

COMMUNITIES, ENVIRONMENT AND HIGHWAYS SELECT
COMMITTEE



TUESDAY 8 MARCH 2022

OUTLINE BUSINESS CASE FOR THE RE-PROCUREMENT OF WASTE TREATMENT AND DISPOSAL SERVICES – UPDATE ON DIRECTIONS OF TRAVEL

Purpose of report:

To seek feedback on the Outline Business Case (OBC) approach for the re-procurement of waste treatment and disposal contracts which are to commence in September 2024.

Introduction:

1. Surrey County Council is the statutory Waste Disposal Authority (WDA) responsible for the transfer, treatment and disposal of all household waste collected within Surrey.
2. The current waste disposal contract managed by SUEZ is due to expire in September 2024, therefore, the council needs to procure new arrangements to take effect from that date.
3. The purpose of this paper is to seek feedback on the current approach and timeline for the re-procurement and the emerging Outline Business Case (OBC) which will include decisions for Cabinet on:
 - Overall aims of the contract: what we are trying to achieve
 - The delivery model: whether services are delivered in-house or outsourced
 - Contract structure: the number of contracts and contractors, whether to have one contract and supplier as per the current situation or to disaggregate into a number of smaller contracts and what those smaller contracts be made up of
4. The OBC is expected to go to Cabinet by May with the full Procurement Strategy going to the Communities, Environment & Highways (CEH) Select Committee in June, and Cabinet in July. Feedback will be requested from CEH Select Committee on the OBC at the Committee meeting on 8 March.

Background:

5. SUEZ Recycling and Recovery Surrey LTD (hereon, SUEZ) on behalf of Surrey County Council manage approximately 500KT (kiloton) of waste each year. The

current waste disposal delivery model is a 25-year integrated Private Finance Initiative (PFI) contract and covers the transfer, treatment and disposal of all household waste collected within Surrey. This includes: the disposal of the recyclable material for nine of the districts and borough councils; residual waste collected by all 11 authorities via five waste transfer stations and a bulking facility and the provision of 15 community recycling centres. There is also an amount of commercial waste collected by these authorities that the county council arranges the treatment and disposal of. Figure 1 illustrates the current system.

- The cost of the current contract with SUEZ is approximately £64 million per annum.

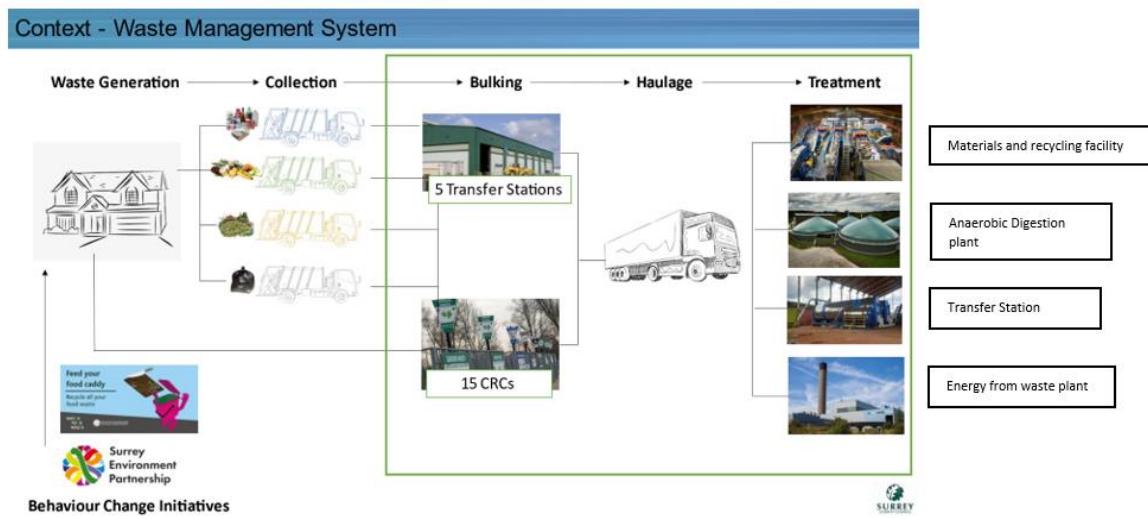


Figure 1. Current Waste Management System, area outlined in Green is Surrey County Council (SCC) functions, with everything to the left being district and borough functions.

- In addition, SUEZ have developed the Eco Park at Shepperton which comprises an anaerobic digestion (AD) plant for 40 KT/A (kiloton per annum) 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 commissioned and is now processing all of Surrey's food waste. The gasification plant remains in commissioning.

Strategic Policy Context

- The Government's Resources and Waste Strategy, 2018 (RWS) (the legal foundation of which is the Environment Bill 2021) was published in 2018 and has been the subject of two public consultations. Whilst the RWS has not been finalised yet, there are several key aspects of the national strategy which are expected, and which will impact on local government's delivery of these services:
 - A target of zero avoidable waste by 2050
 - The phasing out of avoidable plastics
 - New targets for waste and recycling

4. A target to stop food waste to landfill by 2030
 5. Reform of the Packaging Recovery Note (PRN) system
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9. The Strategy's ambition for waste management is as follows: *Rethink our current approach to waste, to create a system centred on circular economy principles that seeks to prioritise the reduction of waste creation, encouraging innovative approaches to waste reutilisation and recycling - throwing away will become a last resort.* The targets associated with this ambition are:
 1. 75 per cent of packaging reused or recycled by 2030;
 2. 70 per cent of all local authority collected waste reused, composted or recycled by 2030, and
 3. Zero per cent of waste sent to landfill and 50 per cent reduction in food waste generated by 2030.
 10. The options considered within the Outline Business case aim to contribute to, or enable, the delivery of solutions to meet these targets and ambitions, as well as be flexible enough to accommodate changes mandated through the Government's Waste and Resources Strategy when known.

Outline Business Case development (work to date)

Governance and scrutiny

11. A Rethinking Waste Programme Board has been set up to oversee the procurement of the new waste contract(s). Membership of the Board includes finance, procurement and legal colleagues and is chaired by the Executive Director for Environment and Transport, Katie Stewart. The Deputy Chief Executive and s151 Officer, Leigh Whitehouse, also sits on the Board to provide additional assurance for the Council.
12. The Board approved the Initial Business Case for the re-procurement on 18 February 2021 and has since provided a strategic steer for the development of the OBC.
13. A Member Seminar on the Rethinking Waste Programme took place on 22 November 2021 and updates were presented to the Council's Major Projects Board in June 2021 and January 2022 seeking feedback on the proposed approach.
14. Further scrutiny of the development of the procurement strategy to be discussed at the Committee meeting on 8 March.

Engagement and Research

15. There has been significant engagement with Surrey's districts and boroughs to ensure future arrangements enable efficient working between disposal and collection activities. The feedback from this engagement, which included a desire to reduce wait times at transfer stations, will be incorporated into the contract specification.

16. Findings from this engagement found that districts and boroughs would like to see frictionless working, particular in relation to transfer stations and their operation. Additionally, there was county wide support for a Surrey-based Materials Recycling Facility. A detailed summary of engagement with districts and boroughs is included in **Annex 1**.
17. In addition, engagement was also carried out with peer Waste Disposal Authorities seeking opportunities for collaboration and where possible, insight on service design and procurement based on their recent experience. Although procurement timelines did not facilitate any immediate collaboration opportunities, relationships with these authorities are now developed and will be used to explore such options in future as opportunities arise. Further, the feedback from the experience of other disposal authorities made clear the benefit of disaggregating the contract into smaller lots. The evidence taken from engagement meetings with peer Waste Disposal Authorities is included at **Annex 2**.
18. Initial market engagement has been undertaken in conjunction with the Council's corporate procurement team to inform future service structure, contract durations, contract disaggregation and risk allocation to ensure best value can be derived from the services being procured. This will be followed up with detailed market engagement in the spring.
19. Additional work has also been undertaken to:
 - gather data on current and future waste volumes and composition, existing market capacity for treatment and disposal in Surrey and the potential need for new infrastructure
 - develop an options appraisal on future delivery model, based on current market conditions, examining a range of potential models and using detailed market analysis. This included a policy review to establish the implications of the emerging Government Waste and Resources Strategy on the service and an assessment of existing waste treatment capacity and infrastructure to identify possible gaps and constraints. The work was undertaken by specialist waste industry consultants Eunomia. Due to the nature of the information contained within the report, this information is confidential at this stage of the procurement process.
 - establish the carbon impact baseline of Surrey County Council's waste service which in turn will provide a benchmark against which to set future targets and measure performance. The output from this piece of work undertaken by consultants Ricardo is included at **Annex 3**.
 - assess the possible impact of the current Eco Park dispute and any necessary mitigating action, which is ongoing.

20. In addition, the Council's Contract and Advisory team were commissioned to undertake a value for money review on the current integrated contract with SUEZ to identify areas for improvement in future contracts and to provide feedback for the final strategic options appraisal that will be contained within the Outline Business Case. This included considering the relative merits of taking all or part of the service in-house and whether disaggregation of the service would be more efficient than an integrated contract. The output from the value for money review is included at **Annex 4**. The Strategic Options Appraisal Report can be found at **Annex 5**.

Outline Business Case – Current Approach

21. The Outline Business Case (OBC) will set out the proposed approach to the re-procurement: what we want to achieve through the re-procurement; the proposed delivery model; and the possible contract structure. The initial thinking around each of these elements has been given below. The approach will be refined following further engagement with districts and boroughs and more in-depth market research.

Aims of the re-procurement: what are we trying to achieve?

22. Proposed aims include:

- Adoption of a circular economy model - to minimise waste, increase reuse and recycling, maximising the value of resources
- Resource recovery is maximised from residual waste
- Waste to landfill is negligible
- Provide flexibility in the structure of contracts procured for change and innovation
- Allocate and manage service delivery risks optimally
- More value for money, reduced costs
- Provide improved budget certainty
- Reduced carbon impact of waste disposal
- Ensure contracts deliver optimal social value

Proposed Delivery Model

23. The OBC will propose how the service will be delivered and whether any elements of the service can be delivered in house. The initial view is that it is unlikely that an in-house model would offer value for money or the flexibility the service will need over coming years, nor that we will have the resources or expertise to deliver any of the services in-house, and that there is sufficient interest from the market to ensure outsourcing that is value for money can take place. However, this will be further informed by more detailed market engagement which is planned to take place in February and March 2022 before the OBC is finalised and considered by Cabinet by May 2022.

Contract Structure

24. The OBC will also propose the contract structure and number of procurement lots. Experience from our existing long-term integrated contract, as well as market engagement and other evidence, is being used to inform and develop this aspect of the proposed model.
25. Current thinking, based on experience from the existing contract, a technical options appraisal by specialist waste contractors and initial market engagement is that the preferred approach would be to disaggregate the current contract into a number of separate contracts. This will allow us to open up the services to greater competition, and enable greater transparency, particularly around value for money. It will also enable greater flexibility around change and ensure that risks are allocated to those best placed to manage them.
26. Some of the specific reasons for a disaggregated contracts approach as compared to a fully integrated contract are summarised below:
 - There are very few contractors who will be able to deliver all aspects of an integrated contract, limiting competition during procurement and potentially affecting the resilience of the contract during its term. Disaggregation of contracts therefore will mitigate these risks and may also – as an added benefit – foster greater participation by Small and Medium Enterprises (SME).
 - Smaller contracts underpinned by less complex commercial models should improve transparency of the management of those services and create an environment conducive to collaboration and at the same giving more control to SCC in managing those contracts to best effect.
 - Upcoming legislation will require flexible arrangements to be built within contracts in order to adapt to change in line with future demands. Larger, integrated contracts are built on guaranteed volumes of waste delivered to facilities and focus on return on investment for the contractor. By contrast, smaller, disaggregated contracts will offer greater flexibility and controls for SCC.
 - In light of the procurement objective to deliver social value, a larger, integrated contract may reduce the range of opportunities that might be made available through the contract to deliver social value considerations. With smaller contracts to manage distinct service areas, SCC will be better able to design services and contracts to encourage local participation.
27. Finally, the OBC will identify how the existing contract will be disaggregated and how each of the contracts will be procured. The service's initial proposals for disaggregation are set out below; however, again, this will be further refined through the market engagement that will take place in February and March 2022:

- **Residual waste** - Multiple Lots using Competitive Dialogue (CD) or Competitive procedure with negotiation (CPN), with the procurement of treatment capacity using a variety of treatment facilities and technologies likely. May include haulage within the scope of the contract
 - **Food waste** - Single Lot using Competitive Dialogue (CD) or Competitive procedure with negotiation (CPN) process. Options for the management of excess food waste collected by districts and boroughs beyond the capacity at the Eco Park will be decided following market engagement
 - **Kerbside dry recycling**- Multiple Lots using open/restricted procedure Options for numbers of lots, approach to risk sharing as well as extent of haulage requirements and whether separate contracts are required will be determined following market engagement.
 - **Community Recycling Centre (CRC) and Waste Transfer Station (WTS) operation**- Single lot using CD or CPN. Approach to risk sharing for sale of recyclable materials will be determined following market engagement.
 - **Garden waste** – Multiple lots using open/restricted procedure. Market engagement will determine numbers of lots
 - **Street cleaning waste** – Single lot using open/restricted process.
 - **Bulky, fly-tipped & hazardous waste** - Single lot using open/restricted process but may be combined with either residual waste or CRC and WTS contract following feedback from market engagement.
28. Due to the ongoing dispute with SUEZ, the way in which the Eco Park and the facilities on it will be treated in the procurement is still under consideration.
29. New infrastructure, or improvements to existing infrastructure where needed, will be considered outside of the re-procurement, but provision will be made within the procurement to facilitate any future need.

Procurement stages and timetable

Timeline

30. The OBC will be presented to Cabinet by May for approval. Cabinet will be asked to endorse a preferred option and proposed approach to the procurement.
31. Officers will then develop the Procurement Strategy which will set out a robust governance and control framework for the proposed procurement of contracts and ensure the procurement has clear definition and direction. This will be presented to Cabinet in July and Cabinet will be asked to endorse the proposed routes to procurement for the future contracts

32. It is expected that the procurement for the elements being procured via Competitive Dialogue will commence in September 2022 with final business cases going to Cabinet between July and September 2023 for approval prior to award of contracts.
33. The procurement for the elements being procured via Restricted Procedures will commence on a phased basis commencing in the spring of 2023 with final business cases going to Cabinet in between October-December 2023 for approval prior to award of contracts.
34. A PowerPoint slide showing the high-level procurement timeline is included at **Annex 6**.

Risks and Issues

35. The proposed timetable allows adequate time for procurement and mobilisation of contracts to ensure a smooth transition when our current contract expires in September 2024, but this is a complex process and will need to be carefully managed.
36. The current situation around the Eco Park will need to be managed carefully to ensure that it dovetails with the future procurement of services. The service is planning for a number of different outcomes.
37. The way that the service reproduces the new services, in terms of types of contract, contract lengths, and numbers of lots will be informed by the further market engagement that will take place during February and March 2022 and therefore the direction of travel outlined in this report and the conclusions below may need to be amended in the final Outline Business Case presented to Cabinet by May.
38. Taking a disaggregated approach will need additional resource both in terms of the procurement process but also in relation to the future management of the contracts and how this resource need will be met needs to be considered in the OBC.

Conclusions:

39. Engagement to date with districts and boroughs, peer Waste Disposal Authorities and the market, along with detailed research and analysis by specialist waste industry consultants, support the initial assessment by the service that an outsourced model and disaggregated contracts will be the most effective approach to deliver on the proposed aims and objectives of this procurement.
40. However, this is a step change from the Council's existing model and requires careful planning and consideration to ensure the benefits are fully realised, and resources are in place to deliver. As such, the approach will be refined following further, more in-depth engagement with districts and boroughs and the market.

Recommendations:

41. Communities, Environment and Highways Select Committee are asked to:

- Provide feedback on the proposed approach to the OBC
- Agree avenues for future engagement with regards to the final OBC and the Procurement Strategy

Next steps:

The next steps for the OBC are as follows:

- OBC Approval by Cabinet by May
- Completion of a detailed Procurement Strategy for Cabinet Approval by July
- Conclusion of market engagement in the summer of 2022 prior to commencement of procurement projects

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Sources/background papers

Annex 1 – Evidence from engagement with Districts and Boroughs

Annex 2 – Evidence from engagement with other Waste Disposal Authorities

Annex 3 – Carbon Baseline Report

Annex 4 – Value for Money Baseline Assessment & Improvement Opportunities

Annex 5 – Strategic Options Workshop Appraisal Report

Annex 6 – High Level Procurement Timeline

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