

**BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL**

<b>TO:</b> MSDC Cabinet BDC Cabinet	<b>REPORT NUMBER:</b> <b>BCa/18/58</b>
<b>FROM:</b> David Burn / Christina Campbell Cabinet Members for Environment	<b>DATE OF MEETING:</b> 7 January 2019 10 January 2019
<b>OFFICER:</b> Chris Fry, Assistant Director Environment and Commercial Partnerships	<b>KEY DECISION REF NO.</b> CAB93

**EXTENSION OF SERCO CONTRACT 2021 - 2028**

**1. PURPOSE OF REPORT**

1.1 The purpose of the report is to agree to a continuation of the Joint Household Waste Collection Contract with Serco which expires in April 2021 for a further 7-year period.

**2. OPTIONS CONSIDERED**

2.1 The options available to the councils are:-

2.2 Option 1 -Extension of the current Serco contract: based upon the extension proposal provided to MSDC and BDC by Serco.

2.3 Option 2 - Outsourcing: conduct a new procurement exercise and engage an external contractor to deliver the environmental services, this could of course be Serco again.

2.4 Option 3 - In-house: bring the services in-house, or in-sourcing, is another common service delivery model to deliver environmental services.

2.5 Option 4 - Local Authority Company (LAC): deliver the environmental services through a LAC (commonly referred to as a Teckal company), either by setting up a new company or use an existing company founded by another authority to deliver the services. This service delivery model is growing in popularity, although it is still relatively uncommon.

<p><b>3. RECOMMENDATIONS</b></p> <p>3.1 That approval is given to extend the current Household waste and Recycling contract with Serco for a further 7-year period from 2021 to 2028</p> <p>3.2 To delegate to the Assistant Director, Environment and Commercial Partnerships, in consultation with the Cabinet Members for Environment, to finalise the extension agreement and enter into contract with Serco for an additional 7years from 2021-2028.</p>
<p><b>REASON FOR DECISION</b></p> <p>The decision to extend the current contract offers good value to the Councils and has a lower cost than any other option.</p>

#### **4. KEY INFORMATION**

- 4.1 Babergh and Mid Suffolk Council's entered into a joint household collection contract in 2007. This was the first joint waste contract in the country and the procurement process was competitively fought. Both Council's were nominated and won a national procurement award for this.
- 4.2 The procurement was for a 14-year contract with the option for a 7-year extension. There was also a review period after the first 7 years in 2014. The contract stipulated that there would be a review period in 2018/19 whereby both parties would decide and negotiate whether there would be an extension. Notice to cease or extend the contract would need to be determined by 1<sup>st</sup> April 2019.
- 4.3 The contract is largely a labour only contract. As part of the initial negotiations prior to 2007 the supply of vehicles was removed from the contract as it was cost effective for both Council's to purchase and provide the vehicles. The Council's also provide depots in both Stowmarket and Sudbury.
- 4.4 Serco have consistently stated that the contract is very competitive for them financially and they have struggled to make a profit. This has been verified by officers in work undertaken over the period of the contract in financial comparisons and benchmarking where possible.
- 4.5 Initial discussions and negotiations with Serco commenced at the beginning of this year. It was agreed that Serco would undertake a round optimisation project that would determine the most effective and efficient use of resources to maximise the efficiency of the collection rounds.
- 4.6 No work had been undertaken in the first 11 years of the contract and property numbers have increased across both districts by 8700 since the start of the contract. These additional properties had just been absorbed into the existing rounds. Garden waste has also increased from 5,500 properties to 27,000 across both districts.
- 4.7 Serco have estimated that two additional rounds would be needed for the extension to the contract and this has been factored into their negotiated position. The additional vehicles have been ordered and the round re-organisation is proposed for June 2019.
- 4.8 Serco also highlighted an issue with the terms and conditions of their drivers. Since the start of the contract there has been the introduction of the minimum wage and the living wage. This has had the impact of eroding the gap between drivers and loaders. In addition to a national shortage of drivers, Serco were finding it increasingly difficult to recruit drivers. This issue has since been resolved by improving the terms and conditions of their drivers and they are now at full establishment.
- 4.9 Through our initial negotiations, Serco proposed that they required an enhanced payment to accommodate the additional rounds once the round optimisation was complete as set out in 4.7 above. Their initial requirement was £2.385m for the remainder of the contract. This equated to additional contact payments of £265,000 per year for 9 years. This was unacceptable and agreement in principle has been reached for an additional £265,000 per year from 2021 which equates to a total increase of £1.855m over the 7-year extension of the contract. This additional cost enables them to meet any increases in costs and move into a profitable position.

4.10 Officers have taken the opportunity as part of the extension negotiations to discuss the introduction of several Key Performance Indicators (KPIs). The current contract does not have any significant teeth in respect of financial penalties due to service failure and agreement has been reached on the introduction of a select number of indicators. These will apply from 2021 and will cover all key aspects of the contract. The key KPI's have been attached as Appendix B.

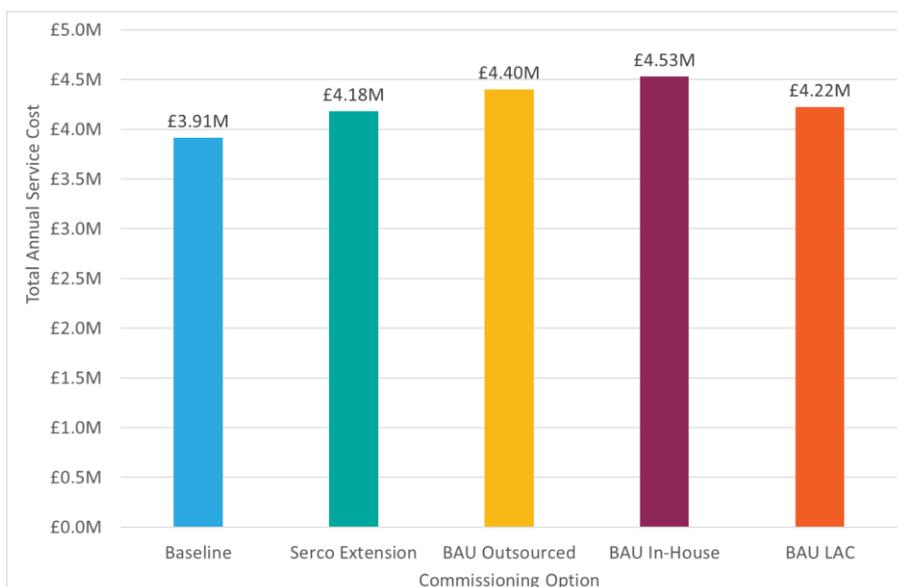
4.11 In discussion with Cabinet Members and through the Joint Waste Board, Officers commissioned waste specialists Eunomia to appraise the future commissioning options available and a current value for money assessment based on the negotiated position reached. The Summary Report is attached as Appendix A. The work included:

- Extension of the current Serco contract: based upon the extension proposal provided to MSDC and BDC by Serco.
- Outsourcing: conduct a new procurement exercise and engage an external contractor to deliver the environmental services, this could of course be Serco again.
- In-house: bring the services in-house, or in-sourcing, is another common service delivery model to deliver environmental services.
- Local Authority Company (LAC): deliver the environmental services through a LAC (commonly referred to as a TECKAL company), either by setting up a new company or use an existing company founded by another authority to deliver the services. This service delivery model is growing in popularity, although it is still relatively uncommon.

4.12 Eunomia undertook the commissioning options appraisal by assessing the following two components:

- cost modelling and financial assessment; and
- assessment of qualitative aspects and risks.

4.13 The cost modelling and financial assessment of the commissioning options is set out in section 3 of the attached report. In summary, Eunomia's findings are that the extension to the current contract represents good value to the authorities and has a lower cost than the other commissioning options. This is graphically set out below.



4.14 Not included in the modelling exercise, there are one-off costs associated with each of the options. These are shown below.

	<b>Outsourced</b>	<b>Serco Extension</b>	<b>In-House</b>	<b>LAC</b>
<b>Procurement Technical Support</b>	£30,000	-	-	-
<b>Legal and Financial Support</b>	£20,000	£10,000	£50,000	£50,000
<b>In-House/LAC 'bid'/Mobilisation</b>	-	-	£270,000	£290,000
<b>LAC Set-Up Legal Support</b>	-	-	-	£60,000
<b>Contingency (10%)</b>	£5,000	£1,000	£32,000	£40,000
<b>Total</b>	<b>£55,000</b>	<b>£11,000</b>	<b>£352,000</b>	<b>£440,000</b>

4.15 Eunomia also undertook an assessment of qualitative factors and risks. The headings are set out below and section 4 of the attached report by Eunomia provides a summary of these.

- Control and ability to change
- Financial risks
- Expertise acquisition and management of workforce
- Operational risk
- Reputational risk
- Demonstrating best value

4.16 Eunomia also undertook a review of the current market for waste and recycling collection services in East Anglia and the South East of England. The aim of this market intelligence piece of work is to support decision making regarding any future changes to the way services are commissioned.

4.17 The conclusions of this piece of work showed a very congested period for contracts commencing between 2019 and 2021. Our current contract expires at the end of this period and if we looked to re-procure we could expect reasonable interest.

## **5. Summary and Conclusions**

5.1 In summary, based upon the financial analysis undertaken, the Serco extension option offers good value to the authorities and has a lower cost than the other commissioning options.

5.2 This reflects the fact that the profit margin is lower than would be expected in an outsourced contract and the corporate overheads and pension contributions are lower than would be expected for an in-house or LAC service.

5.3 The extension also has some significant benefits over the other the options. Firstly, extending the current contract means that the authorities will be receiving a tried and trusted service that is currently performing well for residents and officers alike.

This has the benefit of absorbing some of the reputational and initial performance risks that may be more present in any of the other options.

- 5.4 Secondly, having investigated the financial aspects of this option, we understand that the additional costs will enable Serco to derive a profit from this service, but not a particularly large one. This means that it is a financially beneficial proposition compared to re-procuring the contract where we would expect bidders to target an industry standard profit margin of 7%. Another benefit that extending the current contract has is that it would alleviate the need for high one-off legal, procurement and mobilisation costs.
- 5.5 The extension option with Serco would include the addition of certain KPIs which have their own value. While this option is, and all the other future options are, more expensive, the worth that can be derived by the implementation of these performance measurements should be considered by the authorities.
- 5.6 Market analysis indicated that the authorities' contract is due to finish during a very busy period of procurement for the region. Our interpretation is that as the contract end date is in 2021 and at the end of the busy period, a well-run procurement would still be successful.

## **6. LINKS TO JOINT STRATEGIC PLAN**

- 6.1 The Joint Waste Contract is closely aligned with the Councils strategic outcomes set out in An Enabled and Efficient Organisation within the Councils Joint Strategic Plan. The waste service continues to operate commercially where possible to maximise income reducing our reliance on core funding. The Joint Contract was also the result of our approach to outcome based commissioning.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 Extending the contract in 2021 will require an additional payment of £265,000 per year. This however still represents good value for money compared to the alternative options. Extending the contract also avoids potential significant one-off costs associated with each of the alternative options. The additional contract payments required from 2021 have been incorporated into the Council's Medium-Term Financial plans.

## **8. LEGAL IMPLICATIONS**

- 8.1 The Council's will be entering in to a further seven-year period of the Household Waste Contract from 2021 until 2028. Clause 3.4 in the Joint Waste Contract sets out the extension arrangements stating; *'The Contract Period shall be extended for a further period of up to 7 years until 31<sup>st</sup> March 2028 only my mutual agreement of the parties. If either of the parties wish to extend the contract at that point, they shall serve written Notice on each other not less than 24 months before the Expiry Date of its agreement to extend'*.

## 9. RISK MANAGEMENT

- 9.1 This report is most closely linked with the Council's Corporate / Significant Business identified to risks within An Enabled and Efficient Organisation.

Risk Description	Likelihood	Impact	Mitigation Measures
If the contract is not extended the Council would need to determine an alternative option. This is unlikely to deliver value for money and best value.	3 - Probable	3 - Bad	Extend contract

## 10. CONSULTATIONS

- 10.1 There have been external consultations with both Serco and Eunomia. The negotiation to extend the contract is a two-way process. The decision of whether to extend the contract has been reviewed by Overview and Scrutiny on 17 December (Babergh) and 20 December (Mid Suffolk). Eunomia attended the Overview and Scrutiny Committee on 17 December to which Mid Suffolk Overview and Scrutiny Councillors were invited to their presentation.

## 11. EQUALITY ANALYSIS

- 10.1 The extension to the current contract does not change any working arrangements that affect residents and therefore an Equality Impact Assessment is not required.

## 12. ENVIRONMENTAL IMPLICATIONS

- 12.1 The extension of the current contract does not change any working arrangements, it is a continuation of current working practices with only financial changes and therefore the report has no direct environmental implications.
- 12.2 The round optimisation undertaken minimises the carbon footprint through the reduction of distance travelled by the waste fleet.

## 13. APPENDICES

Title	Location
A - Eunomia Report – Commissioning Options Appraisal and Extension Review for Mid Suffolk District Council and Babergh District Council	Attached
B - Key Performance Indicators	Attached
C - Recommendation and draft minute from the Overview and Scrutiny Committee meeting held on 17 December 2018	Attached