

Meeting of:	CABINET
Date of Meeting:	16 APRIL 2024
Report Title:	FUTURE WASTE SERVICE OPTIONS POST 2026
Report Owner / Corporate Director:	CORPORATE DIRECTOR COMMUNITIES
Responsible Officer:	Zak Shell, Head of Operations – Community Services
Policy Framework and Procedure Rules:	There is no impact on the policy framework or procedure rules.
Executive Summary:	<p>The purpose of the report is to share the finding of the Eunomia Research and Consulting Report and Subject Overview and Scrutiny Committee 3 (SOSC3) Recommendations with Cabinet on the preferred option for delivering the future waste services post 2026.</p> <p>The Eunomia Report set out that either a re-procurement or the establishment of a Local Authority Trading Company (LATCo) , is the least risk and operating cost option for the Council.</p> <p>SOC3 recommended exploring the LATCo or In-house option further.</p> <p>In view of the recommendations in the Eunomia report, the risks outlined and the Council’s current financial challenges, it is recommended by Officers that the Council re-procure a waste services contract post 2026.</p> <p>It is also recommended that the Council looks at a rolling waste fleet replacement programme commencing in this financial year.</p>

1. Purpose of Report

- 1.1 The purpose of the report is to share with Cabinet, the findings of the commissioned report from Eunomia Research and Consulting (Eunomia) on future recycling and waste options from April 2026, following the two-year contract with Plan B Management Solutions which ends on 31st March 2026.
- 1.2 The report also feeds back to Cabinet the recommendations and observations following a Subject Overview and Scrutiny Committee 3 (SOSC3) meeting which took place on 19th March 2024 which took place to allow Scrutiny members the opportunity to understand the advantages and disadvantages of the three service delivery methods that the independent consultants considered, that is:-

- Bring the waste services in-house
- Transfer the waste collection into a Local Authority Trading Company (LATCo)
- Re-procurement of a waste services contract

This Scrutiny session was intended to give recommendations for Cabinet consideration and approval regarding the above.

- 1.3 It is important to note that neither the Eonomia nor Cabinet Report looks at the details of the future service delivery, including items such as frequency of collection or materials collected. This is the next stage of the waste services workflow and will be brought to SOS3 and Cabinet for discussion and consideration at a date later this year and will be informed by a proposed public consultation exercise.

2. Background

- 2.1 The Council has outsourced its recycling and waste contract to a commercial contractor since 2003. The contract has been renewed every 7 years and the Council has had three contractors fulfil that service. Prior to the recent contract to Plan B, the outsourced waste contract was delivered by Kier Environmental Services since April 2017. Contextually it is important to recognise that this has been a very well performing contract in the main, with BCBC being in the top three performing local authorities in Wales for recycling levels, at over 71% of waste recycled compared to the Welsh Government Target of 68%. The missed collection rate, which is a national indicator, is under 50 per 100,000 collections and is considered exemplar in Wales, and the overall cost of the contract is regarded as competitive, as demonstrated in Welsh Governments annual waste service comparison statistics. Additionally, the last time this matter was considered by the Citizens Panel in 2021, over 76% of respondents stated the waste service was good or very good, with a further 13% saying the service was 'average'. Only 9% of respondents regarded the service as poor or very poor. These results demonstrate that overall, the vast majority of our residents regard the service provided to be good or very good, albeit it is recognized that there remain some small areas of performance that need to improve. The nature of waste collection services in all local authorities, with effectively a transactional engagement with each household every week, means that however the service is provided there will always be some room for performance improvement in how waste is collected and recycled, and there is an opportunity to address some of the residual concerns about the current service when any new specification is put together for the service. The Kier contract ended on the 31st March 2024, and this has been replaced by an interim contract with Plan B Management Solutions, for a period of two years, approved by Cabinet in June 2022, which largely uses the same methodology and specification as the Kier service. This commenced on the 1st April 2024 and will run until the 31st March 2026.

- 2.2 The reasons for the short-term duration of the interim contract, were twofold: -

- The interim contract would allow time for the development of the Ultra Low Emission Vehicles (ULEV) marketplace and an opportunity for future decisions to be made with regards to decarbonisation and the selection of future vehicle technology from 2026, when the market was more mature.
- The contract would allow time for Welsh Government future recycling targets and linked forthcoming relevant legislation to be published, thus informing service models and, in turn, fleet configuration from 2026.

2.3 To ensure continuity of service post 2026, when the Plan B contract ends, decisions are now required on how the Council will provide the waste service in the future. This may be done via a re-procured service, by bringing the waste services back in-house or the establishment of a Council owned arm's length company or LATCo. This was the subject of the report presented to the Subject Overview and Scrutiny Committee 3 meeting held on 19th March 2024. The detailed recommendations from this committee are included in section 3.11 below.

2.4 Shortly after confirming this direction, further decisions will also be required on the model of service to be provided, which will consider items such as frequency of collections and the materials to be collected, and these matters will be subject to a public consultation exercise. This is the next stage of the waste services workflow and will be brought to SOSC3 for discussion and consideration and then Cabinet at a date later this year.

2.5 Prior to commissioning the Eunomia report, consideration was given as to whether to investigate collaborative working arrangements, potentially with other neighbouring local authorities. However, this was explored at length previously and there was limited benefit or interest from neighboring authorities being identified. This is because of no perceived cost savings or significant efficiencies and some of the neighbouring local authorities undertaking very different collection methodologies. It was decided, therefore, that this would not be included in the Eunomia commission, although this does not preclude this being explored further in the future.

3. **Current situation / proposal**

3.1 Eunomia Research and Consulting (Eunomia) was commissioned by the Council to undertake a detailed qualitative risk assessment and financial modelling of the commissioning options for future waste collection service delivery. The report, included as **Appendix A**, examines the comparative cost and key risks and opportunities associated with each of the future commissioning options.

3.2 The three options were assessed from a financial and qualitative perspective and the findings are detailed in full in the attached report. In summary the report found the following: -

RISK ASSESSMENT OF FUTURE OPTIONS

- 3.3 Each of the three future commissioning options that the Council is considering were evaluated qualitatively from a risk perspective. This qualitative assessment involved assessing each of the available future commissioning options against certain criterion. This included financial and commercial risk, operational risk, market conditions implementation risk, service quality and control and ability to change. The criterion being assessed, and their weightings, were agreed with council officers and are outlined in full in section **Error! Reference source not found.** of the Eunomia report.
- 3.4 In summary, the analysis from a qualitative perspective is that the re-procurement route received the highest score at 66% and was ranked first in terms of mitigating risk. Whilst both the in-house option and LATCo receiving very similar scores, came second and third ranked with a score of 58% and 56% respectively. However, the re-procurement option does require careful consideration and immediate implementation due to the very limited window in which the contract can be re-procured prior to the 2026 interim contract expiry date. If preferred this re-procurement activity would need to commence with some expediency, unless there was an appetite to extend the current Plan B contract for a further year.

- Re-Procurement Option Scored 66% and is ranked 1st.
- In House Option Scored 58% and is ranked 2nd.
- LATCo Option Scored 56% and is ranked 3rd.

FINANCIAL MODELLING

- 3.5 The three options were also assessed from a financial perspective. The results of the cost modelling are presented in the report as total annual costs. The baseline used for the assessment, £7.19m, reflects the 2022-23 budget position (latest figures available at the time of Eunomia report compilation) and cost of the contract to the Council. The detail of this is outlined in section 3.1.2 of the report but in summary, with regards to the financial modelling, the LATCo option is marginally the cheapest of the three, though the re-procurement option is only slightly more expensive. The annual cost of bringing the provision in house is the most expensive by an additional £340K per annum.
- LATCo Option Modelled Annual Cost of £9.02m, ranked 1st.
 - Re-Procurement Option Modelled Annual Cost of £9.03m, ranked 2nd.
 - In-House Option Modelled Annual Cost of £9.37m, ranked 3rd
- 3.6 It is worth noting that indexation has been applied to the future options to account for a start date in 2026-27, hence why all the options have significantly higher costs than the Baseline which reflects 2022-23 costs.

- 3.7 Also, for clarity the profit margin applied to the re-procurement option in the model was set at realistic market expectation of 12%, which is higher than the existing contractor receives at 8%. This could be subject to fluctuation, which may have a betterment impact on the costs of this option. Furthermore, the costs of the LATCo option have in order to reflect best value, been based on the assumption that the terms and conditions of employees would not be based on standard Local Authority terms and conditions and pension arrangements. Should these be deemed to be required and paid the overall cost of the LATCo option would rise significantly, by £660K and become by some distance the most expensive option with an annual cost of £9.68m.
- 3.8 It should also be noted that a sickness level of 6% has been applied to all three options. However, the Council's current average sickness level is at 11%, so if this was modelled into the in-house provision, then the costs of this option per annum would rise by a further £250K..
- 3.9 Finally, It should be noted that that all of the options are based on 'modelling' and therefore the final costs of each may in due course differ, for example, as a result of market conditions.

TRANSITION AND MOBILISATION COSTS

- 3.10 The Eunomia report also outlines the costs of transitioning and mobilisation (T&M) of each of the three options. That is, the work that is required to be undertaken to bring the option forward. This is detailed in section 3.1.3 of the Eunomia report and includes items such as legal support, financial support, procurement technical support, compliance, mandatory training, digital platforms, or equipment and then the costs associated with the Depot and any workforce onboarding.

3.11 In summary, it found that the costs associated with transitioning into a LATCo are the highest at £0.97m. In this option, a new entity is being created which will require a significant amount of internal support, such as legal and finance, and other set-up costs such as development of a business plan and branding. Both the in-house and LATCo options include mobilisation costs that do not apply to the re-procurement option, such as terms and conditions, compliance work and purchase of applications. These two options also require a high level of resources ahead of the start of the new service delivery to support the transition, including resources for the onboarding of the workforce. Re-procurement costs include legal and technical support for the re-procurement process, other initial costs, including digital and depot, apply to all options. The estimated identified costs for all options are a combination of utilising internal resource and specialist advisors where necessary.

- Re-Procurement Option T&M Costs of £529K ranked 1st.
- In House Option T&M Costs of £765K ranked 2nd.
- LATCo Option T&M Costs of £971K ranked 3rd.

3.12 It is worth noting that for the in-house and LATCo options these would be one off costs (assuming that there is no other service delivery change in the future), however for the re-procurement these costs would be incurred when the contract expired and needed to be re-procured.

3.13 Given the requirement to have continuity of service, preparatory work will need to commence with expediency. All options require significant lead in time to allow the process to be undertaken and ensure sufficient a sufficient mobilisation period. There is provision in the current interim contract for a one-year extension however, this would need to be mutually agreed by both parties.

3.14 The re-procurement option represents the simplest option in terms of Council Officer involvement and transition. . It is a process that the Council has considerable experience in, having done it on three separate occasions over the past 20 years and has less impact on the roles and capacity of relevant officers across the Council. There is unavoidable opportunity cost in pursuing the in-house or LATCo options as they require significant internal management resource to be dedicated to the process both from the Communities Directorate and Corporate Support Departments such as Human Resources, Legal, Finance and ICT, and as such will have an impact on overall capacity from senior managers to pursue other initiatives and transformation at a time of very limited overall capacity.

SUBJECT OVERVIEW & SCRUTINY COMMITTEE 3 - 19TH MARCH 2024

3.15 The Eunomia Report and analysis of each option was presented to the Council's Subject Overview and Scrutiny Committee 3 on 19th March 2024 and the Committee was asked to look at the analysis of the three options in the report at Appendix 1, and to offer their recommendations, regarding the above, for the consideration of Cabinet.

3.16 The Committee discussed in detail the three service delivery options in the report and the findings of the commissioned report from Eunomia. Members were interested to understand more regarding the option of a (LATCo), they discussed the ability to create funds within a LATCo and whether an offer of an affordable package of waste collection for businesses could provide the potential to offer the same pension scheme and terms and conditions as Bridgend County Borough Council staff, by offsetting the cost with the potential additional revenue streams. Members expressed concern that staff should not be disadvantaged regarding the Local Government Pension Scheme (LGPS).

3.17 Officers would advise that, following the scrutiny meeting, Eunomia were asked to provide financial information on the performance of existing waste LATCos in the UK. This information is included below. It is noted that despite Liverpool Streetscene

Services showing significant losses over the 2-year period shown, the Liverpool local authority is happy with the overall operational performance of the LATCo. It should be noted that this particular LATCo in Liverpool covers a range of service areas beyond the waste service.

Name	Services	21/22 Financial Results	22/23 Financial Results
Liverpool Streetscene Services	Waste collections, street cleansing, grounds maintenance, highways services	£1.4m loss	£1.6m loss
Cumbria Waste Management	Waste disposal and recycling services	£3.7m loss	£2.8m profit
Cheshire West Recycling	Refuse, recycling, and garden waste collections	£526k profit	£207k profit
Norse Environmental Waste Services (NEWS)	Waste collections for several LAs	£573k profit (£1.4m loss in 20/21)	£184k profit

- 3.18 In terms of a new LATCo in Bridgend, the potential to generate increased income via a commercial waste service to significantly make a profit would be difficult prior to 2030 as the authority is in a contract for waste disposal with the Materials Recycling and Energy Centre (MREC) in Neath Port Talbot. The contract for the period up to 2030 is fixed with high disposal costs, so it would be extremely difficult for the service to be competitive in this area for the initial 4 years of the proposed contract period.
- 3.19 Following the scrutiny meetings and queries around LGPS pension being available for LATCo employees, Eunomia have confirmed, as earlier highlighted in paragraph 3.7, that this would be more expensive than any of the three options presented, with costs of the LATCo increasing from £9.02m to £9.68m per annum. This would have the effect of taking a LATCo model from the lowest cost per annum to the highest and more expensive than the in-house model, which was £9.62m. Requiring a LATCo to operate using Local Government terms and conditions also negates some of the benefits of a LATCo in terms of ability to match market salaries and operate in a more dynamic and commercial fashion. The overall package of terms and conditions should be considered.
- 3.20 Officers believe that all necessary information has been provided to make a meaningful decision on the options discussed in the Eunomia report and in subsequent meetings. Any additional information, while potentially interesting, would be suggestive and not necessarily reflect the service being delivered in this way in Bridgend. The Eunomia commission has now ended and the necessary timelines to move this situation on to ensure a waste contract is in place for April 2026 mean that any further delay in making a decision on the future service delivery would represent a significant risk to the authority.
- 3.21 In all scenarios modelled by Eunomia they have recognised that the preferred option for the procurement of vehicles is for the authority to purchase these due to their borrowing ability and preferential rates. This would also allow the authority to move

away from the current model of an entirely new fleet being procured every 7-8 years to a rolling fleet replacement system.

- 3.22 With the above in mind, it would make sense for the authority to look to bring in a proportion of new vehicles over the next 2 years and, where appropriate, invest in the current fleet to increase the lifespan of those vehicles not currently being replaced. This will ensure costs are spread over several financial years and strengthen the robustness of the service.
- 3.23 In conclusion, from the detailed qualitative and financial analysis by Eunomia, it was recommended that the Council considers either the re-procurement or LATCo options going forward, with the re-procurement option appearing to be the most favorable should the timeline for a future procurement be feasible and practicable.
- 3.24 It is advised at this point that Cabinet accept Officers and Eunomia's recommendations and pursue a re-procurement of the waste services contract post 2026. This is considered both the least cost and risk option in the short term, at a time when the local authority is faced with pressing financial constraints. Also, when compared to the LATCo option, it would be significantly less demanding on internal resources. From the report provided by Eunomia there is not a significant difference in the total annual costs for running the service between the Re-Procurement and the LATCo.
- 3.25 Neither the LATCo nor the in-house option, are recommended by Officers due to the cost and resource implications as outlined above and below.

4. Equality implications (including Socio-economic Duty and Welsh Language)

- 4.1 The protected characteristics identified within the Equality Act, Socio-economic duty and the impact on the use of the Welsh Language have been considered in the preparation of this report. As a public body in Wales the Council must consider the impact of strategic decisions, such as the development or the review of policies, strategies, services, and functions. As this report does not deal with changes to how the waste services are operationally provided to the public. It is considered that there will be no significant or unacceptable equality impacts because of this report.

5. Well-being of Future Generations implications and connection to Corporate Well-being Objectives

- 5.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives, as a result of this report.

6. Climate Change Implications

- 6.1 There are no Climate Change Implications from this report as this does not deal with service changes to the waste service.

7. Safeguarding and Corporate Parent Implications

7.1 There are no safeguarding or corporate parent implications arising from this report.

8. Financial Implications

8.1 Eunomia have provided the financial information below comparing the three service options, modelling the cost over 14 years. The actual contract period has not yet been determined but could potentially be based on an initial 7 year, plus 7 year option basis.

	Re-procurement	In-house	LATCo
Total Annual Costs	£9.03m	£9.37m	£9.02m
Mobilisation Costs	£0.53m	£0.77m	£0.97m
Total Costs over 14 years	£127.47m	£132.00m	£127.20m
Qualitative Risk Assessment	66.0%	58.0%	56.0%

8.2 As set out in paragraph 3.8 above, the figures above are modelled using a sickness figure of 6% across all options. However, based on the Council's current sickness levels across the organisations, 11% is more reflective of current In-house figures. It should be noted that using this figure for the in-house option would result in increased figures of total annual costs of £9.62m and total cost over 14 years of £135.38m for the in-house option only. This then makes the in-house option some £8.18m more expensive than the LATCo model and £7.91m more expensive than a re-procured option, based over a 14-year operating period. Again, this assumption can only be based on sensible modelling but both the in-house and LATCo options significantly increase the risks of increased sickness levels and any industrial relations issues directly to the Council, whereas they currently lie in an outsourced model with the contractor. Full financial information is included in the report at Appendix 1.

8.3 The move to the local authority purchasing fleet on a rolling program as outlined in section 3.14 will need financial recognition through investment via the Council's capital programme, which itself is facing significant pressures and lack of funding, and whilst not changing the overall future costs of fleet investment requirements of the council, as would be experienced on a typical 7-year replacement cycle as at present, it would require a re-profiling of spend.

- 8.5 The Council's current extremely difficult financial position means that overall affordability of each option inevitably becomes a crucial factor in determining the preferred option and way forward. An earmarked reserve of circa £300k currently exists to provide legal and technical support to re procure the waste contract based on the original assumption that the Council would once again seek to procure a commercial partner. Any additional one-off funding to bring the service in-house or to form a LATCo would need to be identified, probably from reserves, on a one-off basis at a time when there is significant pressure on all Council funding and when reserves are likely to be reduced significantly to offset the Council's current overspend position for 2023-24
- 8.5 Furthermore, any additional annual costs to provide the waste contract would need to be the subject of a budget growth bid for the 2026-27 financial year onwards. It should be noted that over the course of an initial 7 year contract period from 2026 onwards, the difference in costs between the least expensive options - LATCo [not paying LGPS] and Re -procurement of an external contract - compared to bringing the service in-house are between £2 million - £3 million. At a time of huge pressure on all Council budgets, both revenue and capital, and with projected Council budgets unlikely to improve significantly for the foreseeable future, this will require other budget reductions to offset those costs should the more expensive option be preferred.

9. Recommendations

It is recommended that Cabinet: -

1. Note the contents of this report and the qualitative and financial analysis undertaken by Eunomia and the Officer recommendation that the Council proceeds with the re-procurement option.
2. Delegate authority to the Corporate Director – Communities, in consultation with the Chief Officer - Legal & Regulatory Services, HR & Corporate Policy and the Chief Officer, Finance, Housing & Change, to commence work immediately and undertake a procurement exercise for a new 7-year waste service contract post 2026.
3. Agree that a further report will be brought for Cabinet approval on the details of that waste collection service, prior to a public consultation in the summer of 2024.
4. Agree that a subsequent report will be brought for Cabinet approval to award any new waste service contract post 2026, after a successful procurement exercise is completed.

Note the intent to move to a new rolling fleet replacement programme for waste service vehicles from 2024. This will need to be through a separate report to Council for approval for inclusion in the Council's capital programme.

Background documents

Appendix 1 – Eunomia Report