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| Title | Strategic Options Appraisal Workshop Report |
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Background

Waste disposal in Surrey is currently under a 25yr PFI contract with Suez Surrey which commenced in 1999. The current contract is due to end in on 19th September 2024. The programme area has a net annual budget of approximately £68m.

Suez manage and dispose of approximately 232KT of Surrey's residual waste each year. 212KT are sent to Energy from Waste (EfW) facilities via several offtake contracts and approximately 20KT are sent to landfill although the use of landfill is avoided where possible.

Suez have developed an Eco Park at Shepperton which comprises an anaerobic digestion (AD) plant for 40 KT/A of food waste and a gasification plant for 56 KT/A of residual waste together with a recyclable bulking facility and community recycling centre. The AD plant has been successfully commissioned and is now processing all of Surrey's food waste and the gasification plant remains in commissioning.

To manage the waste collected, Surrey County Council (SCC) has a network of 15 Community Recycling Centres (CRCs), 4 Waste Transfer Stations (WTS) and a bulking facility within the county.

The CRCs play an important and public facing part of SCC's high performing household waste management system.

SCC's 11 district and borough councils act as waste collection authorities (WCAs) and are responsible for collecting household waste from Surrey's residents. As a waste disposal authority (WDA), Surrey County Council is responsible for disposing of all waste arising.

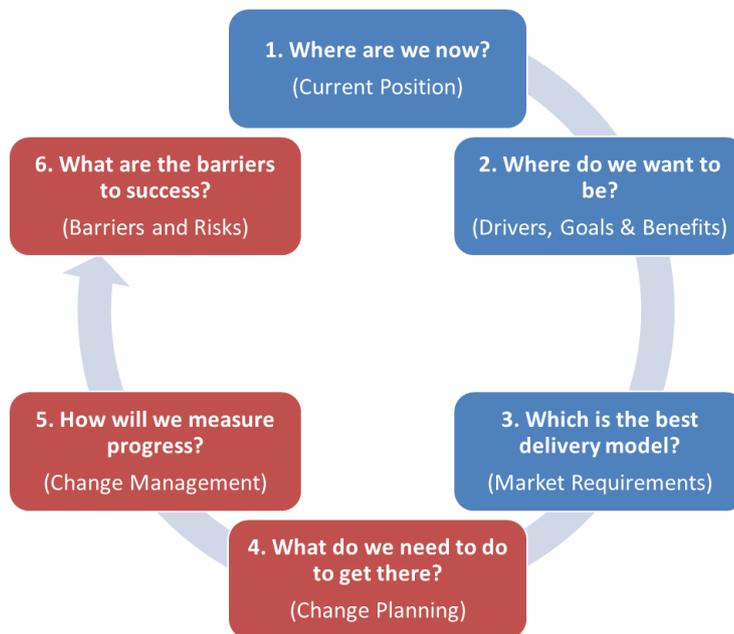
55.1% of all household waste in Surrey is recycled but it is acknowledged that there is scope to increase this.

72,599 tonnes of household waste were collected and recycled at the CRCs in 20/21 (this includes some non-household waste such as rubble, which is chargeable).

SCC operates a waste charging scheme at 9 of its larger CRCs for the disposal of waste arising from construction, alterations or repairs to homes, gardens and tyres.

The Process

Figure 1: Future Service Delivery Options – Scope of Review



The appraisal workshop was facilitated by members of the Contract & Commercial Advisory Team (CCA). In this workshop, participants were asked to assess potential future delivery models against several factors.

The role of the CCA team is primarily to facilitate the workshop and provide an appropriate level of challenge to the views and opinions presented. The level of confidence in those opinions is assessed and a consensus of opinion is established.

Assessment Criteria

Below is a summary of some of criteria used to assess the viability of the options presented.

- Strategic Alignment
- Strategic Objectives
- Political Alignment
- Economy
- Efficiency
- Effectiveness
- Complexity
- Capability
- Affordability
- Cultural Alignment
- Deliverable within available time scales
- Risk & Risk Allocation

- Reputational
- Operational
- Legal
- Financial
- Stakeholder Acceptance
- Technology Readiness
- Authority Readiness
- Market Readiness
- Opportunity
 - Savings
 - Revenue generation
 - Improves service resilience
 - Confidence
 - Realisation Effort
 - Realisation Risk

Workshop Participants

| | |
|-------------------------|---|
| Richard Parkinson | Resource and Circular Economy Group Manager |
| Alan Horton | Rethinking Waste Programme Manager |
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| Jodi Johnston | Waste Services Commercial Officer |
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Options presented for review:

1. To consider the insourcing of the entire service.
2. To determine whether an integrated contract or separate contracts for each element of the service are most appropriate.
3. If disaggregation is most desirable/effective/efficient, which elements are capable of being insourced?

Distinct service areas presented for review:

- Residual Waste
- Dry Mixed Recycling (DMR)
- Garden Waste

- Food Waste
- CRCs, WTSs & Haulage
- Street Sweepings
- Bulky, Fly Tipped, Hazardous

Options Appraisal Findings

Option 1: To consider the insourcing of the entire service

Generally, it was felt that SCC does not possess the infrastructure required to dispose of the various waste streams itself. Nor would it be possible to design and build the necessary infrastructure before September 2024. The scale of the investment and resources required to design, procure, build and commission facilities such as composting, Material Recovery Facilities (MRFs), Energy from Waste facilities (EfW), Street Sweepings etc are simply not possible within the timescales available and would be heavily influenced by external forces such as the availability of capital, planning conditions and environmental permits for which there is no assurance we would secure them.

The matter of risk and risk allocation was discussed. Based on direct experience and from the experiences of other local authorities, who owns the risk of failing to manage and dispose of waste is a critical consideration. This is especially true with regards to residual waste (black bag waste not sent for recycling). Environmental permits applied to facilities are heavily constrained and Surrey today, does not have the capacity within its infrastructure to give assurance that these permits would not be breached. Today, Surrey's WTSs, managed by Suez, have the capacity to hold approximately one day's collected waste. However, if an issue arises, Suez can make use of other waste facilities within its control to reduce the risk of breaching permits or increasing costs. This level of flexibility and resilience will not be available to SCC should it insource the service. If, due to circumstances out of its control (such as a technical failure at an EfW facility), Surrey was unable to dispose of this waste, it could find itself in breach of its permits, risking the application of financial penalties or having to dispose waste urgently at higher financial and environmental cost. It was agreed that the risk of managing waste streams should sit with the party best placed to manage it.

Access to disposal capacity within the regional market is also an important consideration. Private contractors collect far greater volumes of Local Authority and commercial waste from a wide range of sources. These volumes enable them to secure guaranteed capacity at waste facilities and preferential prices with it; SCC's waste volumes, while appearing to be considerable, are small by comparison. As a result, there is no guarantee that SCC could secure capacity at appropriate facilities and the public contract regulations would prevent SCC from being able to negotiate commercial terms in the way a private contractor could.

The costs of the required resources are also a factor here. Commercial operators have teams of centralised resources that operate across multiple contracts. This makes their operation

efficient and more cost effective. If insourced, SCC would not benefit from this scale and so some elements are likely to cost more than if outsourced.

Conclusion: To this end, it is widely accepted that insourcing both the management and disposal of waste is not a realistic option at this time.

It is however, recognised that, in the time available, it would be possible to insource the contract management element of the service. This would therefore enable the council to move away from a single contractor who also acts as an 'integrator' to a series of contracts with different providers managed by an in-house team.

Option 2: To determine whether an integrated contract or separate contracts for each waste element are most appropriate.

Several key themes emerged as the group explored what it wanted to achieve in a future contract. These included:

- Increased transparency
- Greater flexibility
- Encouraging SME's to participate
- Reduced risk
- More control
- Reduced cost from sub-contracting

A discussion ensued to evaluate whether an integrated or a dis-aggregated contract would help us achieve these goals.

Increased transparency – within the current integrated contract, there is a distinct lack of transparency in some areas. By having smaller contracts, underpinned by less complex commercial models, SCC should be able to both improve transparency and create an environment conducive to collaboration. This has also been the experience of Kent CC who have adopted a similar approach in recent years.

Greater flexibility – The waste market, the habits of residents and a new strategic direction due from government, means that SCC needs far more flexibility than in the past. SCC will require flexible arrangements with providers, to adapt and vary the contract scope in line with future demands. Larger, integrated contracts are often built on guaranteed volumes and revenues over time and their focus on the overall return on investment often reduces flexibility. This has certainly been the case with Suez. It is believed that smaller, dis-aggregated contracts will offer greater flexibility.

Encouraging SME's to participate – Supporting and growing the local economy is a key strategic objective for SCC. A larger, integrated contract will not guarantee that Surrey

residents and providers will benefit. With smaller contracts to manage distinct waste streams, SCC will be able to design services and contracts that encourage local participation.

Reduced risk – Sudden supplier failure poses a significant risk. This has been observed in recent years with the collapse of the Carilion group in 2017. Smaller contracts, with multiple parties, should reduce SCC's exposure to risk and the impact of any one failure will not disrupt the service provided by others.

More control – By disaggregating the service areas, it is likely that SCC would take on the contract management role and would increase the level of direct control of each service. This approach of course, comes with its own risks and is reliant on being able to recruit and retain staff with the required levels of skill and experience.

While most of the opinions above come from the extensive experience that was in the workshop, much of this is also supported by the results of recent market testing.

Conclusion: The consensus was that disaggregating the service into distinct separate contracts, would yield the best results at this time.

Option 3: If disaggregation is most desirable/effective/efficient, which elements are capable of being insourced?

Residual Waste

There are several key considerations when it comes to the treatment of residual waste but the overriding factor here is that SCC simply does not have the infrastructure required to treat the current volumes of waste collected.

Decision: Outsource

Dry Mixed Recycling (DMR)

As with residual waste, the key factor with DMR is that SCC does not have the MRF facilities needed to sort and treat the 110 – 130ktpa collected by the WCAs. There is however a strong desire to explore the development of SCC owned facilities moving forward. This will be subject to financial and planning constraints and so cannot be committed to ahead of the end of the existing contract. To that end, short to medium contracts should be sought with commercial processors for the treatment of DMR to allow SCC the time to explore the development of its own facilities.

Other lesser considerations include the fact that some WCA's deliver direct to local processors. Any future arrangement would need to ensure we do not adversely affect the WCA operation.

Also, SCC would need to 'trade' our recyclable on the open market. This will take an element of skill and commercial acumen that it does not possess today.

Decision: Outsource (for the time being)

Garden Waste

While the process of treating garden waste (aka green waste) is far less complex than that of an EFW or MRF, the reality is that the treatment methods available are not always popular. In vessel composting, while more efficient and less intrusive for residents, a significant investment would be required to build an in-county facility. Less costly methods, such as open windrow composting, are simpler in principle but are often objected to by residents because of the resulting odour. SCC has secured what appears to be a comparatively beneficial commercial arrangement with local processors in the SE of England and the consensus was to continue this arrangement but be open to developing its own facilities in the future.

Decision: Outsource

Food Waste

Food waste, collected by WCAs, is currently treated through the anaerobic digester (AD) at the Ecopark and so the two are intrinsically linked. SCC needs to maintain the level of feedstock into the AD to keep it at optimum capacity and so whoever operates the AD moving forward, they would no doubt seek to secure this volume. Who manages the AD moving forward is subject to other discussions and is out of scope for this exercise. A consideration for future exploration is who owns the risk should the volume of food waste collected exceed the processing capacity of the AD?

Decision: Outsource

CRCs, WTSs & Haulage

As described earlier, there are several risks that relate to the failure to correctly manage residual waste within the constraints of the applicable environmental permits. Some of this risk today is mitigated by accessing capacity at 3rd party transfer stations facilitated by Suez. Access to excess capacity and building contingencies into future arrangements is a key consideration.

It is important that the risk is managed by the party best placed to manage it and the consensus is that outsourcing this risk is a priority.

These three elements have been 'bundled' together as they share several synergies. Not least the fact that they often operate from the same physical locations and so segregating them would pose a significant operational challenge and probably cost.

The efficiency of the operation between these three elements is also key. The level of coordination and cooperation needed is significant and so a single operator is preferred to manage this interface and reduce the risk of a breakdown in communication contributing to service failure.

While this appears on the surface to be three operational services, to underpin them, SCC would need to procure circa 30 additional contracts as outlets for each of the collected waste stream (metal, woods, hardcore, WEEE etc), and other to enable the processing of

waste such as the requirement for a qualified chemist to catalogue hazardous material. This is not insurmountable but should be factored in.

The complexity, cost and contingencies needed for SCC to own, operate and maintain a fleet of vehicles would be considerable and should not be underestimated. Private hauliers are perceived to be better able to manage the fleet, the drivers and administer licenses such as Operator License (O-license).

In conclusion, the team do feel that with the appropriate level of effort and resources, this element could be operated by SCC as an insourced service (as it was prior to 1999). However, the complexities of managing the human resources needed to cover the service over multiple locations, the investment required in fleet, machinery and safety equipment and the experience needed to do this safely and well, is currently beyond SCC's capability. CRCs particularly, are SCC's 'shop window' into waste for residents and it is vitally important that the public see these facilities operating efficiently and effectively. In addition, evidence from other waste disposal authorities has indicated that the cost differential between outsourcing and insourcing is marginal.

Decision: Outsource

Street Sweepings

Street sweepings are collected by WCAs and delivered to agreed locations, often WTSs. They often comprise of aggregates and leaf litter collected from Surrey's streets. While this is a reasonably uncomplicated treatment process, SCC does not possess the facilities needed to process it. SCC has favourable terms with a local provider, which it would seek to continue, albeit recognising this would be subject to competition. SCC is open to considering the development of its own capability if a business case supports it. Until this time, continuing with a short to medium term contract with a private contractor is the preferred option.

Decision: Outsource

Bulky, Fly Tipped, Hazardous

This area is the catch-all for those waste streams that do not obviously sit elsewhere. There is no decision made or action required immediately but there are some considerations that need to be addressed so that any decisions can be incorporated into any future strategy and resulting procurement. These include:

- Bulky, Fly Tipped & Hazardous waste could all feasibly be incorporated into the CRC/WTS contract or alternatively into the residual waste contract.
- Adapting to future legislation, which is likely to introduce requirements to prevent fire retardant material being sent to land fill. This would include the material used to make bulky household furniture, such as sofas.
- SCC could invest in developing a facility that would treat bulky waste to enable it to be treated by more conventional methods such as recycling or energy from waste.

This could include stripping mattresses down to their component parts or shredding bulky items into a more manageable form and sent for energy recovery.

- Expanding the re-use offer to upcycle and sell items, either directly or through a form of franchise or partnership agreement as seen in neighbouring counties.
- As we know that WCAs often struggle to collect and manage fly tipped waste, could SCC provide a chargeable service to manage this on their behalf. This could stretch to cover waste tipped on private land.
- Consider other small contracts such as 'Road Kill' to ensure nothing is missed when services are designed and specifications are drawn up.

The Ecopark

While out of scope for this exercise, it should be noted that the existence of the Ecopark facility could potentially have an impact on parts of our future service design. It is widely accepted that both the AD and the gasifier, located at the Ecopark, are very complex to manage and the impact of who owns these facilities or when/if they will be handed back to the authority to manage, could have a significant impact on some of the waste streams, especially residual waste and food waste. It could also impact on the amount of bulking capacity available to the authority. There are several variable factors that need to be considered and not all are within the authority's control. This makes it very difficult to plan for or include in this review of the future service model(s). It should however, be a constant factor considered until its future is resolved.

Other Considerations

Below are several points that were raised during the workshop. They do not feature heavily in the current decision-making process but are important enough to capture for consideration at the appropriate time.

- ❖ If CRCs, WTS & Haulage are outsourced, SCC needs to consider the mechanism residents will use to contact the appropriate agent to raise concerns/complaints and how these enquiries will be managed and escalated.
- ❖ Guarantees on waste tonnages in any future waste contract, should be carefully considered and modelled and allow for fluctuations caused by changes in legislation or the behaviour of residents.
- ❖ Excess waste capacity management is an important factor. Experience shows that Suez, on our behalf, regularly make use of other facilities at its disposal to meet peaks in demand. This should be considered further and contingencies built into to future contracts.
- ❖ The MRF, currently operated by Grundon in Leatherhead, is not guaranteed to operate beyond 2025. This will particularly affect Mole Valley DC, who currently direct deliver their DMR, if a suitable alternative is not in place by then.

- ❖ The design of the contract management team required to manage the contract as is currently considered, should happen as soon as possible. Once designed, consideration needs to be made as to when to begin budgeting for its introduction.
- ❖ Due to the long exit of the existing contract and mobilisation of whatever is put in its place, there will be an overlap of costs, probably starting on early 2023 which needs to be budgeted for.
- ❖ The effort needed to mobilise multiple replacement service contracts to replace one integrated contract, should **NOT** be underestimated. SCC is fortunate to have a neighbour in Kent CC who has been through a similar process in recent years and all effort should be made to learn from their experience, as well as others who can be identified.
- ❖ SCC needs to consider the timing of events and the potential impact on future specifications. For example, potentially, a decision will be made about the ownership of the Ecopark. One outcome could see a considerable amount of waste displaced and in need of an outlet. Our proposed service specification and tender documents should be flexible enough to cope with the sudden introduction of additional tonnages.
- ❖ Regarding the current condition of our assets, i.e CRCs, consideration should be made as to whether repairs or developments, beyond what would be expected of Suez when handing back, should be undertaken in advance of a new provider taking ownership.
- ❖ The level of Procurement resource needed to support the outsourcing of disaggregated contracts increases significantly from that needed for a single integrated service and needs to be budgeted and planned for.

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