

TITLE OF REPORT: SHARED SERVICE FOR WASTE AND STREET CLEANSING

REPORT OF THE HEAD OF LEISURE AND ENVIRONMENTAL SERVICES
EXECUTIVE MEMBER: COUNCILLOR PETER BURT

1. SUMMARY

- 1.1 In December 2014 North Hertfordshire District Council (NHDC) and East Hertfordshire District Council (EHC) decision making bodies (Cabinet and Executive respectively) agreed that both authorities jointly undertake a project to consider whether there were benefits in developing a joint contract and shared service for waste collection and street cleansing services.
- 1.2 A report on the Strategic Outline Business Case was presented to NHDC's Overview and Scrutiny Committee in June 2015 which concluded that a joint contract could potentially generate a combined saving of £404,000 for NHDC and EHC. £262,000 of the combined saving would accrue to NHDC. This report recommended that a joint contract is supported and was referred to NHDC's Cabinet in June 2015. Cabinet resolved to approve the recommendation.
- 1.3 In June 2016 a report on the outline scope of service was presented to NHDC's Overview and Scrutiny Committee. The report recommended approval of the outline scope of services and also approval for the Service Manager for Waste & Recycling to develop a detailed specification and evaluation criteria for the joint contract in consultation with a Project Board. Cabinet resolved to approve the recommendations in June 2016.
- 1.4 Since the publication of the Strategic Outline Business Case, an Outline Business Case has been developed, which is provided in Appendix A. The Outline Business Case sets out several options to achieve savings by re-procuring the services. A shared service pursuant to Option 2 projects the optimal combined saving of £707,000 per annum for both NHDC and EHC, with £494,000 accruing to NHDC.

2. RECOMMENDATIONS

- 2.1 The Cabinet agrees to implement a Shared Waste and Street Cleansing Service with EHC and to procure a joint contract for these services.
- 2.2 The Cabinet agrees to implement a Shared Waste and Street Cleansing Service with EHC on the basis of the preferred option (option 2) as set out in the Outline Business Case.
- 2.3 The Head of Service of Environments and Leisure Services be given delegated authority to make minor changes to the scope of the shared service in consultation with the Cabinet Member for Waste Management, Recycling and Environment and EHC.

3. REASONS FOR RECOMMENDATIONS

- 3.1 The procurement of a joint waste services contract is a major service development which also constitutes a Key Decision and, as such, Cabinet is authorised under section 5.6.11 of the Constitution to approve proceeding with the joint contract.
- 3.2 The preferred option, option 2, of the Outline Business Case projects that a joint contract with a joint client team and with NHDC using Buntingford depot for tipping its paper and co-mingled recyclable materials only would achieve the optimum savings for both Councils.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The Outline Business Case sets out the following alternative options but neither is projected to achieve the same level of savings as option 2.
- Option 1 – Each Council continues to provide and contract out services independently.
 - Option 3 – Same as Option 2 but with no integration of existing infrastructure.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 Consultations with regard to the service specification were set out in the June Cabinet report.

6. FORWARD PLAN

- 6.1 This item was first notified to the Forward Plan on the 22 December 2015.

7. BACKGROUND

- 7.1 In December 2014 NHDC and EHC's decision making bodies (Cabinet and Executive respectively) agreed that both authorities jointly undertake a project to consider whether there were benefits in developing a joint contract and shared service for waste collection and street cleansing services.
- 7.2 In June 2015, NHDC's Overview and Scrutiny Committee considered a high level business case (the Strategic Outline Case). The Strategic Outline Case was referred to NDHC's Cabinet in June 2015. This initial appraisal showed that there were clear benefits from a shared service and it was agreed to develop a more detailed business case to confirm the approach and take a final decision to proceed. This work has now been completed and Appendix A provides the results of that detailed work. The business case has been compiled in accordance with the UK Government's best practice guidance for preparing business cases (Treasury Green Book: A Guide to Investment Appraisal in the Public Sector). Accordingly, this document is known as the 'Outline Business Case'. However, this is a detailed assessment and is the point at which a final decision must be taken on whether to proceed with a Shared Service and procure a joint contract, as described below. Detailed budget implications will be available at contract award and are subject to tendered prices.
- 7.3 The contracts for both Councils terminate on the same day in May 2018 and, if agreed, the formal procurement process will commence September 2016, with a joint contract

being awarded in Spring 2017. This will allow sufficient time for the appointed contractor to acquire and procure the infrastructure and assets needed for the joint contract.

- 7.4 The strategic driver for the project is that both Councils will have increasing financial pressures on their budgets in future years. The published projections within the NHDC Budget Estimate Book 2016/17 indicated that NHDC need to make further savings of £2.25m over the next 3 years through to the end of financial year 2019/20. New ways of working therefore need to be explored to determine what operational improvements are possible and identify the level of efficiencies that can be achieved.
- 7.5 Continued environmental and legislative requirements and significant changes to our domestic waste stream over the past decade have led to more harmonisation of services provided by local authorities. NHDC and EHDC have similar policies and operational approaches to providing these services and both deliver successful results and high levels of public satisfaction.
- 7.6 At the project commencement a Project Board was set up to represent both authorities, made up of Senior Officers and Executive Members, and this has met regularly to oversee progress and give direction.
- 7.7 The Project Board is supportive of the proposals contained within the report.

8. ISSUES

- 8.1 The 'Strategic Outline Case' (SOC), considered by the Committee last year provided a high level assessment of likely risks, costs, savings and outcomes and short-listed options for further evaluation. This showed that there were potentially significant savings to be made from a shared service totalling £404,000 per annum for both authorities, of which £262,000 would accrue to NHDC. There were no policy or operational reasons identified that would be an impediment to a joint contract. It showed that efficiency savings could be achieved without a reduction in the quality of service, with the savings arising from:
 - Contractor economies of scale and route optimisation
 - Client efficiencies and resilience
 - Depot rationalisation and efficiencies
- 8.2 However, further work was required to provide greater assurance on some elements of the business case and assess costs and savings in more detail. This included:
 - Advice from specialist waste management consultants on benchmark costs, savings and opportunities for efficiencies from shared services; and the attractiveness of a joint contract to potential bidders.
 - Modelling of both authorities collection rounds for domestic properties to identify whether there are potential efficiencies from a joint contract. This has been carried out with the support of the Herts Waste Partnership using specialist 'round optimisation' software.
 - An assessment of the logistical implications of operating from different sites (i.e. how vehicle travel time and costs compare with depot operating costs).
 - Quantification of existing depot costs and options for site sharing.
 - Costs and benefits of bringing staff together from the two existing contracts into a new combined contract, including differences in contractor staff terms and conditions and the potential impact on future contract costs.

- Review of service policies and operations to confirm similarities and differences of the approaches to service delivery taken by the two authorities and whether these would impact on the viability of a shared service.
- Legal and governance issues and design of future management arrangements.

8.3 The findings from the results of this work have been included in the Outline Business Case. The Outline Business Case has been developed on an 'As-Is' basis. Current costs for separate services are compared with those same services if provided jointly. This was to ensure that the savings calculated were solely those from a shared service and not affected by other operational changes that the authorities may wish to make in a future contract.

8.4 Both authorities have carried out reviews to consider how services should be delivered in the future and whether the current service policies should be modified so that these can be incorporated into the next contract. This work is ongoing and any ratification of policies required will be done in accordance with the constitution.

Outline Business Case (OBC)

8.5 The 'Outline Business Case' indicates that with the 'Preferred Option' revenue savings of £707,000 per annum could be achieved from a shared service and contract with £494,000 per annum to NHDC and £213,000 per annum to EHC. The table below shows a greater saving to NHDC due to there being more opportunities to rationalise collection rounds than at EHC and this benefit accrues solely to NHDC.

NHDC Annual Revenue Savings	EHC Annual Revenue Savings	Total Annual Revenue Savings
£494,000	£213,000	£707,000

8.6 The OBC also evaluates an alternative, less ambitious option that excludes integration of depot infrastructure, but concludes that this is likely to deliver lower savings.

8.7 Savings from the shared service result from:

- Estimated contractor efficiencies expected from the next contract resulting from a reduction in collection rounds and spare vehicles, contractor management and support staff. Officers have worked with the current contractor, Veolia, to quantify these. These savings are mainly due to optimisation of refuse and organic collections for North Hertfordshire.
- A reduction in the number of depot sites. NHDC currently operates from two sites at Works Road, Letchworth, with the bulking of recyclable material at its site at Radwell. The proposal is that bulking for both authorities would be at Buntingford Depot, which is located on the NHDC/EHC border. This therefore generates efficiencies in rent and operational costs despite additional transfer costs for the North Hertfordshire recycling fleet. This would still require NHDC to procure a site as a suitable substitute for the Works Road depot site; predominantly for the storage of vehicles and other assets. Bidders will have the freedom to offer NHDC a suitable site in the competition for the joint Contract

- Client staff reductions due to efficiency gains from managing a single joint contract rather than two separate contracts. These include savings in officer management; contractor performance monitoring / meetings; promotion and media. There are also opportunities for efficiencies in customer contact and IT systems and data processing.

8.8 It is proposed to move to a single client team covering both Councils' waste and street cleansing services. The aggregate number of staff employed by both councils in managing the current contracts is approximately 16 Full Time Equivalents (FTE). NHDC has 8 FTE. The business case assumes an approximate reduction of up to 25% in total client staff. The precise nature of the staffing structure however needs further consideration and this will be developed if a shared service is approved. The timing needs careful consideration to minimise risks associated with the transition to and implementation of a new contract. The Outline Business Case assumes no client team saving in year one of the new joint contract.

Governance and management arrangements

8.9 A key issue for the Project Board was how to ensure that both authorities could be assured that they would retain full influence and control over the strategic direction and operational performance of a shared service. The recommended approach is that there are joint governance and management arrangements where both authorities have equal involvement in the direction of the service, but with one partner taking the role of 'Administrative Authority'. This is necessary as, for legal reasons; one authority must act as the employer, procuring body, and hold funds to pay staff and contractors.

8.10 As previously reported, under a shared service and joint contract there is no need for both authorities to have exactly the same services provided in their authority area and each has discretion over delivery. Greater benefits, in terms of economies of scale, are achieved through closer co-ordination. Where one partner decided to have enhanced/reduced services it would be liable for the additional costs, or receive the benefit of savings, incurred by the partnership. It should be noted that the OBC assumed the same 'As-Is' service and consequently deviation from a same service approach across the authorities may accrue additional costs.

Administrative Authority

8.11 The Project Board considered whether EHC or NHDC should act as the Administrative Authority for the Shared Service. It concluded that, in the context of both partners having joint control, there was no particular reason why one or other authority would be better placed to take this role. Both councils have a strong track record in delivering waste and street cleansing services; have a high level of political commitment to managing the environment and street scene; and wish to deliver high quality, value for money services. EHC has had experience of both being the Administrative Authority and having it delivered by a partner and has not found there to be a difference in control or outcomes. It was therefore agreed to recommend that NHDC takes the Administrative Authority role for this service.

Member Governance Arrangements

8.12 Executive responsibility for the service would be shared and delivered through a Joint Member Board (see Appendix B). The powers and terms of reference of the Joint Member Board will be consistent with the Council's constitution. This would meet regularly as required to oversee the strategic management of the service, consider

change management requests and options for future service design and delivery. The Board would consist (as a minimum) of the Executive Member and senior client officers from both authorities. A jointly appointed post of a shared Waste and Street Cleansing Services Manager would report performance to this body. Additional partnership meetings would also be held with the main contractor's senior representative in attendance. This is to ensure that there is high level oversight and Councillor contact with the main contractor's senior representative.

- 8.13 It is envisaged that the Joint Member Board will be an advisory Board and also act as consultee for the Councils' respective Executive Members. In this respect, the Board should provide an appropriate forum to align strategic direction and partnership working.
- 8.14 For operational requests Ward Councillors would access the Shared Service 'Commissioning Team' through agreed contact protocols. Both authorities' Councillors would receive the same level of support that they currently get from separate services. Formal complaints about service delivery or policy issues would be dealt with by the team in the first instance, with escalation to the Senior Client Officer of the respective Council.

Service Structure and Reporting

- 8.15 The Service will be managed by a shared Waste and Street Cleansing Manager ("the Service Manager"). This person will work with the Senior Client Officers from the two authorities to agree the structure and recruit to the new joint service. Posts will initially be ring fenced to existing staff from both authorities in line with best HR practice and employment law. Costs of recruitment shall be borne equally by both authorities.
- 8.16 NHDC, as the Administrative Authority, will be the employer of the shared Service Manager and client Commissioning Team.
- 8.17 The shared waste Services Manager will report to both authorities' Senior Client Officers, the Head of Leisure and Environment (NHDC) and the Head of Operations (EHC), representing the interests of both authorities fairly and equally. An Inter-Authority Agreement (IAA) between the authorities will set out how the Shared Service will operate, roles and responsibilities, sharing of costs and how any disagreements will be dealt with.
- 8.18 The shared Service Manager will provide regular performance information and service updates to the Executive / Cabinet bodies and Scrutiny Committees of both authorities as required by their constitutions and internal reporting processes.
- 8.19 The shared Service Manager shall be responsible for the financial management and budgetary control of the Shared Service with financial advice from NHDC Accountancy Services (as the Administrative Authority and holder of the Service budgets). Financial accounts for the Service will be open and transparent and reported to each authority on both a monthly basis and as required. Service budgets will be agreed annually by the Senior Client Officers of the authorities. Monthly payment for the services would be based on the services provided to each authority area on a fair and equitable basis. For contracts this will be on a unit basis (e.g. per bin collected, per household, per linear metre cleansed). For staff and facilities this will be on an equal basis. Where tendered prices are different between the two authority areas these will be the basis for the charge. The Shared Service accounts would be subject to annual audit and results reported to both authorities appropriate oversight bodies.

Front and Back Office Support

- 8.20 Front line customer contact, back office support and administration would be provided to the Shared Service through a service level agreement by whichever authority is best placed to provide them, as agreed by the authorities. It is expected that support services such as finance, HR, and legal will be provided by NHDC as the Administrative Authority and the 'banker', employer, and legal entity for contracting purposes.
- 8.21 A common IT system will be implemented to an agreed specification and the customer service and reporting processes will be detailed in an appendix to the IAA.
- 8.22 Customer correspondence handling will be managed in an 'authority neutral' manner in order that each authority's customers feel that they are receiving a response from their own council. This is common practice in the private sector and EHC has experience of this approach with its shared service for Parking Services with Stevenage and Welwyn and Hatfield councils.

Client and Contractor Location

- 8.23 It is proposed that the location of the Shared Service (Commissioning Team) will be Buntingford Service Centre (depot), with existing unused office space utilised at marginal cost. This has the benefit of being a central location on the border of NHDC and EHC from which to undertake contract inspections and site visits within both authority areas and is close to contractor operations for bulking materials.
- 8.24 Contractor operations are envisaged to be based at both Buntingford and another location in North Herts to minimise collection vehicle travel and provide local bases for street cleansing operations. NHDC may be able to negotiate the continued use of the current site at Works Road, however, as part of the procurement process, potential contractors will have the opportunity to propose depot locations to deliver improved operational efficiencies and better value for money for the shared service.

Branding and Livery

- 8.25 Vehicles and staff would be shared across authority areas and all livery will contain partnership branding (e.g. "NHDC and EHC Waste Services") with joint logos. Communications sent to residents on an individual (address) basis can be either joint or on behalf of the individual authority according to preference. Full details will be agreed closer to service implementation.

Inter-Authority Agreement (IAA)

- 8.26 The service standards, approach, financial and governance arrangements to be delivered by the Shared Service will be described in the Joint Contract (for the operational contracted services) and an Inter-Authority Agreement for the 'in-house' functions. This document will be for the life of the main service contract (7 years) and will be completed once any Shared Service has been approved.
- 8.27 An Interim Inter-Authority Agreement has been developed by the Project Board to protect both authorities from financial liabilities and risks in the event of one partner unilaterally ending the partnership prior to procurement.

Conclusion

- 8.28 Members are asked to approve the approach described in this report and on the basis of the Outline Business Case at Appendix A.
- 8.29 If the Council is minded to agree to a shared service it may be necessary to make minor adjustments to the scope of the shared service as a result of further consultation with EHC on service design in order to tender a joint contract that is clear and unambiguous.

9. LEGAL IMPLICATIONS

- 9.1 NHDC is the administrative authority for the purposes of undertaking the procurement of the joint contract for the NHDC and on behalf of EHC
- 9.2 The procurement of a joint waste services contract is a major service development which also constitutes a Key Decision and, as such, Cabinet is authorised under section 5.6.11 of the Constitution to approve proceeding with the joint contract.
- 9.3 NHDC's Contract Procurement Rules will apply to the procurement process and the award of the joint contract.
- 9.4 The joint contract will be substantially above the OJEU threshold for services and the Council must ensure full compliance with the processes, procedures and requirements of the Public Contracts Regulations 2015.
- 9.5 The Council has a statutory duty to secure best value in the procurement of services and, to this end, modelling and benchmarking has indicated that the recommended basis for a joint procurement and contract would achieve best value for the both NHDC and EHC.
- 9.6 The award of the joint contract will also be a Key Decision and Cabinet will be required to make the decision to award.
- 9.7 Staff from EHC and the current contractor will transfer to the shared client team and the Council will need to ensure compliance with TUPE regulations.
- 9.8 The OJEU notice will be published on the basis of a joint contract and therefore the award of individual contracts will not be possible under the procurement exercise.

10. FINANCIAL IMPLICATIONS

- 10.1 The NHDC original revenue budget for 2016/17, approved at a meeting of Full Council in February 2016, contained gross expenditure budget provision for the current waste and street cleansing services contract provided by Veolia of approximately £6.2m.
- 10.2 Approximately £1.4m of the total General Fund expenditure provision of £6.2m in 2016/17 relates to the provision of street cleansing services, the collection of commercial residual waste and recycling, and the collection of clinical waste. All of these services, for differing reasons, were not considered in the economic appraisal of the shortlisted options within the Outline Business Case (OBC).
- 10.3 The Outline Business Case, at appendix A, details the financial implications for both authorities of each of the three options evaluated. The estimated impact of the

preferred option on the annual cost of the outsourced contract for NHDC, a reduction in expenditure of £442k, would represent a saving of 9% on the existing outsourced contract expenditure budget for those services.

- 10.4 As noted in the body of the report, actual savings realised will not be known until tenders are returned and prices from suppliers are confirmed. In addition, as the estimates within the OBC are based on the 'as is' volume of service provision, the intention to apportion service contract costs between authorities on a unit basis may also mean that the actual saving realised is affected by change(s) in the units required at the time of the contract commencing.
- 10.5 The NHDC capital programme, as published in the NHDC Budget Estimate Book 2016/17, contains total resource of £3.6m for the Council's procurement of vehicle assets, with an associated annual revenue efficiency of £200k recorded in the General Fund budget estimates. The vehicle procurement options are currently being explored. The revenue saving achieved through this capital investment will be additional to the estimated savings reported in the OBC from pursuing the preferred option.

11. RISK IMPLICATIONS

- 11.1 The waste and street cleansing service is a very high profile service as it affects all the residents of North Hertfordshire. Any changes in service delivery generate a high volume of customer contact. Accordingly, a Cabinet Top Risk of the Waste and Street Cleansing Contract renewal has been identified and regularly reported on to the Finance Audit and Risk Committee. A project risk log also exists to ensure that as far as possible risks have been identified and appropriate mitigating measures put in place.
- 11.2 The Top Risk has a number of sub-risks that need to be considered as part of the contract renewal. These are:-
- Trade Waste
 - Waste & Recycling Service for flats
 - Northern Transfer Stations and ancillary facilities
 - Commingled waste
 - Street Cleansing
 - Shared procurement Opportunity
 - Sale of materials
 - Successful negotiations to establish an Inter Authority Agreement
 - Capital costs associated with improvements to Buntingford depot namely start up costs including IT, phone infrastructure and car parking
- 11.3 The shared Procurement Opportunity sub-risk is particularly pertinent for this report. It has identified a number of risks namely that:-
- a joint procurement is not viable due to the lack of time to produce a joint specification
 - the future contract is not suitable for the needs of NHDC
 - one or both parties decide not to continue with a joint procurement impacting on the timescale for procurement; unsuccessful negotiations to establish an Inter Authority Agreement would perhaps be the most likely trigger and, depending on the circumstances, there could be potential cost implications.

- The joint contract does not achieve the projected savings

If both authorities agree to the recommendations in this report this will provide some mitigation.

12. EQUALITIES IMPLICATIONS

- 12.1 The Equality Act 2010 came into force on the 1st October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5th April 2011. There is a General duty, described in 12.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.
- 12.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.3 All existing services for residents which require assistance will continue as part of any new contract. As the proposal to share services affects more than two of North Hertfordshire's wards and totals more than £50k expenditure, it will be necessary to conduct an Equality Impact Assessment to ensure that any proposed changes do not unduly discriminate any group with protected characteristic.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 As the recommendations made in this report relate to the award of a public service contract, 'social value' must therefore be captured and reported in accordance with the Public Services (Social Value) Act 2012.
- 13.2 This will be considered during the development of the specification and procurement of these services.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 The proposals are for a shared service with NHDC becoming the employer for both groups of Council staff. TUPE regulations will be followed including full consultation and regular communications with the various groups of staff and Trade Unions throughout the transition process. The report sets out at paragraph 8.8 that it may be possible to reduce staff numbers by 25% across the two Local Authorities, however the precise requirements for the future staffing structure will not be known until nearer the time and no staff reductions are expected in year one of the new joint contract.
- 14.2 It is likely that staff from the existing contractor Veolia, will also be TUPE transferred to the Authority operating the call handling function as this is not currently 'in-house' for North Herts.
- 14.3 It is expected that support services such as finance, HR, and legal will be provided by NHDC as the Administrative authority and the 'banker', employer, and legal entity for contracting purposes.

15. APPENDICES

- 15.1 Appendix A – Outline Business Case (attached in Part 2).

15.2 Appendix B – Proposed Member and Officer Governance Arrangements.

16. CONTACT OFFICERS

Vaughan Watson
Head of Leisure and Environmental Services
01462 474641
vaughan.watson@north-herts.gov.uk

Oliver Furbur
Project Manager (Waste Management)
01462 474336
oliver.furbur@north-herts.gov.uk

Antonio Ciampa
Accountancy Manager
01462 474566
antonio.ciampa@north-herts.gov.uk

Gavin Ramtohal
Contracts Lawyer
01462 474578
gavin.ramtohal@north-herts.gov.uk

Liz Green
Head of Policy and Community Services
01462 474230
liz.green@north-herts.gov.uk

Fiona Timms
Risk and Insurance Manager
01438 843565 (x53565)
fiona.timms@hertfordshire.gov.uk

17. BACKGROUND PAPERS

17.1 NHDC Reports:

NHDC Cabinet Report 16/12/14:
Possible Joint Working on Waste and Street Cleansing Contract with East Hertfordshire Council (EHC)

NHDC Cabinet Report 16/06/15:
Strategic Outline Case for Waste and Street Cleaning Services for North & East Hertfordshire District Councils

NHDC Overview & Scrutiny Report 09/06/15:
Strategic Outline Case for Waste and Street Cleaning Services for North and East Hertfordshire District Councils