telephone (01954) 713229