

Committee: Cabinet

Date: 27/1/2020

Wards: ALL

Subject: Annual Review and other matters relating to the Veolia Street cleaning and waste contract.

Lead officer: Chris Lee, Director of E & R

Lead member(s): Councillor Mark Allison, Deputy Leader and Cabinet Member for Finance and Councillor Tobin Byers, Cabinet Member for Adult Social Care, Health and the Environment

Contact officer: John Bosley, Assistant Director, Public Space

Recommendations:

- A. That Members agree the outcome of the annual review of the South London Waste Partnership agreement with Veolia, as set out in the report.
 - B. Note changes arise as a result of a combination of growth in the number of households across the borough, and updated evidence of the cost of providing the waste service that have arisen since the last review.
 - C. Continue to support separate measures to monitor and improve service performance as outlined in this report.
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. This report sets out the rationale for updates to the contractual agreement with Veolia reflecting the operation of the annual review process and other items relating to service delivery. These are matters that apply to and are being considered by all four (4) South London Waste Partnership (SLWP) boroughs.
- 1.2. The updates are considered appropriate and lawful and are consistent with the proper operation of the contract. The exempt attachment to this report (Appendix 1.) sets out the financial detail that is being considered. A further report will be made to the SLWP Strategic Steering Group (SSG), which shall include the contractual basis for this recommendation and the details of additional costs to the other SLWP boroughs.

2 DETAILS

- 2.1. The contract with Veolia commenced in April 2017. The contract has provision within it for an Annual Review (Clause 41) and it is this process that has been undertaken over the recent months to identify changes that are required in contract costs and service changes.
- 2.2. In addition, the Council has considered changes required to respond to the growth in fly-tipping that has affected all local authorities, including Merton, since the contract started three years ago. The Council's draft Fly-Tipping Strategy identifies the challenge this poses and Officers have worked with

the service provider to trial the appropriate resource required to manage increases in the prevalence of these occurrences. This report recommends that the capacity tested and operated by Veolia this year is fully funded and sustained for the remainder of the contract.

ANNUAL REVIEW

2.3. Core Contract price

2.4. As per the Annual Review process, a change to the core contract price is proposed to reflect changes in the number of households and the number of assisted collections due to growth since the acceptance of the original bid model.

2.5. The figures proposed within Year 3 represent the amount by which the current core contract will be adjusted and will form the baseline for future revision during the Annual Review process.

2.6. In Year 2, the outcome of the Annual Review process proposes a mutually agreeable settlement, noting that during this period, the service was being reconfigured into its current state (i.e. containerisation of waste and improved containerisation of recyclates).

2.7. Adjustments for Public Rights of Ways (PROWs) and green spaces cleansing

2.8. During the review, an update to the bid model was mutually agreed, clarifying resource requirements for undertaking the service delivery model at the agreed contractual specification.

2.9. Adjustment as a result of improvements to kerbside recycling capture rates and recycling market changes

2.10. As well as the proposed changes above, it is recognised that there has been a significant change in the boroughs' recycling rates. The success of the recycling service kerbside capture rates has resulted in a different configuration for the collections rounds than that modelled at the time of the bid. The current recycling collection fleet vehicles are designed with to accommodate a 35/65 split for collecting food waste and dry recyclables. We have benefited by a substantial increase in the amount of food waste recycled, which has borne savings in our disposal costs, however, this has added additional pressure on the efficiency of the collection vehicles by adding up to 50% more material than originally modelled. This requires additional resource to be applied to the operational model to accommodate for this growth. In addition, the collapse of the global mixed paper recycle markets has resulted in Veolia adding the operation of a paper sorting line in its operation in order to be able to market the recyclates collected.

2.11. Container costs

2.12. As part of the Annual Review process Veolia have identified above baseline cost for the provision of additional containers in Year 2. This is a one-off payment and as such does not carry forward into any financial adjustment to the base case for Year 3.

2.13. **Fly-Tipping**

2.14. As part of the recognised increase in the rise in fly-tipping nationally and the recorded incidents across the borough, it is recommended that the required additional capacity invested by Veolia in Year 3 is fully funded and sustained for the remainder of the contract.

2.15. **Other contract changes and benefits**

2.16. In addition to the revision of the base case model, Veolia have suggested improvements and planned initiatives to address areas of concern within the borough and to aid in providing more effective service deliverables.

2.17. In relation to street cleansing, this will include the programmed deep cleansing of Neighbourhood Recycling Centres (NRCs) and trialling alternative footway cleansing methodologies, utilising footway mechanised sweepers in tandem with manual operatives.

2.18. Fly-tipping proactive visiting and removal will be established for identified hot-spot locations as informed by the data gathered over the last year. It is intended that this will both reduce the need for reporting and lower the time interval of collection.

2.19. The Service Performance Indicators have also been reviewed and whilst the specific content has remained consistent, the application and proportional weighting of values has been modified. This will enable the Council's contract management team the ability to focus attention of the most pressing matters with the intention of driving improvement in these areas.

2.20. The review of standards applied, the application of the Service Performance Indicators and improvements to the client management of the service provider will be delivered through a divisional staff review currently being undertaken. Emphasis will be placed on 'in-field' contract monitoring and management on a Ward-by Ward basis with the objective to have a greater localised presence to tackle service non-performance issues.

2.21. Moving forward, we have been able to reach commitment from the service provider for a fixed rate of the applied income rate that will be utilised. This provides the benefit of longer term financial security of the costs associated with the service if further extensions are exercised.

2.22. **Performance Deductions**

2.23. In the first contract year the standard of service delivery was significantly below acceptable standards outlined within the contract. The application of the service performance indicator (SPI) framework was not fully operated as it required IT integration with Council systems. Due to the monitored performance of the contract a set application of deductions was applied which had an annual accumulated value of £410K. In Year 2, the SPI framework was integrated and service improvements were made, with the annualised performance deductions being £73k.

2.24. The client management team is maintaining the SPI framework and the AR has considered the application of this in future years as outlined in 2.19.

3 ALTERNATIVE OPTIONS

- 3.1. The Council could decide not to make these payments. This would open the SLWP and the Council to the possibility of action by Veolia under the contract. This would in the first instance be via the arbitration process within the provision of the contract.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. There has been no consultation on this matter which is in large part a result of an agreed contractual clause.

5 TIMETABLE

- 5.1. The payments are to be made this year and for future years. The Annual Review update will be going to the other three boroughs in the Partnership for notification of their additional payments.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. The additional payments relating to Year 3 (2019/20) onwards totals £3.2M for the Partnership, of which Merton's contribution is £740k. A 2020/21 growth item for this ongoing additional cost is being presented to Cabinet as part of the Business Plan update elsewhere on this agenda.
- 6.2. The additional lump sum payment relating to the Year 2 (2018/19) AR process, which was conducted simultaneously, totals £1.3M of which Merton's contribution is £304k.
- 6.3. The financial impact of the increase in fly-tipping detailed in Para 2.14 is £197k for 2019/20 onwards. A 2020/21 growth item for this ongoing additional cost is being presented to Cabinet as part of the Business Plan update elsewhere on this agenda.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. The changes proposed by this contract have been agreed in principle by the SLWP acting on the advice of external solicitors and represent a lawful and reasonable settlement both of the claims made by Veolia and the concerns of the partner councils. As such, they will allow the parties to concentrate on service improvement and to avoid the need for an ongoing costly dispute. A deed of variation to the existing contract will be drawn up to ensure certainty over the parties' respective obligations in the future.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. None for the purposes of this report.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1. None for the purposes of this report.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1. None for the purposes of this report.

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix 1 [Exempt]. – Annual Review price adjustments to Phase C. Lot 1 Waste Management Contract with Veolia

12 BACKGROUND PAPERS

12.1. None.

This page is intentionally left blank