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**Report of:** *Simon Green*

**Report to:** *Cabinet*

**Date of Decision:** *18.01.2016*

**Subject:** *Waste Services Review*

Is this a Key Decision? If Yes, reason Key Decision:-	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
- Expenditure and/or savings over £500,000		<input type="checkbox"/> *		
- Affects 2 or more Wards		<input type="checkbox"/> *		
Which Cabinet Member Portfolio does this relate to? <b>Cabinet Member for Environment</b>				
Which Scrutiny and Policy Development Committee does this relate to? <b>Economic and Environmental Wellbeing</b>				
Has an Equality Impact Assessment (EIA) been undertaken?	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
Equality Impact Assessment Reference Number 969				
Does the report contain confidential or exempt information?	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below:-				
<p><b>Appendix One is not for publication by virtue of Regulation 20(2) Local Authorities (Executive Arrangements) (Meeting and Access Information) (England) Regulation 12 because, in the opinion of the proper officer, it contains exempt information under Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.</b></p>				

**Purpose of Report:**

The Council has an Integrated Waste Management Contract (IWMC) with Veolia, which runs from 2001 to 2036. Despite significant work with Veolia over the past five years, it has not been possible to achieve the level of savings required to ensure IWMC can operate within the Council's reducing budget. The Waste Contract Review was therefore commissioned to consider if there is a deliverable alternative strategy to the current contract.

The key strategic objective established for the review is to significantly reduce the cost of Waste Services and to allow for a more responsive, flexible and sustainable service in the future.

Following the decision of the Leader on 28<sup>th</sup> September 2016 to implement the Commercial Strategy the purpose of this Cabinet report is to recommend alternative service delivery solutions for each service area and, where appropriate, to procure contractor(s) to deliver the services post April 2018.

This report also seeks approval for project costs.

The key reasons for these recommendations are:

- New, disaggregated contracts provide the opportunity to significantly reduce the cost of Waste Services, and the opportunity for a more responsive, flexible, improved and sustainable service in the future.
- To provide the opportunity to have the delivery solution that is best able to meet our desired outcomes for each service area.
- To provide the opportunity to introduce new ways of working in the Collection Service to increase efficiency and reduce costs.
- To enable the Council to take control of strategic development of the District Energy Network ('DEN').
- To enable the Council to benefit from an increased share of income from the Energy Recovery Facility ('ERF').
- Insourcing the Management Systems, Call-centre and Communications Service will provide greater transparency on service performance to enable the Council to deliver an improved service.

**Recommendations:**

It is recommended that Cabinet:

1. Approve the strategy for the alternative service arrangements for waste services being:
  - a. Waste and Recycling Collection Service(s)  
A seven-year contract (with extensions of up to three years) with a requirement for bidders to set out how they will introduce new ways of working to deliver greater efficiencies and continued safe working practices,
  - b. Energy Recovery Facility  
A five-year (with extensions of up to five years) operation and maintenance contract including the sale of electricity and supply of heat to the District Energy Network,
  - c. District Energy Network  
A two-year (with extensions of up to two years) operation and maintenance contract,
  - d. Call centre  
Insourcing the Call-centre and Communications Service and Management

- Systems,
- e. Disposals  
Procure a number of disposal contracts depending on which material streams and what can be aggregated.
2. Approve and budget the project costs as described in section 4.2.12 of this report
  3. Delegate authority to the Director of Business Strategy and Regulation:
    - a. In consultation with the Director of Finance and Commercial Services and the Director of Legal and Governance and the Cabinet Member for Environment to approve the final procurement strategy, and
    - b. In consultation with the Director of Finance and Commercial Services and the Director of Legal and Governance to agree contract terms and enter into contracts at the conclusion of the procurement, and
    - c. In consultation with the Director of Finance and Commercial Services and the Director of Legal and Governance and the Cabinet Member for Environment to take such steps not already delegated as he deems necessary to achieve the outcomes outlined in this report.

<b>Lead Officer to complete:-</b>	
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.
	Finance: Dave Phillips
	Legal: Sarah Bennett
	Equalities: Ian Oldershaw
<i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i>	
2	<b>EMT member who approved submission:</b> Simon Green
3	<b>Cabinet Member consulted:</b> Bryan Lodge
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Decision Maker by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.
	<b>Lead Officer Name:</b> Jed Turner
	<b>Job Title:</b> Waste Project Manager
<b>Date:</b> (Insert date)	

## 1. PROPOSAL

### 1.1 Introduction:

The Council has been unable to secure savings in the cost of the Integrated Waste Management Contract ('IWMC') with Veolia to deliver against its budget. The Waste Contract Review Project was therefore commissioned to consider if there is a deliverable alternative to the current contract which would significantly reduce the cost of waste services and allow for a more responsive, flexible and sustainable service in the future.

### 1.2 Background:

On 1<sup>st</sup> August 2001, Sheffield City Council entered into a Public Private Partnership with Veolia for the provision of integrated waste management services including the construction and operation of a new ERF. The Special Purpose Vehicle ('SPV') that the Council entered into the contract with was Sheffield Environmental Services Ltd. The contract was for 30 years and was extended via a supplemental agreement in 2004 for a further 5 years. The contract is due to expire 1<sup>st</sup> August 2036.

1.3 The contract incorporates all elements of waste services provided on behalf of the Council; waste collection and recycling, treatment/ disposal of all household waste (including the design, building and operation of an ERF) and management of the DEN, management of the Household Waste Recycling Centres ('HWRC') and all customer service functions.

1.4 The IWMC contract budget for all services in FY 2017/18 is a net cost of £27m.

1.5 Current employee numbers across the Veolia Sheffield contract are estimated at 280. The table below identifies the number of staff in each service area as provided by Veolia as part of their management accounts.

<b>Service</b>	<b>Employees</b>
Collections including workshop & fleet	194
Energy Recovery Facility and District Energy Network	35
HWRC and Materials Recycling	13
Overhead	37
Director	1
<b>TOTAL</b>	<b>280</b>

1.6 The Household Waste Recycling Centres (HWRC) will be subject to a separate cabinet report at a later date.

### 1.7 Options Review

1.7.1 A comprehensive options review was carried out to determine the most appropriate future delivery model for waste services. The Outline Business Case ('OBC') (Appendix 1) sets out the details of the options considered and describes in detail the reasons for the recommended solutions.

1.7.2 The review in the first instance considered an integrated contract (as now) compared to a separate arrangement for the different service elements. The review concluded that separate arrangements for each service area provided the Council with the best opportunity to deliver best value, savings, flexibility and long term sustainability.

- 1.7.3 The review then focused on each service element and considered the various operating models within it. Alternative operating models included insourcing delivery to the Council, establishing a Teckal company (a Company 100% owned by the Council), an external procurement route and a combination of these. The OBC sets out the costs, benefits, opportunities and risks for each option. A Member Working Group was also established to review the assessment of options and provide a strategic steer on the options being considered by the project team. The Member Working Group has ratified the recommendations within the OBC.

## **2. HOW DOES THIS DECISION CONTRIBUTE?**

- 2.1 The changes recommended in this report contribute to the 'Being an In touch Organisation' and 'Thriving Neighbourhood and Communities' priorities identified in the Council's Corporate Plan 2015 – 2018. This is through reducing the cost to the Council of providing waste services and making the best use of public money to have the greatest impact for Sheffield. The changes also seek to be innovative through finding new approaches and business models, being open to different ways of doing things and seeking out new ideas.
- 2.2 Waste Services are a cornerstone of the 'Thriving Neighbourhoods and Communities' priorities ensuring our city is clean and tidy.
- 2.3 Sheffield's Green Commission has established a transformative energy principle for Sheffield: An energy secure city with transformative affordable, clean, efficient, low-emission, networked, renewable, resilient, simple and locally owned energy solutions. The Energy Recovery Facility and the District Energy Network are key assets for the city in realising our aspirations.

## **3. HAS THERE BEEN ANY CONSULTATION?**

- 3.1 The potential changes outlined in this report are to address the delivery model for how the Council can secure better value for money in delivering the current waste services. As such, this has not been subject to public consultation.
- 3.2 However, in a separate exercise the Council has identified opportunities to reduce the costs of waste services which may mean changes to front line services. A public consultation process has taken place and closed on 15<sup>th</sup> September. An Equality Impact Assessment for this public consultation has been conducted. The Equality Impact Assessment reference is 363.

## **4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION**

### **4.1 Equality of Opportunity Implications**

- 4.1.1 Equality Impact Assessments will be finalised in line with the decisions made on the future service delivery model(s). Opportunities for mitigation will also be identified as part of the assessments.

### **4.2 Financial and Commercial Implications**

#### **Potential costs opportunity of re-procured services**

- 4.2.1 The Council has estimated the potential cost of the re-procured services in 2016/17 based on revenue and cost data obtained from Veolia's management accounts (FY15/16) and the Council's modelling of cost savings and income opportunities available. The most significant savings opportunities relate to the Collection Service and the ERF.

- 4.2.2 The Council believes that savings to the cost of the Collection Service can be achieved through different ways of working. This includes reducing labour and vehicles resources, as well as introducing policy changes which will lead to efficiency savings. Future Council policies detail the frequency of collections, the size, type and quantity of containers to be used by the household and any charges which may be applied. The Council is currently considering some policy changes to waste services and a public consultation on these changes ended on 15<sup>th</sup> September 2016. These proposed policies for waste services will be presented to Cabinet in autumn 2016. The results of this will help inform any new service specification.
- 4.2.3 In regard to the ERF, the most significant opportunity relates to the Council receiving a higher proportion of the income from third party waste and electricity income than is currently received through the contract with Veolia.
- 4.2.4 However, it should be noted that the true cost to the Council of all the services will not be known until the services are put out to the market and therefore will only be realised when the alternative services provision is in place.
- 4.2.5 The most significant risks to the recommended proposals are:
- The cost of implementing the Commercial Strategy in connection with the current IWMC.
  - The assumed savings in future service delivery are not realised through the procurement process.
  - The risk to the Council if a contractor is not able to fully secure the feedstock (other waste) for the ERF which would mean reduced income share to the Council, and could cause operational issues to the ERF.
  - The Council's share of income from the ERF will be exposed to energy market price risk.
  - The unknown condition of the DEN could result in a significant cost to the Council to carry out remedial works to bring the network up to an acceptable standard. The short-term O&M contractor would only take on low level maintenance risks so the Council will retain responsibility and the risk of major repairs and maintenance whilst the network condition is properly assessed.

#### **Pension Financial Implications**

- 4.2.6 Veolia has a contractual commitment under the IWMC to balance any pension liability. Therefore, this should not present a risk at the point of transfer.
- 4.2.7 As part of the future commercial contract, the Council is to specify that a new employer is to make appropriate provisions for pension entitlements including securing Admitted Body status in the Local Government Pension Scheme for those employees that are currently still in the scheme. It is proposed that this would be on the basis of a 'closed' scheme i.e. only those employees that are currently still in the scheme can have access to it.
- 4.2.8 South Yorkshire Pensions Authority cannot set restrictions to prevent any company participating in the Local Government Pension Scheme. In terms of the pension deficit in the future, it is proposed that the Council considers funding this directly rather than bidders pricing this risk, but this will be subject to further consideration by officers on the best route to take.
- 4.2.9 Where the new employer bids on the basis of the provision of an alternative pension scheme, the employer must demonstrate that the alternative pension scheme to be provided will be broadly comparable in all material respects.

## **Project Costs**

- 4.2.10 Delivery of this next phase of the project will require multidisciplinary input from the following internal areas:
- Waste Management Client,
  - Project Finance,
  - Legal Services,
  - Commercial Services,
  - Human Resources.
- 4.2.11 In addition external resource will be required for:
- Legal Advice,
  - Technical Advice,
  - Specialist Financial Advice (in relation to tax).
- 4.2.12 Approval is already in place for £1.2m and this report seeks approval for the balance of £2.5m. The full breakdown of project costs is included within the OBC.

## **4.3 Legal Implications**

- 4.3.1 The Council will procure the services in accordance with the Public Contract Regulations 2015 and the Council's Contract Standing Orders which are set out in Part Four of the Council's constitution. The tender process will be a competitive process in order to achieve best value for the Council. The procurement will follow the fundamental EU procurement principles of being open, fair and transparent. The successful tenderers will be required to enter into a formal written contract, which accord with the Council's requirements. Contracts will be executed as per the requirements set out in the Council's Contracts Standing Orders.
- 4.3.2 As a requirement of the Public Contracts Regulations 2015, the procurement of these contracts will be advertised via the Official Journal of the European Union ('OJEU'), this will allow companies from all Member States in the European Union to express interest and the opportunity to bid for these services. The procurement process will also discharge the Council's general duty of attaining best value as stated in S3 (1) of the Local Government Act 1999.
- 4.3.3 It is acknowledged that the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) may apply and, if that is the case, staff employed under the existing IWMC who are within scope of TUPE would transfer either to the successful tenderer or to the Council depending upon the service being insourced or outsourced. Corporate policies and procedures in this respect will be followed.
- 4.3.4 The Council will discharge its statutory functions as a Waste Collection Authority Waste and Disposal Authority under the sections 45 and 48 respectively of the Environmental Protection Act 1990. The Council will also discharge it's responsibility under any relevant legislation relating to awarding new contracts for the delivery of Waste Services.
- 4.3.5 External legal advice will be taken before the form of contract for each service area is finalised to ensure that they meet the Council's requirements.

## **4.4 Human Resource Implications relating to insourcing the Call Centre functions**

- 4.4.1 There are human resources implications in this report, notably in the proposal to transfer the Call Centre, Communications Service and Management Information Function into the Council. At this stage, it is not possible to provide a complete assessment on all HR implications that

could arise from the implications in this report. However, immediate implications are described below.

- 4.4.2 TUPE Transfer: Reasonable and sufficient time is required to establish whether TUPE should apply, assess who is eligible to transfer, undertake a full assessment of employee liability information and mitigate against any employee liabilities, such as outstanding employee claims or actions by Veolia prior to transfer.
- 4.4.3 Where TUPE does apply, the Council will need to undertake meaningful consultation with affected staff in line with the legislation and sufficient time should be built in for this prior to transfer.
- 4.4.4 TUPE Regulations restrict the ability to change terms and conditions of employment of transferring employees. As a result of this, the Council may receive employees on a number of different terms and conditions. Veolia specified in their management accounts that there is a bonus payment of 1.4% of salary costs. The Council may be required to maintain multiple pay structures and apply different HR policies, which depending on the gender profile of this group, could reintroduce equal pay risks.
- 4.4.5 As part of this consultation, the Council would propose in line with our policy to apply the living wage as recognised by the Living Wage Foundation, which may result in an increase in salary costs to the Council. There may also be increased pension costs. Transferring employees may be entitled to benefits, such as private health care or car allowances, which could increase also the salary costs to the Council.
- 4.4.6 The Council may make changes to the way it delivers services after transfer. This may impact on location and reporting lines, staff numbers and local pay arrangements. Should such changes become necessary, the Council will consult with its staff as required by law.

#### 4.5 **Environmental & sustainability implications**

- 4.5.1 Taking strategic ownership of the District Energy Network will allow the Council to consider developing the network to contribute to carbon reduction targets and address fuel poverty. Decentralised energy provides increased energy security and local employment opportunities. Contracts will be designed with the flexibility to respond to the Council's Sustainable Development Strategy
- 4.5.2 Contracts will be formulated to ensure that the successful Contractors comply with the current statutory requirements regarding Noise and Pollution Control, Site Waste Management, Environmental Protection and Landfill. The nature of the contracts will require the successful bidders to establish a local site base and because there are TUPE transfers (in the event that the current provider does not win the contracts), this will give opportunities for the employment of local people.
- 4.5.3 The Council's Employment and Skills requirements will be included where applicable in this procurement. These will define the requirements of the successful contractor in relation to employment and skills.

### 5. **ALTERNATIVE OPTIONS CONSIDERED**

- 5.1 The key strategic objective established for the options review is to significantly reduce the cost of Waste Services and to allow for a more responsive, flexible and sustainable service in the future. The four key project drivers established to assess the options are:

1. **SAVINGS**: Provides best opportunity to reduce costs and enhance income

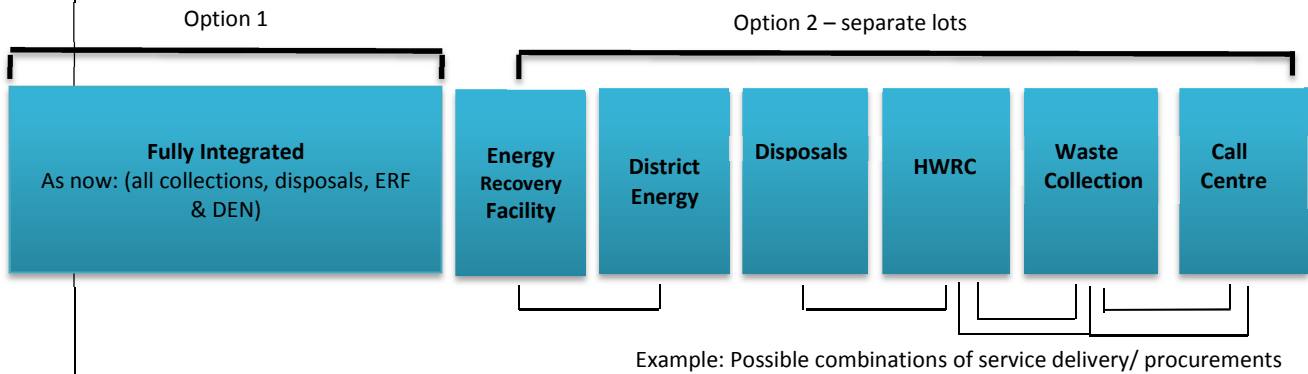


2. **Simpler:** Provides best opportunity to focus on outcomes, performance, good working relationships, and not be 'bogged down' by contractual disputes and complex mechanisms to make improvements
3. **Better:** Best able to provide a service that is responsive and flexible to meet Council requirements and changing policy initiatives, such as delivery of the waste strategy, employment and skills, environmental considerations and budget pressures
4. **Time:** Is best able to be ensure commencement of new arrangements by January 2018

The OBC describes in detail the alternative options considered and the reasons for the recommended options.

5.2 **Option One:** The first option was to review the advantages and disadvantages of an integrated contract compared to disaggregating the individual functions and contracting on an individual basis.

5.2.1 The table below shows the component parts of IWMC which could be procured/ delivered separately.



5.2.2 The key advantages and disadvantages of an integrated approach are shown in the table below.

<b>Key advantages of the alternative approaches.</b>	
<b>Advantages of integrated approach.</b>	<b>Advantages of service specific solutions.</b>
<ul style="list-style-type: none"> <li>• Maximise efficiencies through economies of scale.</li> <li>• Reduces the Council's procurement and contract management costs.</li> <li>• Large contract generates significant market interest from leading contractors.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduces reliance on single provider,</li> <li>• Separate contracts generate market interest from specialist providers.</li> <li>• Integrated contract is large and unwieldy.</li> <li>• Contract terms can match differing service requirements.</li> <li>• Greater flexibility.</li> </ul>

5.2.3 The option of a fully integrated contract (as now) was discarded as this option did not allow the Council to best meet its objectives, in particular:

- the opportunity to put in place contracts that match the requirements of specific service areas.
- procuring separate services is likely to attract more market interest (specialist providers) and competition, and reliance on a single contractor is reduced.
- Services are not tied into a fixed contract cycle and benefit from flexibility of different contract lengths.

### 5.3 **Option 2 - Review for each Service Area**

- Energy Recovery Facility
- District Energy Network
- Waste Collection

5.3.1 These three service areas were reviewed in more detail using a SWOT analysis for each option. The main options included consideration of insourcing, Teckal (company owned 100% by the Council) and an external procurement route. The option review set out the costs, benefits, opportunities, risks for each option, these were then evaluated against the four key project drivers as set out above in section 5.1.

### 5.4 **Energy Recovery Facility**

5.4.1 The ERF is essentially a 'static' asset, which needs to be operated at maximum capacity and as efficiently as possible but with no scope for expansion. The business drivers are to minimise risk and maximise income over the life of the asset. Income is from a very limited number of 'customers', from gate fees for waste processed, and from sales of electricity, heat and associated ROCs (a government subsidy for generating renewable energy). The ERF is capable of generating significant profits, but there is a high risk associated with filling the capacity and the technical expertise to operate the facility.

5.4.2 The commercial and technical risk of filling the ERF capacity with third party waste, together with the technical expertise required to manage the ERF and the ability to secure long term electricity and heat sales contracts, means the option of insourcing this service would result in too much risk for the Council. It therefore would not meet the Council's prime objective of securing savings. The Teckal option does not significantly reduce these risks to the Council and so the recommended option is to procure a contract for the operation of the ERF. However, it is recommended that the new contract is for a shorter term than the current IWMC in order to provide flexibility to the Council. The new contract will also seek a significantly higher share of the income that the ERF generates.

### 5.5 **District Energy Network**

5.5.1 The DEN is a more 'organic' and strategic asset that is capable of expansion (or contraction) with a very long-term potential operating life. The DEN has the capacity to grow in length and number of customers supplied, to accept heat from other sources in addition to the ERF, and to deliver strategic benefits including low-carbon heat, energy security, and contributing to tackling fuel poverty. The business drivers are the need for long-term, low cost capital, delivering a low but secure return on investment.

5.5.2 The Sheffield DEN is the largest, and one of the longest-established heat networks in the UK. Due to its age, the condition of the pipework of the network is uncertain. This uncertainty is exacerbated because of the lack of transparency in the IWMC with Veolia. To be able to realise the potential of the DEN as a strategic asset, the Council would need to take ownership, strategic control, and responsibility for the life-cycle development and maintenance costs of the DEN, however it should be noted that this presents significant risk to the Council. In addition there is uncertainty about the level of investment required to develop the DEN.

5.5.3 Principally because of the opportunity that the Council may wish to strategically develop the DEN, together with uncertainty over the condition and customer base of the DEN and the risk this poses to procurement, the option of selling off the asset or entering into a long-term strategic partnership was discarded and the recommendation is that the Council retains strategic ownership and direction but lets a short-term operation and maintenance contract (which may include billing) to manage the day-to-day functioning of the DEN.

5.6 **Collection Service**

5.6.1 There are a number of risks and issues that would arise from insourcing the Collection Service.

5.6.2 An insourced solution would require significant operational and management change in order to drive through service improvements and efficiency savings. The Teckal (Wholly Owned Company) option was dismissed as the Council could still be considered as an associated employer (determined by the level of control imposed by the Council on the direct employer) and therefore the risk of equal pay claims still exists. The main financial and human resources implications are explained in the table below.

5.6.3

<b>Risk</b>	<b>Insource/ Teckal or Both</b>	<b>Impact</b>
<b>Pension</b>	Insource £0.3m (min) Annual	The incremental cost of bringing the waste collection service in house is estimated to be circa £284k. This is calculated at the future service cost of 12.9%. In addition, like all employees on payroll, payroll costs would attract a further 6.1% for the Councils overall past service deficit of £332k.  This will increase with call centre insource plus other overhead posts (currently SCC does not have salary details for these to be able to include in forecast estimate). SCC will also be fully liable for any future pension deficit
<b>TUPE Transfer</b>	In-source & Teckal	The TUPE process, will transfer into SCC or the Teckal any existing employee liabilities that Veolia has in respect of affected employees, for example outstanding legal claims, actions against Veolia prior to transfer.
<b>TUPE Terms and Conditions</b>	In-source & Teckal	Breach of TUPE regulations –The incoming employer will require reasonable and sufficient time to establish whether TUPE applies and to which employees. That employer will have to undertake a full due diligence assessment and consider employee liability information. Where TUPE applies, the Council will need to undertake meaningful consultation with affected staff via their representatives in line with the legislation and the Council's agreed policies in this area. Failure to do so would leave the Council open to challenge at Employment Tribunal and possible compensation of up to 13 weeks pay.  If the process results in the successful claims for unfair dismissal the financial exposure based on compensation of up to 1 year's employee pay could cost the Council circa £4.8 million
<b>Equal Pay Risk</b>	In-source	Veolia employees and some employees of sub-contractors that may be eligible to TUPE transfer into the Council or the Teckal will not be all on the same terms and conditions and would be subject to different collective agreements depending on where they were previously employed. Some staff that initially TUPE transferred from the Council to Veolia will have transferred on historic Council T&Cs. However, it is not known whether these terms have been

		<p>altered since. As TUPE protects whatever terms and conditions and collective agreements apply at the point of transfer, insourcing would increase the number of different arrangements within the Council. the Council would be required to maintain and apply multiple pay structures and HR Policies which could re-introduce equal pay risks. This would add complexity to, and increase the risks arising from the TUPE transfer process.</p> <p>Detailed comparisons of relevant T&amp;Cs and collective agreements are required to establish potential risks to the Council. However, information for this comparison would not be available until formal consultation commenced and employee liability information is received.</p> <p>The TUPE regulations provide the Council with some protection from an equal pay challenge in the short term. Early engagement with the Trade Unions would be key to explore whether an agreement can be obtained in relation to any measures that may mitigate this risk.</p>
<b>Organisational Infrastructure</b>	In-source & Teckal	The Council has not delivered a frontline service of this nature for a number of years. The Council would need to ensure that it has leadership expertise, learning and development provision, health and safety processes and employment policies in place relevant to this workforce..
<b>Overhead</b>	Insource & Teckal	There could be an impact on Council resources should services be in-sourced, for example Legal, Commercial, Finance and HR (increased Health, Wellbeing and Safety; Occupational Health and HR systems in particular).
<b>Reputational Risk</b>	In-source & Teckal	With a front line service of this nature there would be high reputation risk to the Council should there be a serious accident, fatality or industrial action as a result of the Council delivering this service.

5.6.4 Based on the analysis, the option to insource this service at this stage was discarded as this would result in too much risk for the Council and would not meet our prime objective of securing savings.

5.6.5 However, the recommendation is that the contract will include a requirement for bidders to set out how they will introduce new ways of working to bring greater efficiencies and safer working practices and at the same time enable the Council to consider insourcing this service following expiry of the contract.

## 5.7 **Customer Service Centre & Communications**

5.7.1 A key driver for the Council is the opportunity to regain control of management information and influence the delivery and efficiency of the service, which is considered to be a key benefit and outcome of this project. Although a procurement option can provide these support services, the weakness is that the Council would not directly control the management information and be less able to influence the delivery and efficiency of the service. A procurement option is therefore not the preferred route, however, there is a risk that additional costs could be incurred through an insourced option. The Teckal option was rejected because the Council already has the infrastructure to provide the required customer service function.

## 5.8 **Disposals**

- 5.8.1 Under the IWMC Veolia is responsible for the onward disposal or processing of materials collected from Sheffield's households, bring sites, HWRC's and residues from the incineration process. A number of disposal sub-contracts are in place and are market tested every 5 years.
- 5.8.2 Processing and onward transfer of recyclates and residues requires specialist providers with the necessary technologies and infrastructure, which the Council does not have. In addition it is not envisaged that TUPE will apply to these elements of the service. The options of insourcing and a Teckal arrangement have there not been considered and the only viable option is to conduct a procurement(s) for disposal contracts.

## 6. **REASONS FOR RECOMMENDATIONS**

- 6.1 The reasons for the recommendations are set out below.
- 6.2 The option of a fully integrated contract (as now) was discarded as this option did not allow the Council to best meet its objectives, in particular:
- the opportunity to put in place contracts that match the requirements of specific service areas.
  - procuring separate services is likely to attract more market interest (specialist providers) and competition, and dependence on a single contractor is reduced.
  - services are not tied into a fixed contract cycle and benefit from flexibility of different contract lengths and differing service requirements.
- 6.3 The preferred option is to make separate arrangements for each service, reflecting their specific nature, the Council's requirements for each service and enabling it to deliver a lower-cost, more flexible service overall.
- 6.4 **Collection Service:** It is recommended that a seven year contract (with an option to extend by up to three years) provides the best opportunity to meet the Council's objectives, in particular the opportunity to maximise savings, to put in place a contract that is likely to attract more market interest and service specific requirements focusing on the collection service. This also provides a contract length that reflects the life cycle of vehicles. However, the contract will include a requirement for bidders to set out how they will introduce new ways of working which should bring greater efficiencies and safer working practices. It will also seek from bidders a commitment to ensure all components of pay and the staff working arrangement results staff being reasonably remunerated only for work actually undertaken giving regard to the good pay practices in the public sector.
- 6.5 **Energy Recovery Facility:** To be procured separately from the DEN because the Council has fundamentally different objectives and there are very different risks. There is a specific commercial and technical risk of filling the ERF capacity from third party waste, and specialist technical expertise required to manage the ERF. However the ERF is a well-understood technology and there are a number of potential bidders for a contract. Based on advice from the Council's Technical Advisers, the recommendation is to let a five year (with an extension of up to five years) operation and maintenance contract including the sale of electricity, and supply of heat to the DEN.
- 6.6 **District Energy Network:** There is the opportunity for the Council to strategically develop the DEN. This combined with the uncertainty over the condition and customer base of the DEN and the risk that this poses to a procurement, leads to a recommendation to let a short-term operating and maintenance contract for the day to day management of the DEN for two years

(with an extension of two years). The Council can then retain ownership and strategic control of the DEN as well as life-cycle development and maintenance costs. It may be necessary to establish a project within the Council to develop a business plan for the future growth and expansion of the DEN. This would include the opportunity to:

- invest to improve efficiency and performance of DEN, expand the customer base and introduce low-carbon heat sources.
- allow the Council to take a long-term investment view that is appropriate for DENs, and match that with low cost financing.
- use DEN expansion to tackle fuel poverty and reduce carbon footprint.
- generate heat sales income, and
- assess the true condition and commercial viability of the DEN.

6.7 **Call centre and communications service** – An insourced solution brings the opportunity to regain control of management information and influence the delivery and efficiency of the service, which is considered to be a key benefit and outcome of this project. There will however be a need to ensure the necessary interfaces with the various service providers so that service requests can be transferred to and from the relevant parties following customer contacts. Insourcing this element of the service will also enable the Council to provide an improved service to customers and residents.

6.8 **Disposals** – procure a number of disposal arrangements. The number of contracts will depend on which material streams can be aggregated together and the condition of the market when procurement is due to commence.