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| Cabinet 27 June 2018 |  TOWER HAMLETS |
| Report of: Anne Sutcliffe, Acting Corporate Director, Place | Classification: Unrestricted |
| Draft Waste Management Strategy and Future Service Delivery Options | |

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| Lead Member | Councillor David Edgar, Cabinet Member for Environment |
| Originating Officer(s) | Robin Payne, Interim Divisional Director Public Realm Richard Williams, Business Manager Operational Services |
| Wards affected | All wards |
| Key Decision? | Yes |
| Forward Plan Notice Published | 29 May 2018 |
| Reason for Key Decision | Significant Impact on Two or More Wards |
| Community Plan Theme | A Great Place to Live |

Executive Summary

The new Waste Management Strategy will set the future direction for waste, recycling and cleansing services, delivering environmental improvements across the whole borough. The Strategy will set a framework for Waste Services from which operational, planning and procurement decisions will be based from 2018 until the year 2030. The draft strategy recommends key policy and service changes needed to deliver improvements to waste management in the borough. It is proposed that consultation on the draft strategy takes place between the 2 July and 30 September 2018, with results of the consultation informing the final strategy for approval at a future Cabinet meeting.

Following a detailed review of alternative service delivery models, this report also proposes a “twin track” approach for commissioning an integrated waste, recycling and cleansing service. This involves starting a competitive dialogue procurement process from early September 2018, whilst also working on an In-House delivery option for future consideration. Given the challenges of improving waste, recycling and cleansing services across the Borough, our aim is to discover which of an outsourced external contract or In-House service approach would better deliver the development of these services whilst maximising opportunities for innovation, quality and value for money.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Note and consider the development of the Draft Waste Management Strategy 2018-2030
2. Approve the Draft Waste Management Strategy 2018 – 2030 for consultation between 2nd July 2018 and 30 September 2018.
3. Note that the results of that consultation will be reported to a future cabinet meeting, along with the final Waste Management Strategy for approval.
4. Authorise the Acting Corporate Director of Place to commence procurement of an integrated waste, recycling and cleansing contract via competitive dialogue in September 2018 to be implemented for April 2020.
5. Authorise the Acting Corporate Director of Place to develop an “in house” service option for an integrated waste, recycling and cleansing service for future consideration and approval in September 2018
6. To note the Equalities Impact Assessment considerations as set out in Paragraph 4.1.

1. REASONS FOR THE DECISIONS

- 1.1 The Council last adopted a Waste Strategy in 2003 and since that time the legislative framework surrounding waste management has changed significantly with the EU, the UK Government and the Mayor of London driving the agenda towards a more sustainable and circular economy. This has resulted in challenging targets being set at both regional and national levels. For instance the Mayor for London’s target that by 2030, 65 per cent of municipal waste will be recycled.
- 1.2 Environmental improvements are a key priority for Tower Hamlets, however delivering these improvements within an inner London Borough are challenging. Within Tower Hamlets these challenges are even more complex given it has:
 - One of the fastest growing and most diverse populations in the country.
 - Increasing daily levels of visitors and worker across the borough
 - Over 80 percent of resident living in flats
 - The third highest population density with some of the highest levels of deprivation in parts of the borough
 - One of the fastest growing “night time” and weekend economies in London.

- Increasing levels of waste from residents, business and visitors.
- 1.3 To meet these challenges there is a need to reduce the amount of waste created and increase the percentage that is reused, recycled or composted. We need to work with the people and businesses of Tower Hamlets to encourage pride in our environment and encourage and enable ways of dealing with waste that help us all. We need to collaborate with and provide leadership to businesses, housing associations and others that have a responsibility for managing waste.
 - 1.4 Central to delivering the required change is our ability to improve the way we engage with people. Helping them to manage and minimise their waste, recycle more and take greater personal responsibility for improving their local environment.
 - 1.5 An increased focus on improved engagement, communication and education with resident, business and visitors to the borough is essential in order to encourage positive behaviour change. The need to work closely with registered social landlords, managing agents, private landlords and housing associations is key to encouraging responsible management of waste people produce.
 - 1.6 As such there is a need to develop and consult on a new Waste Management Strategy that presents our ideas about how we will work together to improve services and respond to these challenges. To set out our priorities and guide the way we develop and improve our waste services over the next 12 years.
 - 1.7 To this end, the draft strategy recommends key policy and service changes that are needed to support the delivery of these improvements as well as the behaviour changes and incentives that are required. The strategy itself will be supported by a number of key delivery plans that will be developed.
 - 1.8 Consultation on the Draft Waste Management Strategy is required to ensure solutions designed to deliver these environmental improvements have involved stakeholders and more importantly, been designed around the needs of the Borough's diverse community as well as its physical characteristics.
 - 1.9 Given the challenges of improving the effectiveness of waste, recycling and cleansing services in Tower Hamlets, there is an increased need for further innovation, quality and improved value for money in delivering these services.
 - 1.10 The 2017 annual customer satisfaction survey highlighted a need for improvement with 48% of residents feeling that rubbish and litter was a very, or fairly big problem in their area.
 - 1.11 Proposals for extending the current contracts for waste, recycling and cleansing to terminate at the end of March 2020 were agreed by Cabinet in October 2016. This has enabled officers to develop a range of delivery options and provide detailed information for members to make an informed decision on the most appropriate service delivery model to deliver future

waste, recycling and cleansing services.

- 1.12 The Council needs to commence a process to re-commission these services by no later than September 2018, in order to ensure that the council is in position to provide service continuity and discharge its statutory duties from 1st April 2020
- 1.13 There is the opportunity to assess and deliver the most innovative, cost effective and customer focused future service model, through the adoption of a “twin track” approach, which allows assessment of the benefits of an In - House service delivery model, compared to a new Integrated Waste, Recycling and Cleansing contract delivered via a competitive dialogue procurement route.

2. ALTERNATIVE OPTIONS

Not developing, consulting on, or adopting a new Waste Management Strategy

- 2.1 This would not provide a way of sharing and delivering on a vision for future waste management, or promoting the urgent need for change from a linear to circular economy across Tower Hamlets
- 2.2 This would restrict much needed engagement and communication with a diverse range of key stakeholders across the borough, including residents, businesses, registered social landlords and private landlords. This would make it harder to engage and involve key stakeholders and to encourage them to take more responsibility for managing waste within their control.
- 2.3 This would also restrict our ability to engage with key stakeholders on the implication of updated national and regional waste strategy / guidance.

Alternative Commissioning Options

- 2.4 The Council commissioned a report by consultants Eunomia, to analyse the options available for the future delivery of its waste collection, recycling collection, and street cleansing services with findings presented to the Council in February 2016.
- 2.5 A number of options were considered as listed below. Initial high-level analysis and short-listing determined four options (shown in **bold**) for more detailed consideration against cost, service quality and risk criteria:
 - Contracting out via : **Re-procurement** – going back to the market to conduct a new procurement exercise
 - **In-house** – bringing the service in house to deliver it through a Direct Services Organisation (DSO) or similar;
 - **Local Authority Trading Company (LATC)** – using an authority owned company, either a new company or an existing company founded by

another authority;

- **Sharing services (partnership working)** with other local authorities, either through the creation on a joint In-House service or the joint procurement of an external contractor.

- 2.6 A long list of the commissioning options available to the council is set out in Appendix 1, which highlights the key positive and negative aspects of each option.
- 2.7 The options of establishing a mutual and the two shared service options were not shortlisted for detailed analysis following the high-level analysis of the long list of options.
- 2.8 Establishing a mutual appears to be unworkable from a governance perspective and would in any case require the service to be put out to tender shortly after establishment, potentially resulting in a short-lived experiment. Shared service delivery options are much better tested, but worthwhile approaches cannot realistically be delivered in the timescales available. As such, these options were not taken forward for further consideration.

3. DETAILS OF THE REPORT

Development of the draft Waste Management Strategy 2018 – 2030

- 3.1 The overall objective for the new waste strategy is to drive more sustainable waste management in the borough and contribute to the Councils priorities to deliver on commitments to create a cleaner borough and increase waste minimisation, re-use and recycling.
- 3.2 The full draft waste management strategy is attached at Appendix 2, and presents our ideas about how we plan to improve services and respond to waste challenges, including changes to national and regional waste policy.
- 3.3 In January 2018 the Government issued its 25 year Environment Plan, with key focus on increasing resource efficiency and reducing waste through the following objectives.
- Ambitions of zero avoidable waste by 2050
 - Achieving zero avoidable plastics by 2042
 - Reducing litter and littering
 - Improving the management of residual waste
 - Cracking down on fly-tippers and waste crime
- 3.4 In addition, the Mayor of London has also been consulting on an Environmental Strategy that sets out the following objectives:
- To make London a zero-waste city.

- By 2026 no biodegradable or recyclable waste will be sent to landfill
- By 2030 65 per cent of London's municipal waste will be recycled.
- Set minimum recycling (6 key dry materials) and food waste standards for London's waste authorities, to meet by 2020

Key policy and service changes

- 3.5 The draft waste management strategy provides a future vision for waste, recycling and cleansing services delivering environmental improvements across the whole borough. It highlights our need to drive increases in waste minimisation and increased recycling, with an ambitious target to increase household recycling levels from 28% in 2018 to 35% in 2022.
- 3.6 The waste strategy also supports future delivery of other recent manifesto commitments, highlighted below:
- Improve business access to use of recycling services
 - Continue to roll out of "Smart" litter bins across the Borough and incorporating recycling into street bins.
 - Invest in graffiti removal team
 - Bring in a new Graffiti & Street Art Policy
 - Introduction of a recycling incentive scheme
 - Expand food waste recycling to blocks of flats where practical
 - Provide community composters to council, social housing and private estates/blocks that want them
 - Tougher standards for cleaning, working with social and private landlords to improve the cleanliness of Boroughs estates
 - Work with small businesses to establish a reusable cup scheme
- 3.7 It highlights six priority areas for change outlined in Table 1 below, which have been developed from the feedback received via a series of Members workshops conducted in 2017 and discussions with other stakeholders.

Table 1: Our 6 key priority areas for change

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| Leading the way forward | We want to properly engage and work with our residents, partners and other stakeholders towards improving environmental outcomes from waste management activities in Tower Hamlets. |
| Working Together for an Improved Local Environment | We want to promote and encourage pride in our local environment by working together with our communities towards reduced waste and increased reuse and recycling. |
| Shaping Services to Follow the Waste Hierarchy | We want to shape waste services around the needs of our customers so that they effectively move waste up the Waste Hierarchy and are fit for purpose now, and for the future. |
| Viewing Waste as a Resource | We want to view and manage our waste as a material resource to enhance our sustainability and the circular economy. |
| Reducing Carbon and Improving Air Quality | We want to reduce net carbon emissions from waste activities and contribute to local air quality improvement. |
| Adding Social Value | We want to contribute economic, social, and environmental benefits to the local community by supporting local supply chains, employment, and work opportunity. |

3.8 To deliver improvements across these priority areas, the draft strategy highlights key areas for change that require further consultation, policy development and service re-design.

3.9 Detailed below are key areas that require further consultation, policy development and change:

- **Providing consistent and standardised waste and recycling capacity across all households.** Ensure all households have the appropriate waste containers and service provision to enable residents to recycle more of their waste. Addressing multiple collections of rubbish from blocks of flats
- **Consider options for charging for over production of residual**

waste and or extra collections - Additional collections outside of the normal residual waste service would be provided to landlords and managing agents at an agreed cost.

- **Presentation of waste on collection** – Work with registered social landlords, housing associations and private managing agents to ensure that there is free access to communal bins on collection day, with consideration of charges for persistent obstruction to access.
- **Making dry recycling collections more available to all residents-** Ensure easy access to our co-mingled recycling service for recycling paper, cardboard, plastic bottles, plastic pots tubs and trays, steel and aluminium cans and glass bottles and jars. Ensuring that the service achieves high quality recycling.
- **Responsibility for dealing with contaminated communal recycling bins** – To consider the benefits of incentive schemes as part of estates recycling project to increase quantity and quality of recycling. In addition to the levying of charges for the emptying of contaminated communal recycling bins
- **Food Waste Recycling for Flats** – In order to achieve our 35% recycling target by 2022 we need to capture more food waste. So need to consider appropriate options for separate collection of food waste where practical and cost effective.
- **Bulky Waste Service** – Need to review current service and charging policies, exploring options to capture as much material as possible for re-use and recycling.
- **Commercial Waste Service** – The development of an improved commercial waste offer that meets the needs of all businesses, supports increased commercial recycling and reduction of illegal dumping
- **Managing the Night Time and Weekend Economy** – The delivery of effective waste, recycling and cleansing services in all areas that benefit from the night time and weekend economy, with additional funding support from Late Night Levy
- **Cleaning up and managing waste from special events** – To ensure increased cost recovery for clean-up activities following events in the borough.
- **The use of incentives to aid waste minimisation and recycling** – To review and trial the use of incentive schemes to assess impact on supporting behaviour change and increased recycling performance

- 3.10 It is proposed to consult on the Draft Waste Management Strategy between 2nd July 2018 and 30 September 2018. Following this the results of that consultation will be used to produce the final Waste Management Strategy for approval, in addition to shaping the future service delivery model for integrated waste, recycling and cleansing services.

Future Service Delivery Options

- 3.11 The current contracts for waste, recycling and cleansing terminate at the end of March 2020 and the Council needs to commence a process to re-commission these services by no later than early September 2018, in order to ensure that the council is in position to provide service continuity and discharge its statutory duties from 1st April 2020.
- 3.12 A detailed analysis of the commissioning options for delivering a Waste Service through either an In-House, external contract or trading company model was undertaken in February 2016. This work assessed the benefits of different options in terms of cost, value for money, innovation, quality and risk. Building on this work officers have continued to review and challenge the conclusion from this evaluation, re-assessing deliverability of each option. Further detailed analysis and finding will be reported back to the Major and Cabinet in September
- 3.13 Commissioning of the most effective service delivery model involves detailed consideration of the options that best meet the council's objectives, in addition to criteria on cost, service quality and level of risk.
- 3.14 The adoption of a "twin track" approach, allows assessment of the benefits of an "In -House" service delivery model versus an "Out Sourced" contract
- 3.15 This provides the best opportunity to deliver the most innovative, cost effective and customer focused integrated Waste, Recycling and Cleansing service.
- 3.16 The councils Clean & Green Team will require additional resources to mobilise a new service, whether through an In-house or Outsourced option. This will ensure that the current day to day operations of delivering the best service possible to residents is not affected by any proposed changes.
- 3.17** For either option the need for effective client management and contract monitoring is essential. To deliver improved standards of service quality effective performance management and quality control will require adequate levels of client, contract management and supervisory resources.
- 3.18 The option of bringing services in house (or in-sourcing) is always open to local authorities at the end of a contract, as there is no legal requirement to retender services, provided best value can be demonstrated. So, such a move could be either a permanent switch, or a bridging arrangement in advance of reconsideration of the market conditions pertaining to a re-procurement of the service to a private contractor in a few years' time

- 3.19 A number of authority's have recently decided to bring waste service back in-house, either through an in-house Direct Service Organisation (DLO) or a Local Authority Trading Company (LATC), consideration of bringing Waste Services back in-house has been driven by some of the following reasons:
- Lack of performance or achieving performance targets
 - Reductions to council client management functions
 - Lack of continuity between refuse and street cleansing services
 - High levels of customer dissatisfaction
 - Inconsistent application of agreed policies
 - Inflexible responses and failure to apply a 'common sense' approach to issue resolution
 - Lack of resident interaction, education and outreach
- 3.20 Full financial evaluation of these options and any final assessment will be based on best value criteria for risks, opportunities innovation, quality and value for money. This will also take account of the difference in revenue and capital costs. With an In-House option there will be particular focus on the increased capital cost of setting up depots, purchasing vehicles, plant and procuring management and IT systems.
- 3.21 Increased flexibility and ability to trial service options, without having to confirm complete service specifications can make delivery of enhanced service provision, such as providing Food Waste recycling on Estates more straightforward with an In-House option.
- 3.22 An In-House service could also improve management and control of commercial waste services. It is the belief of officers that reduction of the administrative cost of maintaining the current customer portfolio and increase income generation by the service could be achieved.

Procurement approach if services are externally provided

- 3.23 The principal advantage of re-procuring an external contract is to benefit from market competition to secure a price-competitive contract that allows the council to have relative certainty of service cost for the life of the contract. In addition, this competition brings advantages in terms of market experience innovation and expertise in implementing new services.
- 3.24 The advantage of Competitive Dialogue is that it allows organisations to clarify, specify or optimise the final bids.
- 3.25 The ability of the council to exploit this advantage will however largely be determined by two things: a) the degree of competitiveness of the market at the time of procurement and b) the structure of the contract tendered, including the council and the contractor's attitude to the sharing of financial risk related to future costs and income.
- 3.26 An 'outcome-based' specification informs bidders of the service standards that must be met but not the methods of delivery needed to achieve these

outcomes. This gives bidders greater flexibility to decide how and when to deliver their services and encourages innovation. Based on their experience of delivering similar services across the country and beyond, bidders will have different approaches on how to achieve each of the Council's outcomes.

- 3.27 There is shared risk and reward in an outcome based approach to service delivery. The contract will contain incentives and payment deductions relating to the performance against outcomes. These mechanisms seek to drive continuous improvement throughout the contract term and innovative approaches to service delivery.
- 3.28 The contract term is proposed to be for an initial period of up to 8 years, with the option for the Council to extend for up to a further 8 years, the duration of which may range from 1 year to 8 years, with no lower or upper limit to the number of extensions the Council can arrange, subject to not exceeding the maximum contract length of 16 years. It also provides the contractor with more time to efficiently recover the capital investment that will be required in fleet and other infrastructure.
- 3.29 The Council is keen to attract a range of strong bidders to ensure that we achieve the best possible outcomes. As such we need to ensure that the contract parameters are clear and simple; limiting any complexity that adds both time and cost to finding optimum solutions. The ambition set out above is testing, and the tools that will be required to achieve this must allow the use of proven best practice
- 3.30 It is proposed that the services standards and outcomes and performance measures will be included within the scope of the competitive dialogue process, with decisions on the items to include within the final contract to be established through the outcomes of the dialogue sessions.

Managing Risk

- 3.31 As with any venture of this nature, there will be risks associated that will need to be identified, evaluated and analysed as part of progressing with such a project for either commissioning model.
- 3.32 Risk analysis logs will be developed in order to give oversight to all potential risk which would need to be overcome and managed to complete this transfer successfully. These risks will be grouped into Financial, Political, Operational, Legislative, Technological and Reputational issues and will identify associated mitigation to overcome each potential problem. Examples of such risks are as follows;
- Political risks of moving to an In-House service , with concern about the scale of change and potential for impact on quality and delivery of service leading to reputational damage.

- The authority could face greater financial risk through in-house service mis management than if through commissioning a contracted service, whilst alternately receiving greater reward by delivering efficiencies through innovation.
- With an outsourced contract there is risk that any service changes in relation to policy or service needs will involve additional costs through contract variations. This is likely when service specification changes have not been fully anticipated or costed in at start of contract.
- For an In – House service the responsibility for industrial relations would fall onto the authority, should disruption impact on service delivery. However, even with an outsourced service, the reputational risk of industrial relation would remain an authority’s risk rather than the contractor.
- For an In - House Service there will be the need to recruit officers with the experience to operationally manage the service, as this experience does not exist within the current service structure.
- Changes to the service provision proposed by the authority for reason on innovation, technological advances or financial pressures are more difficult to manage with an outsourced service than the flexibility provided by managing an in-house service.
- If the contract is externally provided, there is a risk that a lack of market competition means that the authority may not receive best value for money from bids.

4. EQUALITIES IMPLICATIONS

- 4.1 An Equalities Analysis has been carried out in relation to the Draft Waste Strategy to identify any evidence or views that suggests that different equality or other protected groups (inc’ staff) could be adversely and/or disproportionately impacted by the proposal.
- 4.2 The majority of the proposals will make positive impact on the environment of the Borough, which will be beneficial for all regardless of their background. The service will conduct consultation to identify any specific impact of this strategy on those protected groups.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report highlights further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration.

5.2 Best Value Implications

- 5.3 The current contracts for waste and recycling services have a combined annual value of approx. £29.7M. The ability to deliver efficiency savings through the commissioning process will be determined by the decisions made regarding the scope and volume of the services to be provided and the specific performance targets that are set for the contractor to achieve. The principles of continuous improvement inform the development of the contracts and integral performance management and review processes.
- 5.4 It is proposed to adopt a “twin track” approach for commissioning an integrated waste, recycling and cleansing services from April 2020. This involves starting a competitive dialogue procurement process from early September 2018, whilst also working on an In-House delivery option for future consideration. Given the challenges of improving waste, recycling and cleansing services across the Borough, this approach allows for the development of these services whilst maximising opportunities for innovation, quality and value for money.

5.5 Environmental (including air quality)

- 5.6 The Council’s waste management services contribute to the protection of the environment and protecting human health through the effective management of waste arising in the borough.
- 5.7 Moving waste up the waste hierarchy i.e. by ensuring a greater quantity of waste is re-used or recycled as opposed to being disposed of as residual waste, contributes to the Council’s efforts to mitigate the impacts of climate change by reducing the carbon footprint of the Council’s waste management services.
- 5.8 Through the re-commissioning of future waste management services the Council will ensure the approved delivery option contributes to the Council’s sustainability agenda by ensuring the vehicle fleet meets the latest emissions’ limits specifications and detailed improvement plans are in place for contributing to a greener environment.

5.9 Risk Management

- 5.10 It has been identified in section 3 of the report that individual aspects of the scope and nature of the new services carry varying degrees of risk for the Council and the new contractor. The following are the key areas of risk the above arrangements are seeking to mitigate.
- The outcome of the EU referendum has created a period of uncertainty surrounding how the legislative framework for waste management services may be impacted by the UK leaving, as much of the current legislation has been driven by EU Directives. Ensuring the focus for the new services remains on the waste hierarchy, sustainable good practice, cost efficiency

and meeting the needs of the local community, the service can somewhat mitigate the potential impacts of changes to the legislation.

- The anticipated growth in population will result in increasing total annual tonnages of Municipal Waste being generated, increasing pressure on future services and the resources needed to deliver those services and the Council's budget. By ensuring the new contracts incorporate appropriate mechanisms to provide flexibility to incorporate the growth with maximum efficiency, the likely cost increases can be mitigated.
- To help mitigate the impact of population growth on the quantity of waste the Council has to manage in future years, the new services will incorporate a greater focus on driving waste minimisation. Being at the top of the waste hierarchy and meaning waste generation is prevented would provide the greatest opportunity to reduce the Council's costs for waste management services.
- The nature of the Council's housing stock provides significant challenges for the delivery of recycling services and aspirations to achieve the higher level of recycling performance the new Mayor of London has pledged. The new services will have a greater focus on driving the right behaviours to improve both the quality and quantity of recyclable materials the council collects. This will help to mitigate the overall costs for waste services.
- Lack of effective engagement with key stakeholders such as registered social landlords, managing agents and housing associations in relation to the proposals for controlling residual waste and implementing charging for additional collections.
- Negative publicity in relation to taking a more robust approach to enforcement of littering and small scale dumping
- Depot -Bidders are deterred from bidding because of uncertainty on the availability of a depot solution for the start of the contract;
- Bidders are concerned with the costs incurred through a competitive dialogue process and therefore do not respond to the procurement opportunity or inadequately resource their bidding team;
- Bidders have reservations about their ability to meet the proposed significant savings from this contract;
- Bidders have reservations with the proposed contract term, especially as this procurement will run in parallel with other major procurement projects and the Council is not the biggest player in the market, and;
- Bidders are deterred from bidding for the contract because of the uncertainty around public sector budgets and the possibility of further reductions at a later date.

- Ensuring that the level of risk being transferred to the contractor is balanced and proportionate to the Council's overall objectives in the procurement process will help to mitigate the risk of the new contracts becoming unaffordable.

5.11 Crime Reduction

- 5.12 The Council's activities for tackling litter, fly tipping, removal of graffiti and flyposting that are incorporated into the Draft Waste Management Strategy. This work contributes to the Council's efforts in managing anti-social behaviour within the borough. The new waste management specification will continue to incorporate the current policy requirement for the immediate removal of racist or offensive graffiti from Council owned property.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 The report sets out the Draft Waste Management Strategy 2018-2030 for approval. As part of the development of the strategy key policy and service changes are proposed to enable delivery of sustainable improvements to waste management. In setting out the ambition and priorities for the Council the strategy focuses on 6 priority areas. These areas have been developed for the purpose of shaping the future waste service delivery model for the borough over the next 12 years. Consultation on the draft strategy is due to commence on the 2nd July 2018 for the period to the 30th September 2018.
- 6.2 The current contracts for waste collection, recycling and cleansing have been extended for the period of the 1st April 2018 to the 31st March 2020 at a value of £19.2M per annum. In addition to those contracts there is the Commercial Waste contract which generates income of £3.2M. This service will also need to be included within the commissioning process. The extension to the contracts has delivered total savings of £1.030M in 2017-18.
- 6.3 The new contract for delivery of these services will need to commence from the 1st April 2020 to ensure that the Council is able to discharge its statutory duty. To ensure the best solution is commissioned, consideration is given in the report to the key impacts on the options in terms of cost, value for money, innovation, quality and risks. The recommendation proposed is that a "twin track" approach is adopted that provides the opportunity to consider a procurement process via competitive dialogue, alongside the development of an in-house service option.
- 6.4 At this stage the focus for officers is a "twin track" approach to commission either an in-house service or contracted out. A detailed analysis of the comparative benefits and concerns around the key issues are highlighted in this report, they will best determine the impact on the deliverability, in terms of cost, value for money, innovation, quality and risk. A further cabinet report on the options is expected in September 2018.

- 6.5 The Council's spends approximately £29.7M in total annually on waste management. The draft Waste Management Strategy 2018-2030 will form an important justification to support the key areas of policy and service change to deliver the future improvements. The commissioning approach recommended provides the opportunity to ensure that best value can be determined in the choice of option approved for delivering the waste, recycling and cleansing services. There will also need to be the full appraisal of the capital investment requirements that include the redevelopment of a new depot and lead times for procurement, to ensure availability at the start of the contract date.
- 6.6 Given the demographic changes to the borough since the contract was originally awarded to Veolia in 2006 and expected future population changes, there is a risk that Tower Hamlet's spend on Waste Services could increase whichever commissioning option is taken.
- 6.7 Stakeholders must be made aware that significant capital investment may be required to procure a new Waste Service Fleet and investment in IT systems to run the routing and data management for the service.
- 6.8 The investment in a new fleet will likely be required should the service be procured In-House or with an external contractor. The value of this Capital investment would be reduced if the service decided on a leasing option for vehicles rather than purchase, however, that would impact on the value of revenue savings delivered. If a decision to bring the service in-house is agreed, a full purchase vs lease financial analysis would form part of the full financial analysis of an in-house option.
- 6.9 Many of the services are currently provided from the Council's Blackwall Depot. To achieve efficient and effective service delivery under a new contract, either in-house or outsourced, the Depot will be required for the delivery of the services under any new arrangement.
- 6.10 The Council is carrying out a feasibility study into options to rationalise the use of the Depot. The recommendations and timescale for any subsequent work are not yet clear, so any lease would need to allow the flexibility for the Council to implement any agreed changes resulting from the feasibility work.
- 6.11 There will continue to be significant competing demands on Council budgets to deliver its priorities. The commissioning option selected will need to be quantified and the financial impacts reviewed as part of the development of the Council's Medium Term Financial Strategy and Capital Strategy before implementation. Any decision taken will need to be made on the basis of securing value for money for the Council.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Council is the relevant waste authority for this area under the law and has the legal function to provide waste related services and the legal power so to

do. Under legislation the Council also has the power to do anything ancillary to that function (for example enters into contracts for services to meet that function). Therefore it is open to the Council under the law to purchase the provision of these waste services. Similarly it is open to the Council to also pursue an interest in providing the service in house at some point in the future. Therefore, the actions referred to in this report are compliant with the Council's waste related legal duties

- 7.2 The overall scope of the services will be defined by the Council's new waste strategy currently in draft form. The proposed consultations referred to in paragraph 4.1 will only be valid if they take place whilst the Council's decisions relating to the strategy are still at a formative stage. However, the significant decisions in this regard are to be taken in September and consultations will be occurring prior to that as the strategy is developed. Therefore, given the nature of the recommendations in this report it is permissible to proceed on the basis that consultations are due to take place, provided that the consultations are complete and the results considered prior to making the further decisions in September.
- 7.3 At the moment authority is only being sought for the commencement of a procurement process but it will not be until the final strategy is decided upon that the specification against which providers could bid can be created. Similarly, in the event that the final decision is an in house service the requisite structuring of the Council to provide such a service will not be known. In both instances whilst it is permissible to follow the current approach, this may lead to some cost wastage.
- 7.4 The Council has a legal duty to provide these waste services. Therefore, the main risk to the Council is the inability to continue to provide the services at the expiry of the existing contract. Whilst there is a risk of cost wastage by following a twin track approach at this stage, this is balanced off against this larger risk. Also, any tendering approach must follow a fully European Law compliant process which needs to commence now so that a new contract could be completed and mobilised in time for the end of the existing contract.
- 7.5 In all aspects of the draft strategy and potential contracts / in house service there are clear implications for persons who have a protected characteristic for the purposes of the Equality Act 2010. Initial, Equality Assessments have occurred and the results taken into account to guide the current approach and the Council has planned further assessments and consultation in this regard as the approach is developed over the next few months. This is compliant with the Council's Equality Duty and is sufficient at this stage for the Council to understand the impact of its decisions on persons who have a protected characteristic. The legal duty on the Council is to ensure that it properly understands the impacts of its decisions for the purposes of Equalities. The carrying out of the planned further assessments and consultations will ensure that the Council remains compliant with this legal duty.
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Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 - Longlist of commissioning options
- Appendix 2 - Draft Waste Management Strategy 2018 – 2030

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- NONE

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Appendix 1 - Longlist of Commissioning Options

| | Pros | Cons | Cost Implications | Key Risks |
|-----------------------|--|--|---|--|
| Contracted Out | <ul style="list-style-type: none"> Consistent annual cost Competition between contractors may increase efficiency and drive down cost Risk of overspend and changing costs lie with contractor | <ul style="list-style-type: none"> Negotiation required to make any service change & may be impossible to agree Less cost & service delivery transparency Market conditions now less favourable & fewer bidders active within the market than in the past | <ul style="list-style-type: none"> Have to pay contractor profit margin Lower pension costs May benefit from contractor's purchasing power providing access to greater economies of scale One-off costs - such as cost of procurement | <ul style="list-style-type: none"> Contract is under-bid, potentially leading to drop in service quality No direct control to change service if quality drops or recycling rate is not achieved |
| In House | <ul style="list-style-type: none"> More control, e.g. unilateral ability to make service changes Service changes can be made quickly No procurement needed More flexibility to make capital investment to reduce revenue cost | <ul style="list-style-type: none"> Council directly liable for any overspend Workforce management may be more challenging & lead to lower productivity No competition to drive service efficiency | <ul style="list-style-type: none"> Higher pension costs No profit margin Uncertainty around one-off costs (such as recruitment and other transition costs) | <ul style="list-style-type: none"> Ability to employ appropriately skilled and experienced staff All cost risks lie directly with the council Operational risks such as health and safety lie entirely with the council |
| LA Company | <ul style="list-style-type: none"> Company under direct control of the council, so has similar control to an in-house service No procurement needed Arms-length from the council – can be operated along more commercial lines with ability to trade outside of borough | <ul style="list-style-type: none"> Overspend risks lie ultimately with the council Workforce and productivity management, although arms-length, is still ultimately a council risk No competition to drive service efficiency | <ul style="list-style-type: none"> Lower pension costs No profit margin Uncertainty around one-off costs (such as company set-up, recruitment) Some flexibility to carry out commercial work (up to 20% of company turnover) | <ul style="list-style-type: none"> Council still directly liable for overspend Relatively novel approach with some uncertainty on delivery model |

| | Pros | Cons | Cost Implications | Key Risks |
|-----------------------|---|---|---|---|
| Shared Service | <ul style="list-style-type: none"> If contracted out, would be a higher value contract and thus could attract more competition | <ul style="list-style-type: none"> Would be time consuming to set up May be difficult to find a partner | <ul style="list-style-type: none"> Cost savings from shared management structure | <ul style="list-style-type: none"> May be difficult to get everything in place within the timescales |

Appendix 2: Draft Waste Management Strategy 2018-2030

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