

## Communities, Environment and Highways Select Committee



Thursday 18 June 2020

### Rethinking Waste – Surrey County Council’s Waste Commissioning Strategy

**Purpose of report:** to seek the Committee’s views on the development of the council’s waste commissioning strategy including outcomes and procurement programme

#### Introduction:

1. The current Waste Private Finance Initiative (PFI) contract with Suez provides for the treatment and disposal of all local authority collected waste arising within the county. This contract expires in September 2024, and Surrey County Council needs to commission new service arrangements. The Waste Commissioning Strategy will shape those new arrangements, including the infrastructure, ways of working with our district and borough collection authorities, and the services procured.

#### DETAILS:

##### Background

2. The current Waste PFI contract with Suez provides for the treatment and disposal of all local authority collected waste arising within the county, around 500,000 tonnes a year, and includes the design, build, finance and operation of the Surrey Eco Park.
3. The contract covers the operation of all Community Recycling Centres (CRCs), Waste Transfer Stations (co-located with CRCs), and the handling and onward transport of all waste arisings. This includes all kerbside residual, garden and food waste collected by the district and borough councils and ultimately all kerbside Dry Mixed Recyclables (DMR from nine councils are currently included, with two more in transitional arrangements).
4. The design of the Eco Park at Shepperton comprises an anaerobic digester to treat food waste, an advanced thermal treatment plant (gasifier) to treat residual waste and a materials bulking facility alongside the existing CRC. The first two of these facilities remain under construction. As such, most of the total 200,000 tonnes per year of residual waste is currently being treated at facilities outside of Surrey in the South East of England.
5. This Waste PFI contract expires in September 2024, and the Council therefore needs to commission new service arrangements.

## **International and national context**

6. Waste is a global industry with recycling materials forming part of the commodities market exported to meet demand for manufacture. However, in recent years, as countries, particularly in south east Asia, have developed their own recycling industries, they have imposed restrictions on the importing of recycling, leading to a fall in demand and prices.
7. The UK Government's plan is to become a world leader in using resources efficiently and reducing the amount of waste we create as a society. It wants to prolong the lives of the materials and goods that we use and move society away from the inefficient 'linear' economic model of 'take, make, use, throw'. A more circular economy will see us keeping resources in use for as long as possible, so we extract maximum value from them. The aim being to recover and regenerate products and materials whenever we can, giving them a new lease of life. This builds on the existing waste hierarchy of 'prevention, preparing for re-use, recycling, other recovery, and disposal'. It gives top priority to preventing waste in the first place, when waste is created, it gives priority to preparing it for re-use, then recycling, then recovery (e.g. energy from waste), and last of all disposal (e.g. landfill).
8. To that end, the Resource and Waste Strategy for England was published in 2018. DEFRA are now engaging stakeholders on a number of issues. These include consistency of collections across the country which will likely make weekly food waste collections mandatory (already adopted in Surrey), possibly make green garden waste collections free of charge (Surrey Councils all charge for collections, but it is free at CRCs), and may lead to separate paper/card collections (Surrey Councils collect this mixed apart from Reigate & Banstead Borough Council). DEFRA is also discussing with stakeholders 'Deposit Return Schemes' for cans, bottles and glass and 'Extended Producer Responsibility' for other wastes. The proposed changes will have a significant impact on council waste collection and disposal services.
9. The next round of DEFRA consultations are not expected until Autumn 2020, with legislation potentially being introduced in 2021-22 and implementation from 2023. The national response effort to the Coronavirus may delay this further. However, the council needs to develop its Waste Commissioning Strategy now to guide the procurement for 2024.
10. As such, assumptions will be made based on engagement with DEFRA and other key stakeholders involved in the development of Government policy in this area to ensure that the council's strategy is developed to align as much as possible with the emerging national policy context.

## **Local context**

11. In two tier areas like Surrey, waste disposal and collection responsibilities are split between the upper and lower tier authorities respectively. In Surrey, there is a positive partnership working between the council as the waste disposal authority and the district and borough councils as the collection authorities in the form of the Surrey Environment Partnership (SEP), which aims to manage Surrey's waste in the most efficient, effective, economical and sustainable manner. This work is funded by the council through a fixed payment mechanism. There has been some progress in recent years by the partnership in developing a more joined up approach to how

waste is managed in the county, with common communications, all households receiving food waste and similar dry mixed recycling collections.

12. However, there remain fundamental challenges to the way in which waste is managed in Surrey. Despite having one of the highest recycling rates in the country (41<sup>st</sup> out of 345 Councils), the proportion of household waste which is sent for re-use, recycling or composting has remained relatively static over recent years at 55% (2018/19) - well below the Partnership's target of 70%, (although this is measured slightly differently achieving 60% in Q2 2019/20). The Resource and Waste Strategy has a target of 75% packaging recycling by 2030, and the EU Circular Economy package includes a target for recycling at least 65% of municipal waste (which includes household and similar trade waste) by 2035. One of the challenges for the Commissioning strategy will be to develop Key Performance Indicators that reflect the outcomes we wish to achieve.
13. Further, the costs of waste management have increased in recent years. Reasons for this include, an increasingly challenging global market for the sale of recycling materials, some European countries have introduced energy from waste taxes, and the transactional cost of two-tier financial mechanisms. In addition, there is a need to review the infrastructure for waste treatment that is employed by the council. These issues are explored in more detail later in this report.
14. The Communities, Environment and Highways Select Committee considered a report from the Waste Task Group in September 2019. This included recommendations on Community Recycling Centres and improving the work delivered via the Surrey Environment Partnership. The Waste Commissioning Strategy will further develop those proposals.

### **Developing a Waste Commissioning Strategy**

15. The Surrey Joint Municipal Waste Management Strategy, which is led by the SEP, was last revised in 2015. A full strategy revision was due in 2019/20. However, consultation with the district and borough councils has found that they prefer to await the detailed implications of the national strategy before revising the joint strategy. The strategy is a key product of this partnership working and whilst there is the challenge of the timing to refresh this strategy, it is proposed that the council's Waste Commissioning Strategy is undertaken in a way that complements the later refresh of the joint strategy.
16. Also critical to the consideration of how Surrey manages waste in the future, the council approved the Surrey Climate Change Strategy in April 2020. The Strategy sets a net zero carbon target for the county by 2050. Its strategic priorities for waste include minimising the creation of waste and working with partners to develop practical, innovative and effective methods for increasing reuse and recycling rates. The council will also evaluate the current carbon impact of recycling collection and disposal practices so that their impact can be lessened.
17. In order to ensure that the council commissions an effective approach to the treatment of waste moving forward, it is proposed that a Waste Commissioning Strategy is developed to identify how to minimise the amount of residual waste we treat, the infrastructure required, and options for delivering waste management

system efficiencies with district and borough councils, to deliver the desired outcomes, the procurement process, and a timeframe.

18. The **outcomes** for the proposed strategy are set out below:

- a. Meet Surrey County Council's Waste Disposal Authority (WDA) statutory duties.
- b. Maximise the financial sustainability of waste management in Surrey.
- c. Reduce the carbon impact of waste collection and disposal.
- d. Maximise the integration of waste management in the county

19. In delivering these outcomes, the proposed strategy will need to address the challenges set out in paragraphs 11 and 12 above, which are explored in more detail below.

### **Waste Reduction**

20. Key to achieving the proposed outcomes will be to reduce the amount of residual waste generated by the county, as it has the largest impact on cost, carbon, and infrastructure.

21. The overall recycling rate for Surrey has not seen a step change improvement since 2011/12 when it stood at 52%. The most recent compositional analysis of Surrey's household waste in 2016 identified that a significant amount of materials left in residual waste could have been recycled in existing kerbside waste collections or at the community recycling centres.

22. Food waste was by far the largest component of recycling left in residual waste. The compositional analysis showed that roughly 45-46,000 tonnes of food waste which could be recycled was going into residual waste. This represents the single largest opportunity to reduce the amount of residual waste.

23. Since that audit, separately collected food waste has increased by 7,000 tonnes. It is reasonable to assume that there are currently around 40,000 tonnes of Food Waste in the residual waste stream. This equates to around £4million in unnecessary disposal costs. A more accurate figure will be known once the 2020/21 waste compositional analysis is available.

24. In addition, samples of kerbside collected dry mixed recycling contain on average 4% of food waste, which not only is a contaminant itself, but further contaminates other recyclables including paper and card, reducing their value.

25. As such, the SEP have agreed that their work programme for 2020/21 will focus on increasing food waste capture, reducing contamination of dry mixed recycling and reducing residual waste, through data based targeted interventions.

### **Financial mechanisms**

26. The existing waste funding mechanism through which the council funds the SEP and the Waste Collection Authorities is due for review in 2020/21. These payments include a fixed and a variable payment mechanism. The variable payment

mechanism was designed to be a share of savings, split 40:40:20 between the council, WCAs and the SEP. However, the fall in recycling income, due to global price falls and contamination levels has negated this.

27. There is an opportunity to review the variable payment mechanism to increase savings shared between all Councils and the SEP by incentivising increased food waste recycling and reducing contamination. Taking into account participation rates and increased collection costs, there is an estimated £2m to £3m in potential food waste management cost savings in Surrey.

## **Infrastructure**

28. Critical to the efficiency of waste management in Surrey is the infrastructure that supports it. The infrastructure in scope of the proposed strategy includes Community Recycling Centres (CRCs), residual waste treatment, waste transfer stations and bulking, materials recovery facilities, food waste anaerobic digestors, composting and other material recycling facilities.
29. CRCs are the public interface of the service. The strategy will consider the scope to improve opening hours, use booking systems, and develop new or larger sites to improve coverage. The opportunity will be taken to explore innovation in recycling difficult wastes such as mattresses and carpets and shredding bulky waste for energy recovery. CRCs can also be developed as “Take Back Hubs” building on the success of the re-use shops.
30. When the Surrey Waste PFI contract was procured, the UK was heavily dependent on landfill, and there was very little residual waste treatment capacity. However, since that time, most Waste Disposal Authorities (WDAs) have embarked on procurements to design build finance and operate treatment facilities such that twenty years later the UK has significantly increased treatment capacity.
31. Discussions with neighbouring WDAs show that as recycling increases and residual waste reduces, some municipal contracts may have spare capacity, which could form the basis of an inter-authority delegation. Others are in a similar position to Surrey in that they have no operational final treatment facility for residual waste in county. Therefore there are opportunities for regional inter-authority collaboration. The attached Annex outlines the position of neighbouring Waste Disposal Authorities.
32. In addition, a number of commercial operators are proposing or have gained planning permission in London and the south east for merchant facilities that require anchor residual waste contracts and funding, to enable construction.
33. Finally, Waste Transfer Stations (WTS) are the key interface between the WDA and WCAs, and the queueing times and travel distances associated with these facilities are very important, having a significant impact on collection round efficiency in terms of lost time and cost. Further, Guildford WTS is recognised as being at the edge of its operational limits and requires capital investment or re-location to ensure business continuity and facilitate other infrastructure, for example, a second Materials Recovery Facility in Surrey.

34. For instance, consultation with WCAs found that the potential to increase WTS opening hours could facilitate re-thinking waste collection patterns, including two shifts a day or four long days, which could reduce peak times and traffic queuing. These options will be considered as part of the Waste Commissioning Strategy.

### **Environmental sustainability**

35. An Environmental Sustainability Assessment (ESA) will be required for the procurement. As part of the Options Appraisal process we will evaluate the current and proposed carbon impact of waste collection and disposal, using the Waste and Resources Assessment Tool for the Environment (WRATE) methodology.

### **Governance**

36. In December 2016, Cabinet agreed to combine SCC's WDA partnership functions with the functions of the four joint waste collection contract authorities. Officers have since developed a business case, which recommends the optimum solution for the transfer of the remaining core WDA functions.
37. Work by the SEP has identified that waste system savings of between £9m and £12m could be achieved through increased joint working. The savings achieved by the four authorities who have entered into a joint waste collection contract provide early evidence of the benefits of this approach. The £2m to £3m savings identified above in diverting food waste from residual waste is another.
38. The need to commission new service arrangements for the WDA presents an opportunity to develop the co-ownership model of waste services in Surrey. This model could take a number of forms, including a local authority company, in house direct services, and/or contracting with a third party. In order to meet the desired outcomes, the procurement will need to have support and commitment from both tiers of local government in Surrey.

### **Strategy and procurement programme and timetable**

39. The provisional programme to develop and deliver the strategy assumes the longest timetable of an 18-month Competitive Dialogue procurement with a three-stage dialogue and deselection process, planning and site selection for any infrastructure, leading to contract award in 2024, with facility building after this.
40. However, the commissioning strategy will also consider alternative approaches including dividing the service into separate packages which could be procured in a much shorter timescale. Residual waste treatment is currently treated in this way with market testing and sub-contracts awarded in under a year through the Waste PFI.
41. Engagement with other councils may lead to inter-authority agreements or co-ownership service models that may fall into a timescale somewhere between one and four years.

## Consultation:

42. From January to March 2020, the council undertook a series of meetings with key officers in Surrey districts and boroughs and with Joint Waste Solutions and SEP to assess views on the following issues:
- Issues and opportunities for closer joint working between the council and the districts and borough councils and the role of the SEP - building on experiences and models of joint working elsewhere in the country and testing these models with partner authorities.
  - Current arrangements for collection including the term and degree of flexibility of existing contracting arrangements or fleet services.
  - Aspirations for future collection arrangements and consideration on how these might be affected by the emerging Resource and Waste strategy.
  - Views on the current services and infrastructure provided by the council (CRCs and Waste Transfer Stations) and what new services or infrastructure would be required in the future.
  - Commercial opportunities, particularly those arising from the development of infrastructure such as for bulking and processing material arising from deposit return or extended producer responsibility obligations. Including potential models of delivery with and without the private sector.
43. During April 2020, the council met with neighbouring WDAs to understand what opportunities there may be for collaboration for up to 150,000 to 200,000 tonnes a year of residual waste treatment, and any other waste areas that may be of mutual interest. It was found that some municipal contracts may have spare capacity, and others may consider working together to realise new facilities on sites with planning permission. These options can be explored as the strategy is developed.
44. Further engagement will be undertaken in the development of the strategy, with representatives from District and Borough Councils on the Board, officer and member workshops and soft market testing for appropriate elements of the service.

## Points for consideration:

45. The Committee's views on the following would be especially useful in developing the waste procurement strategy:
- Waste reduction: Should the strategy focus on reducing the amount of residual waste by increasing food waste recycling?
  - Financial mechanisms: Should the variable element be reviewed to incentivise recycling and reduce contamination rates?
  - Infrastructure: Should the Council continue to rely on regional facilities to treat residual waste?
  - Governance: Should the co-ownership model of waste services be developed?
  - Outcomes: Are the proposed outcomes supported?

## Recommendations:

46. It is recommended that the Committee:
- (a) approves the development of a Waste Commissioning Strategy;
  - (b) approves the proposed outcomes for the Waste Commissioning Strategy, to:
    - 1. Meet Surrey County Council's Waste Disposal Authority (WDA) statutory duties.
    - 2. Maximise the financial sustainability of waste management in Surrey.
    - 3. Reduce the carbon impact of waste collection and disposal.
    - 4. Maximise the integration of waste management in the county
  - (c) approves the programme proposed for the development of the strategy and re-procurement of the waste disposal contract; and
  - (d) within this programme, approves the review of the variable elements of the funding mechanism through which the county council funds the Surrey Environment Partnership and the Waste Collection Authorities.

## Next steps:

47. The Executive Director of ETI will establish suitable Board and Governance arrangements with representatives from Surrey Chief Executives and the Surrey Environment Partnership.
48. The Board will develop the Waste Commissioning Strategy in accordance with the desired outcomes considered by the Committee Cabinet, including developing Option Appraisal Criteria for recycling/ composting performance, infrastructure deliverability, system cost efficiencies, circular economy and carbon impact and report back to Committee next year on the proposed procurement options.

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## Sources/background papers:

- **Annex 1: Neighbouring Waste Disposal Authorities**
  - Re-thinking Waste consultation, Surrey Environment Partnership, Officers' Group, 4 June 2020
  - Waste reduction and financial arrangements, Surrey Environment Partnership, Officers Group, 4 June 2020
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