

6. Waste Management, Recycling and Street Cleansing Services - Contract Review

REPORT OF: Assistant Chief Executive
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Wards Affected: All MSDC Wards
Key Decision: Yes
Report to: Scrutiny Committee for Customer Services and Service Delivery
8th February 2017

Purpose of Report

1. To consider the performance of the Council's Waste Management, recycling and street services since its commencement in 2007.
2. Following review of service options outlined in this report approve the report is seeking approval for the retention of Serco Ltd for the current Waste Management, Recycling and Street Cleansing Services Contract for the remaining Contract term, which will run to completion on 31st July 2028.

Summary

3. Mid Sussex District Council entered into a 21 year Contract with Serco Ltd which commenced on the 1st August 2007. The contract terms allowed for both the Council and Serco Ltd to review the Contract on its 7th and 14th anniversary. However following negotiations in 2011 the Contract review point was moved to ten and half years i.e. December 2017. Serco have requested a brief from the Council for the service to support procurement of a second vehicle fleet for delivery at the contract mid-point. Serco have indicated that they are keen to continue working for Mid Sussex District Council and the quality of their work supports accepting them for the remaining term of the Contract.
4. The Governance arrangements for the Waste Management Contract (the Contract) include a structured Partnership Board comprising Cabinet Member / Head of Service and Senior Serco Contract managers. The Partnership Board agrees Key Performance Indicators (KPIs) for the Contract and subject to performance award a performance payment for successful attainment of the KPIs targets.
5. The major challenges for the Contract in the first ten years have included the introduction of alternate weekly collection and the introduction of a wheeled bin based operation. This was successfully introduced and triggered a rapid improvement in the amount of dry recycling collected.
6. The operation and management of the Bridge Road depot was another challenge. Serco occupied the new depot in September 2014. This project then released the former depot site for the development of the Basepoint Business Centre, which was completed in 2015.

7. A long term challenge for the Contract has been cleansing the A23 trunk road. Historically despite numerous meetings with Highways England and their contractors, access to work within designated working sites contained within Traffic Management arrangements has been restricted or unsuccessful. Despite these conditions, the road verge is cleansed twice a week in areas that are considered safe without traffic management in place. The Council and Serco have recently met with Highways England's new maintenance contractors and additional training for Serco staff will be taking place in coming weeks which will enable joint work.
8. Serco's performance has been good, and delivery of key projects has been successful. Serco are committed to review and shape their team to tackle the Council's brief going forward.

Recommendations

9. **To recommend to Cabinet the retention of the services of Serco Ltd for the remaining term of the Waste Management, Recycling and Street Cleansing Services Contract to 31st July 2028.**
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Background

10. The Contract was let in 2005. The governance arrangements for managing and monitoring the Contract include monthly operational and strategic meetings and a quarterly Partnership Board attended by the Head of Service, Cabinet Member, and Serco Regional Contract Managers. The Council's contract administration places a significant weight on a "safety first" approach as Waste Management is considered to be one of the more dangerous occupations, and is closely monitored by the Health and Safety Inspectorate. The Council's Waste Management team has invested significantly on joint inspections and reviewing documentation to push for lower risks to Serco staff.
11. The Contract has continually changed as a result of legislative changes and as a partner in the West Sussex Waste Partnership the Council has aligned operations with West Sussex processing plant and facilities. Early adoption of Alternate Weekly Collections (AWC) together with a simple wheelie bin based collection methods, saw Mid Sussex recycling performance soar into the upper quartile.
12. However, with a drive to improve dry recycling quality and to ensure the Council can continue with the simple comingled dry recycling collections, the need to deliver high quality recycling collection service will remain a major challenge for the remainder of the contract. Furthermore the requirement to achieve statutory targets for recycling and composting will require service changes and collection of increasing amounts of recycling material, in the future.
13. To deliver continual efficiencies, optimised use of and integration with the new Customer Management System is essential, this will build capacity and enhance customer service, as it will enable processes to be automated and simplified and support live feedback. This will require a level of upskilling and change in approach for the contractor, as well as investment into technology such as In Cab solutions.

Scope of Service Delivery

14. The Waste Management Contract is delivered by Serco from the Bridge Road depot in Haywards Heath. The Contract is split between household recycling and refuse collections and the street services functions which also embrace clinical waste, bulky waste, fly tipping, dog waste and ad-hoc works such as bin deliveries.
15. Serco employ 71 staff to deliver the combined contract, which includes :-
 - a) Household or recycling collections to 62,000 properties each week, collecting 13,712 tonnes of dry recycling and 25,057 tonnes of residual waste in 2015/16. The annual number of collections this year will exceed 3.25 million bins.
 - b) Garden Waste Collections from 16,000 bins every fortnight (figure growing each week), which is generating 5114 tonnes of material for composting in 2015/16 (which was considered to be a light year due to weather and climatic conditions during that year). The annual number of collections this year will exceed 400,000 bins emptied p.a.
 - c) Special collections for residents requiring Clinical Waste Collections (1421 residents) generating 146.26 tonnes in 2015/16.
 - d) Assisted collections (1691 residents) in 2015/16.
 - e) Bulky waste collections, from an estimated 520 customers, generating 101.91 tonnes this included 369 fridges, 227 beds and mattresses, 420 sofas and chairs and 161 other furniture items as main items in 2015/16.
 - f) Mobile Civic Amenity Collections for Town and Parish Councils.
 - g) Prioritised street cleaning operations 5 days per week with a scaled down service at weekends.
 - h) Street bins (595 tonnes were emptied in 2015/16 and over 400 dog bins (86.54 tonnes in 2015/16) majority of which are collected twice a week (if located on district owned land).
 - i) 276 Fly tipping clearances generating 118.16 tonnes of waste collected in 2015/16.
16. The Contract sets out how inflationary uplifts are calculated based on a basket of market indices. The Contract is also reviewed with each additional 500 new properties. In 2012, the Council considered Serco's request to include additional street cleansing as a result of housing growth, and additional resources were added to the contract.
17. Following detailed discussions with Serco in 2011 the Contract review point was varied to enable the Contract to be split into two ten and half year periods linked to the Refuse Collection Vehicle fleet replacement at the mid point. Savings were made on dispensing with a second vehicle fleet which was due to operate from 2014/21, in favour of a more robust/ enhanced vehicle maintenance plan for the original and second fleet.

18. At the Contract commencement, a key requirement of the Contract was to find alternative depot facilities. The construction of a new depot commenced in 2013 and the fit out was completed in September 2014. During very demanding building and operating conditions, Serco delivered a full service with no reduction in operating performance.
19. The quality of dry recycling has been one of the biggest challenges for both the Council and Serco, as the demands to meet the West Sussex Waste Partnership's input specification and to remain with the simple, low cost and popular comingled recycling collection service continue to be key factors. Extensive work has gone into this single aspect of the service and will need to continue for the life of the Contract to ensure the end product meets the needs of the reprocessors / manufacturers. The introduction of mixed plastics into the dry recycling collections in April 2015 was well received and assisted with recycling quality. This Committee will receive a separate report at a future meeting.
20. The drive now is focussed on meeting statutory national recycling rates by 2020 and focussing on the types of recyclate that are being thrown away rather than recovered. The Waste Management Contract needs to focus on that as a driver for change and it should be considered as a shared target.
21. The cleansing services' challenges over the last ten years have included increasing car ownership, resulting in difficulties in deep cleansing of busy residential areas. Furthermore the increased requirements for cleaning trunk roads and high speed roads have required a lengthy and continuing dialogue with Highways England. A new training plan and service delivery arrangement for Serco are now in place.
22. The decision by the Environment Agency in 2011/12 to prevent leaf fall sweepings being sent for composting reduced recycling and composting tonnages by 500 tonnes per annum. The Waste Partnership is currently looking at a reprocessing arrangement for road sweepings with a view to introducing it in 2017 which will improve recycling rates.

Key Performance Indicators (KPIs)

23. A number of key performance indicators were set out in the Contract specification but due to legislative changes and deletion of Best Value and National Indicators, the Contract indicators have followed the spirit of the original indicators, but reflect the current requirements of the Contract. The current key indicators are grouped under three headings Local Environment Quality Scores, Customer satisfaction and Minimum Operating Standards. These KPI's are monitored by the Partnership Board. The Council's Waste Management Team is intending to use the new Customer Relationship Management (CRM) data to enhance contract monitoring.

Legislative / Policy Context

24. The existing Waste Management Contract states that should legislation change, the Contractor may approach the Council to seek a variation to the Contract and costs associated with meeting the new requirement.
25. The current key drivers for the waste industry include the waste hierarchy which requires the Council in conjunction with the Waste Disposal Authority (West Sussex County Council) to get the best environmental outcome for each waste stream collected. Decisions on the type of material that can be processed are made within the remit of the West Sussex Waste Partnership, which is focussed on maximising the collection of dry recycling materials.

26. The Waste (England and Wales) Regulations 2011 sets out the requirement to collect the four elements of dry recycling (glass bottles, paper, card, metal cans and plastic bottles) in separate collection vessels unless the Council can prove that it can collect and process materials to the standard required by national processors. This complex argument was reviewed by this Council following a combined Technical, Environmental, and Economically Practicable (TEEP) review across the West Sussex Waste Partnership which agreed to process all dry recycling through the Material Recycling Facility (MRF) at Ford. The plant opened in 2009 and produces very high quality dry recycling material streams for re-processing. The Council's Cabinet approved the initial TEEP assessment in February 2015.
27. The existing requirements for UK local authorities to meet the target of 50% dry recycling and composting by 2020, were driven by European Legislation enshrined in English law.
28. The requirements to undertake litter clearance on Trunk Roads including the A23, require Waste Collection Authorities to adhere to Highways England requirements. These are set out in best practice guidance which has been endorsed by the Health and Safety Executive as the primary reference point for work on public highways.

Alternative options for service delivery

29. Following advice from the Council's procurement officer, as the mid Contract review point is the only formal Contract review within the Contract term, alternative options should be considered. This work has been carried out and is summarised below:-

a) Contract Options – These are options available to the Council relating to operating the service.

- (i) Review and continue the existing Contract
- (ii) Terminate Contract and re-tender the services.
- (iii) Provide the service in house.
- (iv) Utilise other local authority Contract procurement to appoint an alternative contractor.
- (v) Enter into a shared services arrangement with another local authority.
- (vi) Negotiate an alternative Contract review point with Serco.

b) Vehicle Fleet – These are options available to the contractor for providing the fleet.

- (i) Purchase vehicle fleet to meet future service requirements.
- (ii) Purchase vehicle fleet to meet potential service requirements

c) Litter scavenge works on the A23;

- (i) Amend the frequency or scope of service
- (ii) Remove this from the Contract and retender this work or procure alternative service providers who are better equipped to undertake this specialist work.

Consideration of other service delivery options

Contract Options

30. The existing Contract performance has been good and therefore one must question the benefit of retendering the contract. The contractor has indicated they want to continue delivering the service. The disadvantages of retendering are the potential costs and time needed to deliver the new contract, compared to the realisation of savings as a result of retendering.
31. If the service was delivered in house, the Council would have more direct control over costs and service delivery, but the Council is not currently set up to deliver the contract and would be involved in additional staff costs including TUPE of Serco staff into Mid Sussex District Council employ.
32. A recent exercise to identify potential alternative contracts to which Mid Sussex could join, concluded that no frameworks currently exist therefore this option would require a completely new procurement process, with the inherent risks associated with that process as set out above.
33. There are no current shared services arrangements across West Sussex except the Clinical Waste Disposal service, which has an option to also include Clinical Waste Collections. Mid Sussex has continued to use the County Council's disposal Contract but has not progressed the collection element at this stage as the collection arrangements provided by Serco are very successful. Subject to negotiation with Serco and West Sussex County Council and their contractor Medisort the options to utilise the collection process can still be taken up until April 2018.
34. Although there are currently no plans to pursue this option the opportunity to pair up with other West Sussex WCA's has been reviewed on a number of occasions, but as 50% of local Councils have outsourced their waste collections including Crawley BC, Arun DC and Mid Sussex, there are limited opportunity to join in the near future.

Vehicle Fleet Options.

35. Due to the age of the existing fleet it would not be appropriate or cost effective to not replacing the fleet,
36. The review of the waste strategy provides a number of options for procurement of the vehicle fleet; however the majority of options require wider collection vehicles, than currently provided. Work to conclude the future waste strategy is being progressed with Ricardo AEA and will be concluded in the next couple of months. However, in order to achieve a January 2018 delivery date for the new vehicles the Serco procurement exercise will need to be completed by early April 2017 and the Ricardo work may not be completed. On this basis the Council will advise Serco to procure the future fleet based on known service provision.

Cleansing the A23 Trunk Road.

37. The option to procure an alternative supplier for cleaning on the A23 is one that could be taken up at any time in agreement with Serco. Any cleaning beyond the existing level of provision is likely to increase costs.
38. Serco are current pricing up the provision of employing highway maintenance operatives who could operate with a high speed road compliant vehicle, which would enable greater access to the verge without lane closure.

39. Furthermore we are seeking quotations from the Highways England approved contractor to provide a litter picking element to their normal duties. Both of these options are currently being explored.

Performance Indicators

40. The legislation supporting local government and waste management has changed considerably since the Contract commenced, particularly with the deletion of the Best Value and National Indicators which formed part of the contract. As a result the Council adopted new Key Performance Indicators (KPI's). The current KPI's are set out in para 24.
41. The Waste Management Team also monitor a range of operational Performance Indicators covering Health and Safety and service delivery

Past Performance

42. During the period from 2009 until 2016 (Contract years 2 - 9 inclusive) Serco have received performance payment for meeting targets, with only two small deductions in 2009 and 2012 both of which were related to the level of detritus found on some of the district's rural roads, during the autumn periods. Whilst the targets set were not achieved, this was considered to be a very minor performance issue as the majority of rural roads are not kerbed and many field entrances discharge directly onto a metalled road, which makes cleaning on such stretches very difficult. Key KPI's such as missed bin rates and customer satisfaction have remained at very good levels, and delivery is considered to be good.

Future Performance

43. The Council's recent investment and move to digital services will provide a rich source of operational performance data which will support future negotiations and improved customer satisfaction.
44. The recent investment in the CRM will enable the Council and Serco to explore developments such as In Cab technology with potential enhancements for customer service and business efficiency. This is work in progress.

Conclusions

45. The options for alternative service delivery are set out above.
46. The existing Contract is for twenty one years. Therefore retendering is not necessary until 2026 ahead of a new Contract commencing on the 1st August 2028. The Contract has delivered good value for money, provided an efficient service to residents and partnering with Serco has provided resilience during difficult periods (severe weather and depot construction).
47. With the service impacting on every resident and every visitor to the district, Serco have a keen focus on customer satisfaction and self-improvement which has resulted in them obtaining the Customer Service Excellence (CSE) award in 2016. This award requires Serco to drive continual improvement which is an important aspect of the Contract.

48. The Council through the West Sussex Waste Partnership has agreed to provide dry recycling material, garden waste material and residual household waste to approved standards and specification to ensure the processing plant has sufficient feedstock material to remain viable. Therefore whilst no significant changes are proposed to the Contract or collection arrangements at this stage, it is anticipated that the Council together with Serco will review operational requirements and if new opportunities are identified, they will be considered if a business case supports such an opportunity or if legislative changes require it.
49. Serco is providing a good quality service which is meeting the Council's service delivery requirements. With such high volumes of customer transactions there will always be areas for improvement and the Council is satisfied that Serco are committed to improving customer service. The recent investment in the new CRM will also provide opportunities for improvements and efficiencies.
50. The Council has recently engaged Ricardo AEA to review the Council's Waste Regulations (TEEP) Assessment on the basis that the second half of the contract would operate on very similar terms to the initial ten years. On that basis the recommendations to Serco are to procure a replacement collection fleet. (A separate paper to the Scrutiny Committee for Service Delivery setting out the options for improving the Council's recycling rates will be presented at a future meeting).
51. The general increase in housing numbers will require additional freighters and we will encourage Serco to build capacity into their fleet to tackle the larger blocks of flats and the difficult access issues, when looking at the provision of their new fleet.
52. The focus for the next ten years of the Contract is to improve efficiencies and customer service by employing new technology and adoption of new working practices. The Council will work closely with Serco to explore opportunities.
53. Finally there will be a continued focus on the "safety first" driver, but with a similar approach to the first ten years of the Contract in terms of a flexible service delivery when operating in difficult conditions i.e. severe winter weather clear up operations

Financial Implications

54. The value of the Waste Management Contract as at 1st August 2016 is £3,852,077 per annum.
55. Whilst Serco group announced their intention to sell on the Environment Division following stock markets concern, they have subsequently reviewed and confirmed they are no longer pursuing this strategy.

Risk Management Implications

56. Serco has a good reputation and relationship with the Council and their performance has been above average throughout the period of the first ten years of the Contract.
57. Failure to provide a collection service that copes with the tonnages and volume of dry recycling and garden waste materials needed to deliver a 50 % recycling and composting performance, thus leading to a risk of fines.
58. Potential legal challenge to comingled service delivery due to poor quality recycling.
59. Potential challenge to littering on roads through service of Section 91 notice on the Council. Similar notices have been served on neighbouring councils in recent weeks.

Equality and Customer Service Implications

60. This universal service has a very high public profile and recent work to enhance the Council's Contact Centre and CRM systems are ideally placed foundations onto which to bolt In Cab solutions from 2018 onwards.

Background papers

27th February 2013 Full Council - Bridge Road Depot Project – Council approval of Budget and Service Plans 2013- 2014

Better Lives Advisory Group report 9th March 2011 - Commercial and Industrial Waste Strategy

Scrutiny Committee of Leisure and Community - Recycling Quality Project 29th November 2012, and 19th June 2012.

Scrutiny Committee of Leisure and Community - Waste Strategy Review Reports 6th July 2016, 2nd March 2016 and 9th February 2016

24th February 2016 Full Council Service Plans / Budget papers 2016 - 2017 – Extension of vehicle fleet / Garden Waste service price increases.