

WIRRAL COUNCIL

CABINET – 4 NOVEMBER 2010

REPORT OF THE DIRECTOR OF TECHNICAL SERVICES

ENVIRONMENTAL STREETSCENE SERVICES CONTRACT - VALUE ENGINEERING

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to update Cabinet of progress of an ongoing Value Engineering exercise carried out jointly by Biffa and Technical Services, as requested by Cabinet in the budget resolution of 16th October 2008 (Minute 219d refers).
- 1.2 This report builds on the previous report to Cabinet of 23rd July 2009 that highlighted a £285k additional requirement for the contract but also that additional income has been realised from Garden Waste Recycling Credits. This report also highlighted the need to fund a contractual Property Count Uplift that we expect to equate to annual growth of around £25k per year, along with the impact of the annual inflation adjustment as laid down in the contract conditions (£406k per year).
- 1.3 In this report Cabinet is requested to approve this additional contract requirement and the Property Count Uplift but also approve a number of short term Value Engineering Budget Options to help contribute towards the Council's overall efficiency savings. The detailed financial implications of each of these Value Engineering options is of a commercially sensitive nature and has therefore been included as a press exempt appendix to this report.
- 1.4 Finally the report provides an update on expenditure to date, on the Capital Waste Infrastructure Development Grant and seeks approval for the removal of the revenue support element from the 2011/12 budget, along with approval of proposed expenditure of the remaining grant monies. This being the last year in which this grant will be available to the authority.

2.0 BACKGROUND

- 2.1 The new Environmental Streetscene Services contract was awarded to Biffa Waste Services in May 2006 and came into force on 22nd August 2006.
- 2.2 During the past four years, the contract has achieved significant successes including the following:
 - The borough wide roll-out of the grey bin Alternate Weekly Collection service to over 138,000 properties, including collections on Bank Holidays;
 - The restructuring and expansion of the garden waste service to over 108,000 properties;
 - The significant improvement in local environmental quality through better street cleansing and related activities has meant we have achieved the challenging Public Service Agreement (PSA) standard.

- 2.3 A comprehensive report outlining the progress of the contract including contract management arrangements and realisation of proposed benefits was presented to Cabinet on 24th May 2007.
- 2.4 At the meeting on 3rd April 2008, Cabinet approved the use of 2008/9 Waste Capital Infrastructure Grant to fund the roll-out of co-mingled recycling facilities to multi-occupancy properties and on-street recycling facilities in primary and secondary retail areas, and also the progression of the procurement exercise for garden waste treatment facilities (Minute 576 refers).
- 2.5 At Cabinet on 15th January 2009, the new Garden Waste Composting Facilities contract commencing 1st April 2009 was awarded (Minute 340 refers). This report highlighted financial savings that need to be taken into account as a result of awarding the new contract as well as a number of other issues such as the proposed use of Recycling Credits and financial pressures on the Department's Waste and Environment budgets that would be the subject of a further report.
- 2.6 At Cabinet on 23rd July 2009 (Minute 72 refers) a Contract Review report highlighted the need to fund a contractual Property Count Uplift that we expect to equate to annual growth of around £25k per year. Additionally the contract contains a requirement to adjust core payments and contract rates in line with movements in the RPI index. Both of these issues are covered in more detail within section 4.0 of this report.
- 2.7 The current value of the core contract with Biffa is £11.779M for 2010/11 consisting £7.449M for waste collection and £4.332M for street cleansing.

3.0 PROPOSED VALUE ENGINEERING OPTIONS CURRENTLY UNDER ACTIVE DEVELOPMENT IN PARTNERSHIP WITH BIFFA

I have been actively working in partnership with Biffa to develop a range of value engineering proposals as detailed below.

Option 3.1: - Remove "Additional School Cleansing" requirement from the Environmental Streetscene Contract (VE1)

Throughout the life of the Biffa contract, this extra street sweeping element of the contract has not been delivered. This is due to no "dewatering" facility being available to Biffa to drain off their mechanical sweepers. Biffa have experienced significant "down time" travelling to their depot to use a temporary facility they have provided. It was agreed that the additional cleansing around schools be suspended to account for this "down time", and avoid an additional "tipping away" fee being levied by Biffa on the Council. The MWDA have subsequently provided a dewatering facility at Bidston, hence there is now an opportunity to re-evaluate the need for this resource. This issue is being considered in conjunction with other initiatives to review the operational approach to street cleansing to provide dedicated teams working within their own 'local' areas.

Targeted Start Date For Initiative: April 2011

Potential Financial Implications: See Appendix

Option 3.2: - Removal of 7-year Break Clause from the Environmental Streetscene Contract to automatically extend the contract to run its full 14-year term (VE2)

The Environmental Streetscene Contract commenced in August 2006. It is a 14-year contract (i.e. to August 2020) with a 7-year Break Clause (effective at August 2013) and an option to extend the contract for a further 7 years (to August 2027). Biffa have indicated that they would be keen to secure the longer-term contract in advance in return for reducing the contract price and preliminary negotiations have suggested a figure stated in the appendix.

Whilst this option will realise financial savings without any reduction to services, it is important to note that pursuing this option would prevent the Council from testing the market in three years time, or from entering into joint procurement exercises with other Districts on Merseyside for current waste collection services. Even so, it is important to note this does not preclude the Council taking action against the contractor in the event of poor contractual performance. Biffa's satisfactory performance to date and the co-operative partnering arrangement we have nurtured gives me no reason to doubt their ability or dedication to this contract both now and in the future.

Targeted Start Date For Initiative: April 2011
Potential Financial Implications: See Appendix.

Biffa have also indicated that further savings could be offered in the event that the Council were prepared to agree at this time to let the contract run its full term i.e. until August 2027.

Option 3.3: – Alter Payment Terms For the Environmental Streetscene Contract to include quarterly payments in advance (VE3)

Given the size of the of the operation, Biffa have significant sums of money tied up with financing capital funding requirements, this being subject to relatively high financing charges. In comparison, the Council receives a relatively lower capital investment income from its own reserves. Hence there is any opportunity for the Council to provide contract payments in advance, thus providing a potential financial benefit to both partners. In conjunction with the Director of Finance and after receiving appropriate financial calculations from Biffa, I have reached agreement on terms for providing quarterly payments in advance for the core work provided under the Environmental Streetscene Contract. This arrangement was introduced in May 2010 and is anticipated to result in a discounted payment (i.e. saving to the Council) on an ongoing basis as detailed in the Appendix.

Actual Start Date For Initiative: May 2010
Financial Implications: See Appendix

Option 3.4: - Move to a 4-day working week for the grey/green bin collection service (VE4)

The current Environmental Streetscene Contract calls for green and grey bins to be emptied Monday to Friday including bank holidays. The terms and conditions of employees that transferred to Biffa from the existing contractor at the start of the

contract did not include a requirement to work Bank Holidays. Hence Biffa are forced to pay disproportionate compensation to crews to operate on Bank Holidays.

An alternative approach would be to operate all collections Tuesday to Friday, in the same manner as the garden waste service. This proposal would result in some initial disruption to the public, as Biffa advise that up to 50% of collection days may need to be changed to accommodate the need to extend the remaining working days and change operational collection route boundaries. Additionally, it will take some time to negotiate new contracts for the operatives and changes may not be able to be implemented until the new Materials Recovery Facility (MRF) is built at Gillmoss, due to capacity issues at the MRF at Bidston. It should also be noted that this initiative will require the support of the MWDA in terms of making tipping facilities available for longer opening hours to cater for the extended working days.

Many Districts have opted to operate services over 4 days due to additional benefits, such as freeing up maintenance time for vehicles, utilising vehicles for additional duties on Mondays, and allowing for an extra contingency day for catching up on collections suspended due to bad weather. This option is often favoured by operatives, which can simplify the negotiating process and minimise the financial implications of changing terms and conditions of employee contracts. Under this proposal, Good Friday would still operate as a normal collection day. At this stage it is estimated this could achieve an annual revenue saving as detailed in the Appendix.

All costs associated with notifying individual properties of the changes, i.e. the printing and delivery of revised collection calendars, would be met by Biffa.

Targeted Start Date For Initiative: April 2012

Potential Financial Implications: See Appendix

4.0 ONGOING CONTRACT GROWTH REQUIREMENTS

4.1 The Environmental Streetscene Contract includes for an annual review and adjustment of contract payments in line with the requirement to collect waste from an increase in the number of households and the impact of movement in base RPI figures over the preceding 12 months. These adjustments apply on each 12 month anniversary of the contract start date, in August of each year and have been detailed as follows.

4.2 Annual Property Count Uplift

The contract includes an obligation to vary the contract by an agreed formula on an annual basis to reflect additional new properties coming on stream during the preceding twelve months. The full year effect of this increase from August 2010 is likely to be £25,000. Cabinet are now requested to agree the Property Count Uplift, along with the associated budgetary implications, from August 2010.

4.3 Annual RPI Inflationary Adjustment

The Environmental Streetscene Services Contract allows for an annual uplift of the contract sum each August by reference to the prevailing rate of inflation as defined by the Index of Retail Prices (all items).

The contract sum was not amended in August 2009 as inflation was negative at that time, being -1.3%. As there is no provision within the terms of the contract to reduce the annual sum it was agreed that there would be no adjustment until inflation returned to a positive figure. The contract sum would then be uplifted to reflect the current inflation rate, reduced accordingly to include the previous negative percentage.

The Retail Price Index in the year to August 2010 increased by 4.7%, giving an effective uplift to the contract of 3.4% when the previous year's negative element is taken into account.

Application of the adjusted rate of inflation to the contract sum of £11.95m gives an additional requirement from August 2010 of £406,000 per annum. This will impact on the 2010-2011 budget in the sum of £237,000, with a further requirement in 2011-2012 of £169,000.

Cabinet are requested to note and approve the impact on this year's budget. In future years it is proposed that there will be an annual review of the financial aspects of the contract including RPI Inflation and Property Count Uplift to be reported to Cabinet in October. This will enable appropriate allowances and estimates to be included in future budgets for both of these core growth items.

5.0 UPDATE ON CAPITAL WASTE INFRASTRUCTURE DEVELOPMENT GRANT (WCIG)

- 5.1 The Council has, over the past few years, received a capital grant which is to be used for the development of Wirral's waste infrastructure to meet the strategic aims of the service. This grant has been used to fund a number of initiatives, which have been reported to Cabinet on a regular basis.
- 5.2 In 2008-2009, the Council received a Waste Infrastructure Capital Grant of £551,000, with a further £549,000 and £202,000 payable in 2009-2010 and £2010-2011 respectively. As part of the 2008/09 Estimates Report, the Director of Finance offered to use part of this grant to finance existing revenue expenditure which was agreed in the sum of £292,700, subsequently reducing to £202,000 in 2010-2011, the latter comprising the whole of the grant receivable this year. This temporary saving has been effected by transferring budgeted revenue expenditure of a capital nature, such as equipment and replacement wheelie bins, into the capital programme and using an equivalent sum of grant to finance this expenditure.
- 5.3 As 2010-2011 is the last year of the grant, it will be unavailable to finance existing revenue expenditure in 2011-2012, resulting in unachievable grant income of £202,000 within Technical Services revenue budget. Cabinet are now requested that this grant requirement be deleted from the 2011-2012 base budget.
- 5.4 The current status of the remaining £222,100 capital expenditure on this grant has been summarised below.

Expenditure To Date on WCIG 2010-2011	
Initiative	Expenditure (£)
CCTV System to aid enforcement of fly tipping.	£12,500
Refuse & Recycling vehicle signage to raise awareness of waste issues.	£41,755
Equipment for parks patrol officers to aid dog fouling enforcement.	£4,997
Total Expenditure To Date	£59,252

Proposed Expenditure on WCIG 2010-2011	
Initiative	Expenditure (£)
Recycling signage for multi occupancy properties.	£12,000
Bins, bags & boxes for recycling/refuse collections.	£55,848
New and replacement litter bins.	£95,000
Proposed Expenditure November 2010 to March 2011	£162,848

Cabinet is requested to note progress on expenditure to date and approve proposals for further expenditure for the remainder of the year as detailed above.

6.0 FINANCIAL IMPLICATIONS

6.1 Summary of Financial Implications

The key financial implications, arising from the initiatives contained within the main body of this report, have been summarised below.

Initiative	Implementation Year/Financial Implications (savings/growth shown carries forward into subsequent years unless stated otherwise)		
	2010/2011	2011/2012	2012/2013
Value Engineering Options 3.1 to 3.4 (VE1 to VE4) as detailed in the Appendix	-£123,000	-£315,000	-
4.2 Adjustment arising from growth in households	£25,000	£ 25,000	-
4.3 ESC contract Annual RPI inflation adjustment.	£237,000	£406,000	-
5.3 Deletion of WCIG grant support to revenue account.		£202,000	-

6.2 From 2011/12 onwards the net effect of the ongoing contract growth requirements (£633k p.a.) offset by the Value Engineering Options outlined in section 3.0 and summarised/detailed in the Appendix to this report.

7.0 STAFFING IMPLICATIONS

7.1 The management of the Environmental Streetscene Services contract including implementation of any value engineering budget options approved by Cabinet will be contained within existing staffing resources.

8.0 HUMAN RIGHTS IMPLICATIONS

8.1 There are no specific human rights implications arising from this report.

9.0 EQUAL OPPORTUNITIES IMPLICATIONS

9.1 There are no specific equal opportunity implications arising from this report.

10.0 PLANNING IMPLICATIONS

10.1 There are no specific planning implications arising from this report.

11.0 COMMUNITY SAFETY IMPLICATIONS

11.1 There are no implications under this heading.

12.0 ANTI-POVERTY IMPLICATIONS

12.1 There are no implications under this heading.

13.0 SOCIAL INCLUSION IMPLICATIONS

13.1 There are no implications under this heading.

14.0 LOCAL AGENDA 21 IMPLICATIONS

14.1 All current and planned activity surrounding waste collection aims to reduce overall waste arising and divert waste from landfill, supporting LA 21 objectives.

15.0 ACCESS TO INFORMATION ACT

15.1 No background papers have been used in the preparation of this report.

16.0 LOCAL MEMBER SUPPORT IMPLICATIONS.

16.1 The Environmental Streetscene Services Contract affects all Wards across the Borough.

17.0 RECOMMENDATIONS

17.1 Cabinet is requested to: -

- (1) Approve the value engineering initiatives as detailed within sections 3.1, 3.2 & 3.3 of this report and delegate authority to the Director of Technical Services to finalise and implement these initiatives;

- (2) Endorse in principle, the value engineering option contained within section 3.4 of this report and request that the Director of Technical Services provide further reports to Cabinet on the detailed implications associated with the full introduction of this initiative;
- (3) Note and approve the budget growth items relating to ongoing contract growth requirements associated with the annual Property Count Uplift, annual RPI inflationary adjustment and the ending of the ongoing capital grant support to the revenue account as detailed within sections 4.2, 4.3 and 5.3 of this report;
- (4) Endorse the proposal to report to Cabinet on an annual basis on the financial aspects of the Contract including RPI Inflation and Property Count Uplift and include an appropriate allowance for these in future year's budgets; and
- (5) Note the progress to date on expenditure of the Waste Capital Infrastructure Grant and approve the proposals to spend any remaining grant as detailed within section 5.4 of this report.

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