



Economic Prosperity, Environment and Highways Board
19 October 2016

Developing a single waste approach

Purpose of the report: Policy development and review.

To feed into proposals prior to consideration by Cabinet in December 2016.

Introduction

1. The Surrey Waste Partnership (SWP) has been developing a business case for changing the way in which waste is managed in Surrey and this work is known as SWP Future.
2. In May of this year, Cabinet agreed that combining SCC's functions as a Waste Disposal Authority with those of Surrey's Waste Collection Authorities to deliver waste services via a new co-ownership partnership is essential to deliver public value for Surrey's residents. Cabinet also tasked officers to work with district and borough councils to develop more detailed proposals and report back later in the year. This report is now scheduled to be at the 13 December Cabinet.
3. This report sets out developments since May and the implications for Surrey County Council. Economic Prosperity, Environment and Highways Board members are asked to consider this report and make comments. A Member Reference Group has also been set up to consider the proposals and a verbal report will also be made in the meeting.

SWP Future

Background and current arrangements

4. In two tier areas such as Surrey, the responsibility for managing waste is split between the County Council and the district and borough councils. The 11 district and borough councils are Waste Collection Authorities (WCAs) and are responsible for the collection of Surrey's municipal waste which includes waste from households. SCC is the Waste Disposal Authority (WDA) and is responsible for the

disposal and treatment of Surrey's municipal waste collected at the kerbside, and waste and recycling from Surrey's Community Recycling Centres.

5. Surrey's authorities collaborate via Surrey Waste Partnership (SWP) which has no specific powers or delegated authority but helps the authorities to work towards delivering a joint strategy, which was adopted by all partners in 2015. SWP pools money centrally and manages a wide range of joint initiatives including communications campaigns, door stepping households with low recycling rates and improving recycling at flats.
6. The two-tier nature of waste management in Surrey has resulted in a complicated set of statutory and non-statutory financial transfers between the county council, the boroughs and districts and SWP, totalling around £11 million per year. The majority of these payments are used to support and incentivise boroughs and districts to maximise recycling.
7. Despite the complicated structure of the current arrangements, much has been achieved by SWP authorities over the last few years. Waste collection arrangements have largely been aligned, the range of recycling materials able to be collected has greatly increased, and food waste collection from houses is now universal. These improvements in the service for Surrey residents have resulted in performance increases, with the overall recycling rate rising from 35% in 2007/8 to around 53% today.
8. Alongside these performance and service improvements, the overall annual expenditure on waste management in Surrey has been contained at around £79 million, despite a rise in population and increases in the cost of waste disposal.

The case for change

9. Whilst recycling rates are relatively high and the costs of waste management have been contained, there are several major areas where further improvements could yet be made, yielding major savings and other benefits to Surrey taxpayers. These improvement areas include:
 - 9.1 **Operational efficiency:** running waste services as efficiently as possible
 - 9.2 **Capturing recycling:** maximising the proportion of waste that is recycled
 - 9.3 **Value from recycling:** maximising the value of collected recyclables
 - 9.4 **Commercial waste:** maximising income from commercial waste services
 - 9.5 **Back-office:** running management functions as efficiently as possible
10. Progress in delivering improvements in these areas is being limited by issues with the current waste management arrangements, including:
 - 10.1 **Different budget lines:** Borough and county councils pay for different parts of the same waste management system which can lead to different priorities.

- 10.2 **Too many interfaces:** There are interfaces between and within authorities which can make delivering joint improvement projects slow and difficult.
- 10.3 **No economies of scale for collection:** By operating collection services individually, savings opportunities from joining up services are missed.
- 10.4 **Duplication:** Assets, such as depots and collection vehicles, and roles, particularly in staff and contract management are duplicated across authorities. Valuable knowledge and experience is also de-centralised.
- 10.5 **Inconsistent services:** Differences between the waste services of all authorities can confuse residents and make joint communications difficult.
11. However these issues can be overcome by working together in a more integrated way. A co-ownership approach would involve all of Surrey's authorities creating a single joint entity to manage the collection, recycling and disposal of all of Surrey's waste. This would mean the integration of all waste services across the two tiers of local government. The barriers to unlocking savings would be removed and the greater benefits gained by working together would then be shared across all authorities.
12. A cost benefit analysis was commissioned by SWP and initial estimates indicate that managing services in this way could lead to annual savings of between £9.0m and £12.4m. This equates to between 11.4% and 15.7% of the consolidated budget for waste management in Surrey. Further benefits could include increases in recycling rates, a more consistent service for residents, and national recognition as a result of delivering large-scale benefits through advanced partnership working.
13. Transformational changes of this magnitude do not take place over night. Current arrangements are often tied to existing waste collection contracts or the lives of collection vehicle fleets. Authorities may also have different appetites for integrating their services with those of other authorities. A phased approach is therefore required, starting with the authorities that are ready and willing to change now. Figure 1 shows the proposed stages for transitioning to a single waste entity.

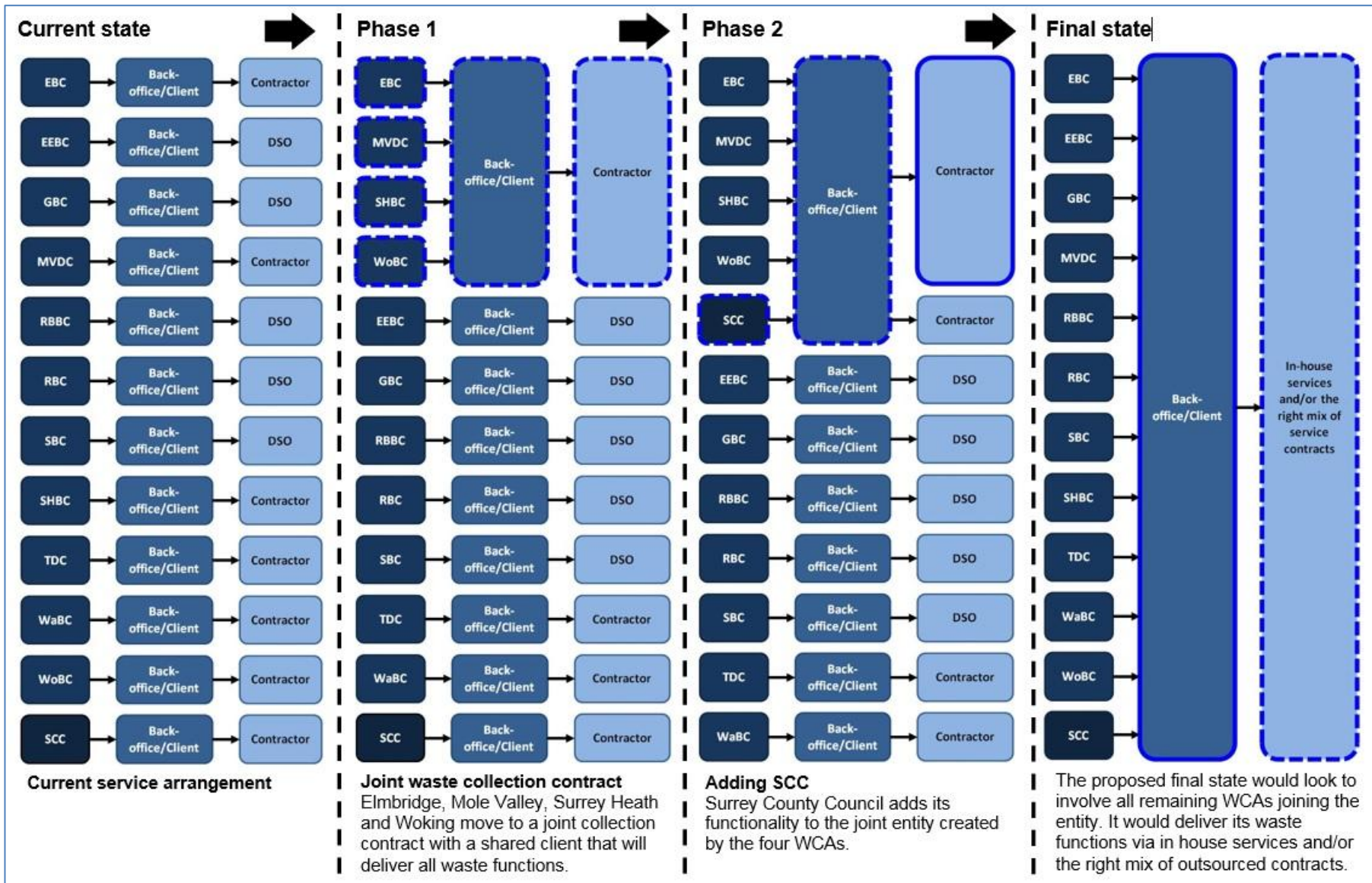


Figure 1: Blueprint for new partnership working arrangements in waste

Joint waste collection contract

14. The first phase, which is already happening, is the letting of a joint waste collection contract for Elmbridge, Mole Valley, Surrey Heath and Woking (The Four). The Four are at an advanced stage of procuring a single contractor for delivering their waste collection services, which is likely to deliver significant benefits.
15. Subject to council approval, the joint contract should be awarded by the end of November 2016, and the joint entity that manages the contract should be established in early 2017.
16. In order to do this, the authorities have signed an Inter Authority Agreement (IAA) which sets out how they will procure the contract. Upon appointing the contractor, the authorities will enter into a new IAA.
17. Principles of this IAA include mutual trust, cooperation and consultation. The IAA stipulates that no partners should be worse off as a result of a decision made by the entity. The IAA also sets out the terms governing joint working arrangements and specifies how costs, liabilities, rights and responsibilities will be shared and managed between the partners.
18. The principles developed for the joint collection contract provide a template for joint working in Surrey and can be used as a basis for the co-ownership approach.

Final state

19. As shown in Figure 1 the proposed Final State would integrate the waste functions of SCC and all 11 district and borough councils in a single entity. This means that the joint collection contract arrangements would be expanded to include the waste functions of the other authorities, starting with the county council, then any other districts and boroughs that wish to join.
20. This section explains how this expanded joint entity could work.
21. **Aim of the joint entity:** To manage Surrey's waste in the most efficient, effective, economical and sustainable manner.
22. **Objectives:** Deliver improvements, share costs and benefits, remove organisational barriers, foster mutual trust and protect partners' interests.
23. **Functions:** To maximise the impact and effectiveness of the joint entity, it must manage as many of the participating authority's waste management functions as possible. It is therefore proposed that all waste management and street cleansing functions are delegated to the joint entity unless it is not economically advantageous to do so.
24. **Governance:** The new governance arrangements of The Four have been carefully developed over the last few years based on national best

practice. They are perfectly suitable to govern an expanded joint entity and it is proposed that they are used as such. The key elements of this governance structure are:

- 24.1 A joint committee consisting of one elected Member from each authority. Each has a single equal vote, meaning that power is shared evenly. The committee is supported by an advisory board of senior officers.
- 24.2 Certain 'Tier 1' decisions are referred back to individual authorities. These include approving/amending the budget, major service changes, changes to contracts or assets and other authorities joining.
25. **Legal form:** the joint entity needs to be a legally recognised form so that it can let contracts and appoint staff. The two main options are to either appoint an administering authority, or to create a company. There are pros and cons for both options which need to be considered in more detail. However the default legal form will be an administering authority, the interim legal form chosen for Phase 1.
26. **Cost sharing:** as a high level principle, it is proposed that each partner will own a percentage of the total budget so that costs and savings are shared fairly and equitably. Quite how these percentages are derived needs to be determined through detailed modelling and discussions. There would be no need for recycling credits or the other existing financial transfers with this mechanism.
27. **SCC joining the entity:** It is proposed that, in early 2017, SCC delegates its non-core waste functions, which carry no financial liability, to the joint entity. A decision on how to incorporate SCC's remaining functions will then need to be made in 2017 as part of agreeing a detailed cost sharing mechanism. This is discussed in more detail in the next section of this report.
28. **Other districts/boroughs joining the entity:** Other districts/boroughs are invited to join the entity and the joint collection contract in order to maximise savings. It is also possible for an authority to join the entity but retain its own collection services. This would result in far fewer benefits to that authority and may cause some conflict of interest issues with decision making, but with 'work arounds' this could be considered should it be something the authority wishes to explore.

Integration with the Waste Disposal Authority

29. The four joint waste contract authorities have worked closely and successfully together to deliver significant financial savings and service improvements on the collection aspects of waste management. However, neither the contract nor the Inter Authority Agreement includes any of the waste disposal arrangements currently managed by Surrey County Council. This arrangement results in continued duplication of

functions as well as the continued risk that policies and services designed by the disposal authority are not in line with those designed by the collection authorities, and vice versa.

30. Given the four joint waste contract authorities have already aligned their services and will create a shared waste function as well as a Joint Committee to govern the contract, it is logical for them to be among the first to create an enhanced single entity together with Surrey County Council. This would mean that for the first time, districts and boroughs would be able to make decisions relating to the waste disposal arrangements in their localities.
31. Surrey County Council has two core functions as a Waste Disposal Authority, which it carries out through a 25 year PFI contract with Suez:
 - To arrange for the disposal of controlled waste collected by Surrey's Waste Collection Authorities in Surrey
 - To provide places for, and disposal of, waste deposited by householders in the county (the Community Recycling Centres)
32. It also has a number of other functions:
 - Kerbside improvement initiatives to increase recycling and reduce waste arisings
 - Management of food, green waste and other recyclables collected at the kerbside
 - Payments to waste collection authorities
 - Data management and monitoring
 - Policy development and alignment
 - Performance management
 - Engagement with government, the waste sector, industry and others on the waste agenda
33. SCC is also the host authority for the Surrey Waste Partnership, which includes:
 - Surrey wide communications and engagement
 - Strategy development and monitoring
 - Management of key SWP projects
 - SWP governance
34. In order to integrate the statutory WDA functions into the joint entity, further work is required to develop a fair and transparent cost sharing mechanism. Whilst this work takes place, it is proposed that the non-core functions of the WDA transfer to the joint entity, which do not carry with them any financial liability, in order to demonstrate the early benefits of single tier working. These would include reducing the current duplication

of effort inherent in the current system and further improving the service offered to Surrey residents.

35. Further work is required to fully develop the business plan and a revised or supplementary Inter Authority Agreement will be required to reflect the changing partnership arrangements, and will confirm the scope of functions included, the cost sharing mechanisms and the legal status of the entity. It is proposed that this work will take place during 2017.

Interim financial arrangements for 2017/18

36. Whilst efforts have been made to increase kerbside recycling in recent years, the rate of improvement has been lower than projected, which has placed a significant burden on the county council’s waste budget.
37. Over the last few years, an increasing proportion of the total cost of managing waste in Surrey has been borne by SCC as the Waste Disposal Authority (see Figure 2 below). SCC spent £47.2 million on waste in 2009/10 and this had risen to £55.5 million in 2015/16.

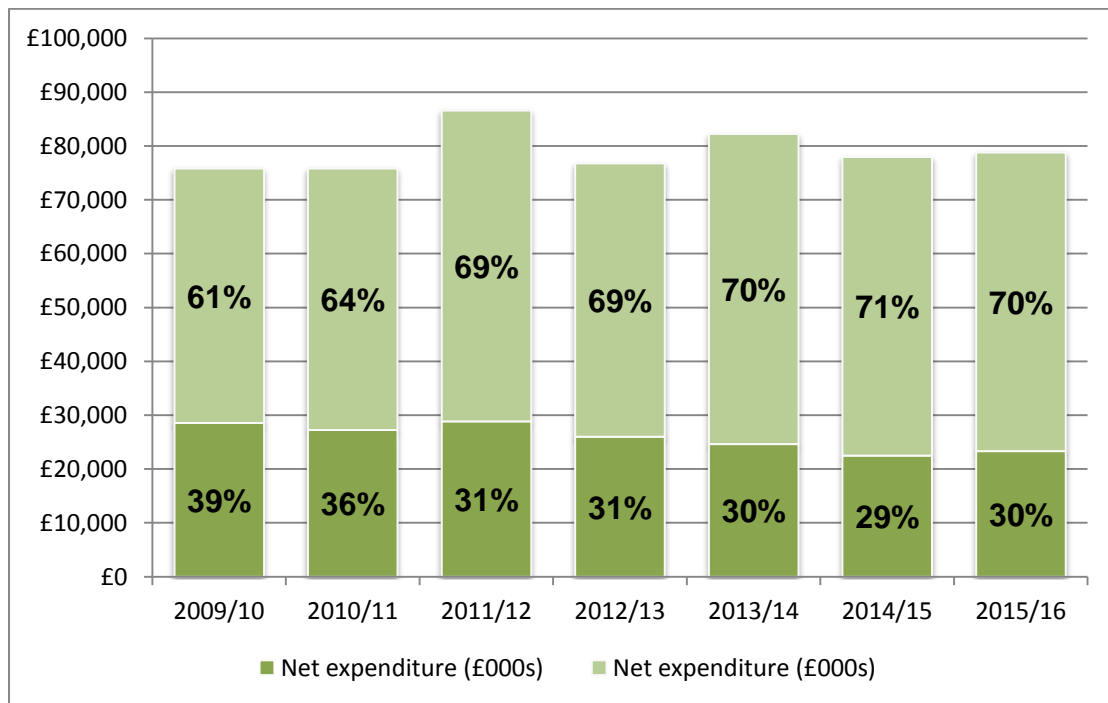


Figure 2: Net expenditure on waste by SCC (WDA) and district and borough councils (WCAs)

38. Fundamental changes as a result of the SWP Future project will not happen straight away and the Final State single waste entity is not likely to come into effect until 2019 at the earliest. For this reason, SCC is planning to put forward proposals for interim changes to current financial arrangements in 2017/18 in order to partially offset the increased costs that SCC has taken on.
39. These arrangements will be considered by the SWP Future Member Reference Group and SCC is currently engaging with district and

borough partners in order to develop a proposal. This will then be considered by Surrey Chief Executives at their meeting in November, and subsequently by Leaders, in order to reach an agreement for 2017/18. The outcome of these discussions will be reported to SCC Cabinet in December.

Conclusions:

40. A county-wide co-owned entity for waste services would address the issues of the current system and enable improvements in many areas. This would result in the realisation of significant financial, environmental and reputational benefits, and would enable waste services to be delivered in a fairer and more inclusive way.
41. SCC is continuing to engage with district and borough partners on how the SWP Future project can be moved forward and how potential benefits may be realised at the earliest opportunity.

Recommendations:

42. It is recommended that Economic Prosperity, Environment and Highways Board note this report, and the feedback from the Member Reference Group, and make comments.

Next steps:

43. The joint collection contract authorities are due to make a decision on the contract and the principle of expanding the joint entity to include SCC Waste Disposal Authority functions during October and November of this year.
44. The outcome of this will be reported at SCC's December Cabinet and recommendations will be made for how and when SCC could transfer its functions to the joint entity.
45. Proposals for interim financial arrangements for 2017/18 will also be considered by Cabinet in December.

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Sources/background papers:

- Cabinet Report: Delivering the Surrey Waste Strategy, 24 May 2016
- Joint Municipal Waste Management Strategy, Revision 2 (2015)

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