

Committee: Overview and Scrutiny Commission

Date: 18th March 2020

Wards: All

Subject: Contract Management Approach to Waste and Street Cleansing Service

Lead officer: Chris Lee – Director of Environment & Regeneration

Lead member: Cllr Tobin Byers - Adult Social Care, Health and the Environment

Chair of the Health and Wellbeing Board

Contact officer: John Bosley – Assistant Director of Public Space

Recommendations:

- A. The Committee discuss and comment on the contractual mechanisms in place to manage the environmental service contract that delivers the street cleansing service undertaken by our service provider Veolia.
- B. Further recommendations are welcomed on areas of improvement or focus for the service client management team to implement.

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. To inform the Commission about the contractual management approach undertaken by the Council's client team to effectively manage and drive improvements with the service provider, Veolia.
- 1.2. To outline the contract and the mechanisms that are in place and applied to manage the contract governing the street cleaning service.
- 1.3. The report covers the contractual elements of the waste and street cleaning contract, with a focus on streets. This includes contract price, guaranteed income (revenue) and performance deductions. The report summarises how we measure the performance of the contractors and the financial mechanisms used within the contract to drive the correct behaviour.

2 DETAILS

Background and strategic contract management

- 2.1. In July 2016, Cabinet agreed to award a new environmental services contracts. The contract for waste collection, street cleansing, winter maintenance, gully cleansing and fleet maintenance was awarded to Veolia and is referred to as South London Waste Partnership (SLWP) Phase C, Lot 1.
- 2.2. Currently, the contract is managed through the South London Waste Partnership (SLWP) team with the Council actively managing the day-to-day operational interface with the supplier, residential case management of issues, Member enquiries and through the provision of inspections to assess the standards of the service that are being delivered.

- 2.3. The Authorised Officer for the contract is the SLWP Strategic Partnership Manager and there is a separate Contract Manager for the Veolia contract within the partnership team. These roles are responsible for the management of the contract across all four of the partner authorities, LB Merton, LB Sutton, LB Croydon and RB Kingston.
- 2.4. The SLWP contract Management team are directed by the Management Group which consists of the appropriate Assistant Directors from each borough. Regular contract management meetings are held between SLWP and the contractor in order to oversee and progress the delivery of the contract. These meetings form the formal governance controls in relation to the provision of the services operated under the service contract.
- 2.5. The current contract management arrangements have not been without its challenges and we have recognised and acknowledged that there are underlying intrinsic problems regarding responsibilities, roles and areas of accountability in the management of this contract.
- 2.6. To address this, the Partnership commissioned an independent review to look at the current governance arrangements and the client contract management functionality.
- 2.7. The review has highlighted a number of recommendations for the SLWP strategic management group to consider in relation to moving towards a localised contract management arrangement, moving to a more traditional direct management relationship between the Council and the service provider.
- 2.8. To address the principle accountabilities required to work effectively within a wider inter-borough partnership, the establishment and implementation of a new Joint Waste Officer Board (JWOB) has been agreed, which will comprise membership of the Head of Service (or equivalent) from each partnering borough.
- 2.9. The JWOB will be in effect from the next financial year, allowing the SLWP to focus on data analytics, strategic work, along with forward planning.

Contract monitoring and operational management

- 2.10. The operational performance of the contract is overseen and managed in a number of different ways in order to maintain and improve performance for the benefit of our residents.
- 2.11. Our Neighbourhood Client Team, consisting of three experienced Neighbourhood Client Officers (NCOs), monitor the contract through site visits and daily interaction with the contractors' Neighbourhood Environmental Managers, residents, stakeholders and local Members. They respond to customer requests, queries and complaints in order to resolve waste/ recycling collection, street cleaning or green space issues.
- 2.12. The Neighbourhood Client Team also gather business intelligence, performance information and analyse data held in the Council's customer management system. In addition, they have access to the contractor's operational business management systems in order to determine what resources are being used in order to deliver the services and when.

- 2.13. Through their work, they are developing strong relationships with key stakeholders as well as intricate service focused knowledge of their respective Wards for which they are responsible. This should enable them to pre-empt problems and resolve issues to minimise disruption and inconvenience to our residents. The regular outcomes of their data analysis and in-field reports provide the basis of the council's improvement focus points during the formal SLWP contract meeting and our local monthly operational meeting.
- 2.14. Good levels of communication between officers and managers in the client and contractor teams with a focus on continuous improvement drives the contractor/client relationship. Regular contract meetings take place on a monthly basis at both an operational and strategic level. These regular meetings are in addition to the daily liaison between the client teams and our contractors to resolve specific issues and continually improve working practices.
- 2.15. Effective contract management requires a good understanding of the contract and, in particular, the expected service standards and the incentives and disincentives for the contractor and client. Examples of those with a financial impact include, but are not limited to;
- a) Profit share once income guaranteed to the council is achieved, for example, from the commercial waste service.
 - b) The potential for step-in and ultimately termination in some circumstances where contractual obligations are not met.
 - c) Monthly monitoring of an agreed set of service performance indicators, where deductions are applied to specified elements of service performance that fail to meet requirements, for example, missed bins and fly-tips not cleared on time as per the contract service level agreements (SLAs).
- 2.16. It is important to note that not all service contracts will include performance related deductions and in any contract, punitive financial penalties are not lawful.
- 2.17. The SLWP Phase C, Lot 1 contract provides for financial performance related deductions up to a maximum of 10% of the total contract sum per annum in recognition of some of the additional costs that are incurred by boroughs in response to specified events. For example, the management of and rectification of reports of street cleansing operations that have failed to deliver the required street cleansing output requirement, missed waste collection or overflowing litterbins. Thus, performance deductions are by no means the sole driver of performance improvement; other mechanisms include the issuing of improvement notices, rights under the contract to step in and offset costs and even potential termination.
- 2.18. The management of client and service supplier relationship, however, has the ability to produce the most sustained improvement in service outcomes for all parties, especially our service users (residents, business owners and even visitors to the borough).

Street cleansing – Aims and scope of the Service

- 2.19. Merton Council is a 'principal litter authority' with a statutory duty under the Environmental Protection Act 1990 to ensure that 'relevant land' in its area is, so far as is practicable, kept clear of litter and refuse. In broad terms 'relevant land' is defined as all 'open land to which the public are entitled or permitted to have access with or without payment'. This includes cleaning responsibilities for adopted highways, but not private land and unadopted highways.
- 2.20. The 'Code of Practice on Litter and Refuse' published by the Department for Environment Food and Rural Affairs (DEFRA) gives guidance to the Council on how these duties should be discharged. In determining what standard of cleanliness should be achieved, the Council is required to have regard to the character and use of the land, as well as the control measures and cleaning regime that is practical in the circumstances. The Council is expected to set and implement cleaning regimes which meet these standards and provide adequate resources to restore areas falling below standard to an acceptable level, but the code does not place a requirement on how often to clean affected areas. This is also reflected in the contracted service arrangements which is based on 'outcomes' rather than specificity through dictated the inputs required – i.e. a specified schedule of cleansing.
- 2.21. In order to efficiently deploy the required resources to deliver the desired outputs, all public roads and assets requiring cleansing in the borough are subject to a routine, frequency-based schedule of cleaning that is designed to achieve the required standard.
- 2.22. Depending on a variety of factors, these assets are cleaned according to a variety of set frequencies which are routinely reviewed to ensure their effectiveness. The contractor delivers the routine street cleaning operations through a combination of mechanical and manual work, supported by seasonal staff for removal of autumn leaf fall (e.g. between October and January) and operating a weed control programme through a sub-contractor.
- 2.23. The timing of routine cleaning also has to be taken into account by the contractor to avoid contributing to traffic congestion, with certain activities programmed at night- time (e.g. road sweeping the boroughs main arterial roads) and weekends for areas heavily parked with commuter traffic.
- 2.24. Whilst litter has always been a social problem and an eyesore, it has been a particular area for concern over the last few years with one recent survey finding that 81% of people are angry and frustrated by the amount of litter lying all over the country with almost 30% of people finding litter a problem in their local area. (*Litter Strategy for England, HM Government, April 2017*)
- 2.25. Reports of littering tends to be particularly prominent in residential areas where it presents real challenges, in terms of the cleaning and removal due to the obstructions of heavily parked vehicles. In such situations the disproportionately high level of resources/cost required to undertake such deep-cleaning limits the number of streets which can be accommodated.

Outcomes of the service

- 2.26. The levels of cleanliness measured from regular inspections has been improving over the financial year as compared to the same period in 2018/19.

Chart 1. Street inspections results – combined grading of street litter, detritus and weeds as compared to 2018/19.

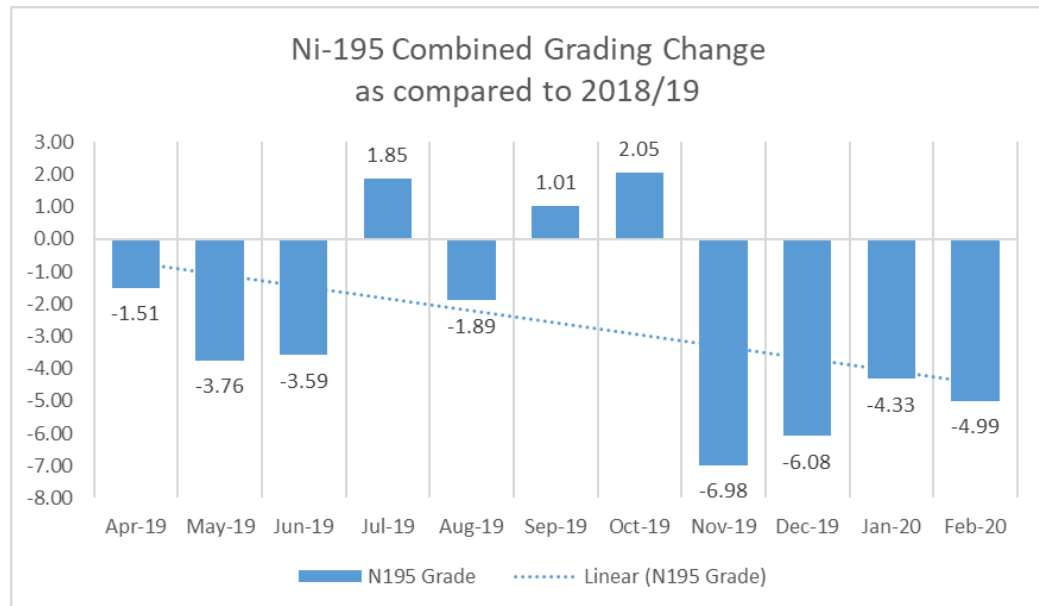
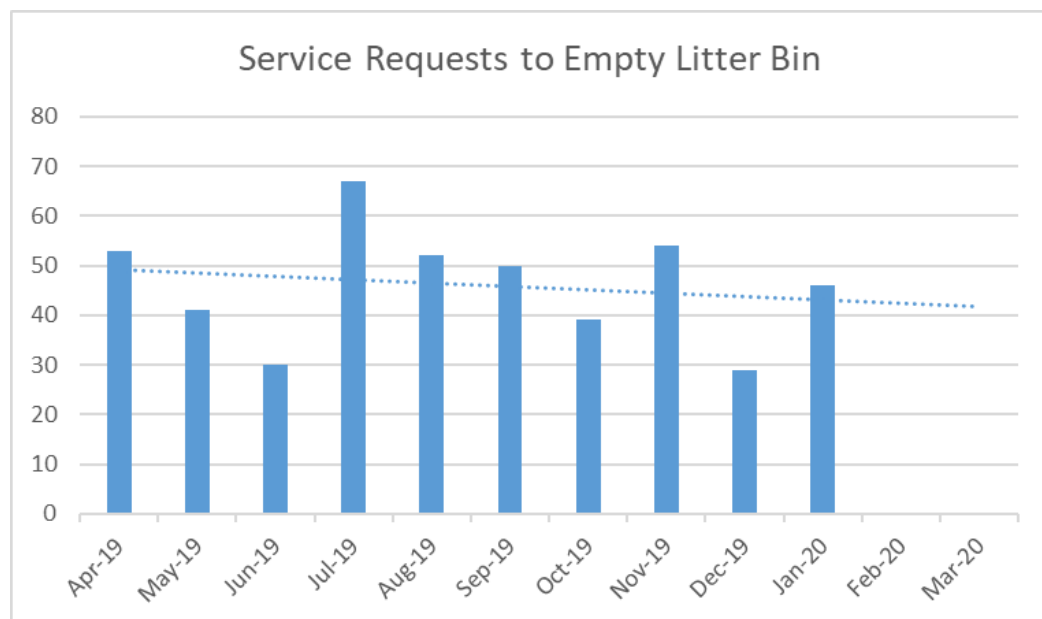


Chart 2. Decreasing trend in requests for servicing overflowing litter bins



- 2.27. In the same period, the client team has observed a steady improvement in decreasing complaints regarding the service with a 93% reduction in complaints in the last six (6) months as compared to the same period in 2018/19.
- 2.28. Whilst the 'green shoots of improvement' are promising, the client team is focusing on sustained improvements in proactive cleansing of known hotspots and a more focused attention to the issues affecting our communities, namely

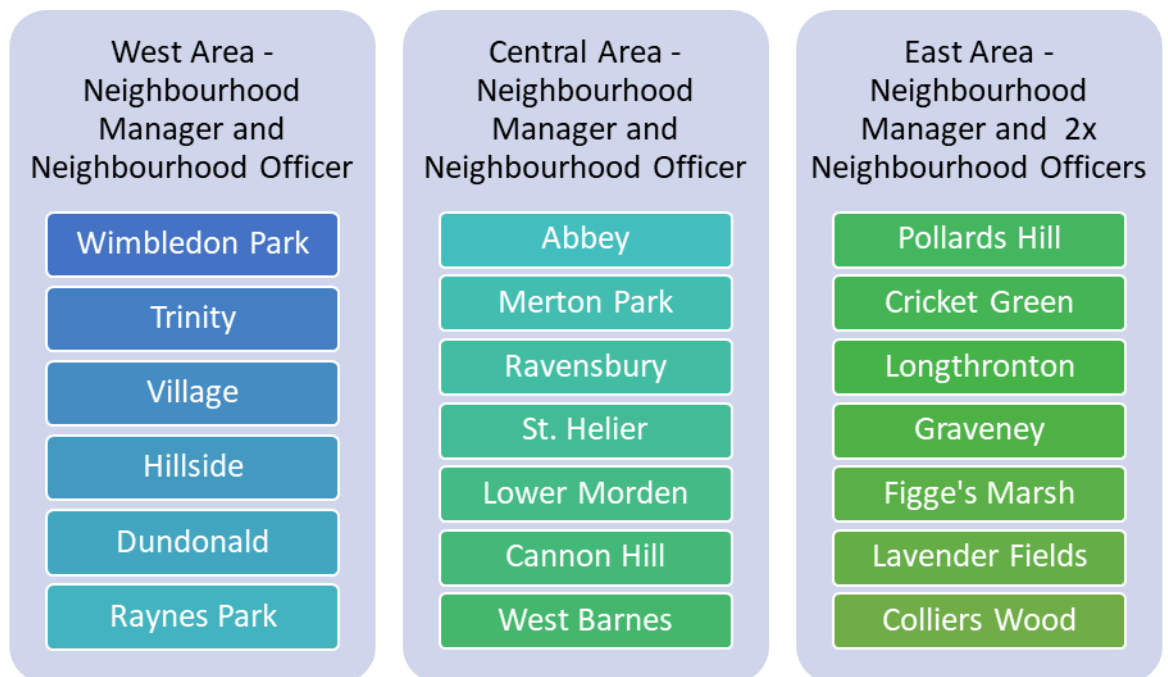
fly-tipping and cleansing of detritus, especially in areas of high density car parking.

- 2.29. The results of street cleansing inspections undertaken during the financial year (to date) are detailed in the table below. It should be noted that B- notifications are assigned where an inspection is liable to deteriorate to a C grade imminently or prior to the next scheduled cleansing activity and is used as a prompt to the contractor to attend before the standard fails.

Table 1. Inspections of street cleansing outcomes

	2019/20 *Year to Date				
	Q1	Q2	Q3	Q4	Total
Total Inspections	4698	5385	5405	3119	18607
B- Notifications	1285	1627	1196	559	4667
Graded Failures	158	199	89	46	492
	B- as "No Defect"		Graded Failures		
Average Performance	19.64%		2.07%		

- 2.30. The street cleansing services has scheduled 572,442 events to cleanse streets and assets in order to manage the delivery of the desired outcomes.
- 2.31. To further improve these outcomes for the service users and to improve our confidence that the contract is maintaining improvements, the client team is being redesigned through a Divisional restructure.
- 2.32. A priority focus in the business case to support the restructure is improvements to contract monitoring and management outcomes, being achieved by increasing the representative sample size of inspections across the whole of the service.
- 2.33. In terms of volume of inspections this means improvements in;
- **Timeliness**, ensuring inspections are conducted in a timely fashion in keeping with the fast paced environment of the Street Cleaning service demands as well as adapting to the seasonal requirements
 - **Reliability**, improving confidence and representativeness of the inspections with a minimum aim of ensuring that all residential roads are inspected bi-annually
 - **Variety**, ensuring that all streets, open spaces, public rights of way and service issues are inspected and monitored rather than focusing on the areas that generate the highest volume of customer contact(s)
 - **Value**, in relation to demonstrating high quality and an evidence based process for inspections and monitoring
- 2.34. The future directional of travel to support the above improvements in street cleansing contract management is being based on a neighbourhood approach with a focus on having officers '*in the field*' to further raise the focus of client management with the service provider and to improve the management of customer, residents and Member's needs.



- 2.35. The performance of the contractor is measured against a Service Performance Framework with a robust set of Service Performance Indicators (SPIs). Within the SPI framework there is a refresh period, which is applied, for a service failure not rectified within the agreed timeframe. It will have incurred a deduction as a consequence. A further period to rectify the failure is applied, should the service failure again not be addressed within the timeframe required further deductions are applied.
- 2.36. The total value of financial deductions that apply in the event of failure to achieve SPIs within the appropriate rectification period, are subject to an annual cap as outlined in 2.17.
- 2.37. Within the SPI framework, 29 separate indicators are used to drive improvements the performance and if necessary ensure to manage poor performance that the contractor rectifies under the performance required timescales defined in the framework.
- 2.38. Financial deductions are calculated in the event of failure to achieve an agreed SPI with the specified rectification period. The contract has provision for a three (3) month *grace* period at the start of the new contract or service change and, as such, no deductions were applied between April – June 2017 (across all areas of performance) and Oct – Dec 2018 for waste collection following the role out of the new waste collection service.
- 2.39. The examples below illustrate how in practice the deductions are applied;
- Fly-Tip - Failure to remove 100% of reported incidents of Fly-Tipped Material within 24 hours of notification excluding fly tips on private land.
 - Litter Bins - Failure to empty 100% of all street litter receptacles, to ensure that no litter receptacle is ever full or overflowing. This SPI covers all litterbins reported as overflowing, which are not rectified within 2 hours of the reported date and time.

- Street Below Grade - Failure to maintain cleanliness of residential roads to grade B standard. This SPI is for streets below grade, which are not listed within a town centre boundary and not rectified within 24 hours of reported date and time.

2.40. It is important to note that the performance management and deduction system relies upon reports of failure and in many instances the deductions are automatic if the contractor fails to rectify the failure within a specified time period e.g. within 24 hours for a street identified and reported below grade.

2.41. This reinforces the need for residents to report service requests on line or through our call centre utilising the Council’s CRM system to report service failure, since only through proper evidence can performance failure be rectified and any deductions calculated.

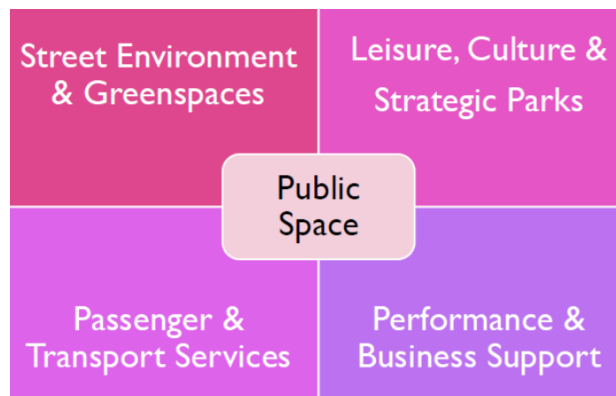
Improvements in contract management planned

2.42. Supported by the reorganisation of the client team through the current Divisional restructure being undertaken, the Public Space Division, in 2020/21, will be implementing a greater focus on contract monitoring, issue management and relationship management with key stakeholders in the community, Members and the service supplier.

2.43. To enable this, the restructure will be pooling current Divisional staff who perform data and administrative support to develop a Performance and Business Support team with the aim of improving the timely management of service data and reporting, thus enabling analytical driven decision making and improved governance.

2.44. The proposed Divisional changes are represented below, with the functions related to the management of the street cleansing contract being delivered through the Street Environment & Greenspaces team and the contract analytics, governance and performance data being prepared and tested by the Performance and Business Support team.

Proposed departmental work streams



2.45. The tangible benefits that arise from separating these functions is that there a constant focus on ‘real-time’ outcomes can be maintained by the client team, while the performance and governance functions are maintained and tested more rigorously in partnership with and as a critical friend to the service.

2.46. Lastly, the application of contract management standards will be refreshed and reframed to ensure that the information being managed, applied and undertaken by the client team is consistent, of quality and accessible to

improve the efficiency of the team, supporting the ability to make informed decisions on the current state of service delivery as well as identifying areas of poor performance.

Table 2. Contract Monitoring and Management Framework

Management Requirements
Requirements
Quarterly updated Contract Monitoring Summary Template
Risk register – regularly reviewed with service supplier
Service Provider - Monthly Monitoring Report to HoS
Service Performance Framework reviewed - Monthly
Compliance checks – Vehicle maintenance of Service Supplier & Plant equipment (LOLER)
Budget Analysis and cost of service – Budgeted, Actual and Variance (BAV)
VFM – Annual
User satisfaction
Risk Management
Annual Review Report
Contract Administration
Contract Summary Template – maintained
Subsequent variations and CCNs documented, authorised and signed copy held with original contract
Electronic copy of Original Contract –held on Shared drive with controlled accessed by all authorised officers
Contract Monitoring– updated Monthly
Contract management meeting agenda, minutes and actions arising available on shared drive (meetings attended by 2 Council officers)
Payments and Performance Deductions drafted and agreed at Monthly Contract Meeting, incorporating income collection where appropriate. Process to sample check figures from contractor in payment process.
Annual Price adjustments based on the outcome of Annual Review and Inflationary indices application applied to contract defined quantities and translated into annual estimated cost – checked by Accountancy
Year-end reconciliation – all issues resolved – agreed with Accountancy
Write offs – recorded and properly authorised (as required)
Divisional Risk Register-reviewed quarterly at a minimum
Performance Management
Performance Management Annual template
Annual Business Plan
Annual Report (as applicable)
Budget – Monthly analysis
Gateway reports (as applicable)
Performance data
1. Staffing
2. Publicity
3. QA
4. H&S
5. Assets – fleet and Capital
Relationship Management
Annual meeting with Contractor, DoE&R, HoS etc.- discussion on horizon setting in the industry, future issues and possible changes to improve service or address threats
Dispute escalation (as applicable)

3 ALTERNATIVE OPTIONS

3.1. None for the purposes of this report

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. None for the purposes of this report

5 TIMETABLE

5.1. The contract with Veolia commenced in April 2017 and expires in March 2025 with an option to extend twice, in each case, for a further 8 years totalling a maximum contract of 24 years.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. All capital assets remain the property of the council. Assets, such as depots and buildings are leased to Veolia, who are responsible for the rent and rates along with the maintenance cost of the buildings.

6.2. All vehicles are registered by Veolia and are operated under licence from the council. At the end of the contract, ownership reverts to the council.

Guaranteed Income

6.3. The core cost of the contract is reduced by the commitment of guaranteed income from four commercial activities managed on our behalf by the contractor. As shown below:

- Garden waste (fee set by Council)
- Sale of recyclable material
- Commercial waste collection
- 3rd party vehicle maintenance

6.4. This incentivises the contractor to ensure effective utilisation of the assets and the business developed by the London Borough of Merton.

6.5. It is important to note that the contractor is acting as an agent on behalf of the council and as such, the commercial services provided are exempt from VAT.

Revenue share - Lot 1 Veolia

6.6. Within the contract, there are three separate annual revenue share payments due from the contractor. These are for garden waste income, recycled material income and commercial waste income. The revenue share is only applicable if the contractor exceeds the guaranteed income from each of the three (3) commercial services. If excess revenue is achieved, then this profit margin is split between the contractor and the council.

6.7. It is important to note that the profit share is calculated on the total service area income and is not borough specific. The net position needs to exceed the combined guaranteed income before each borough receives their proportion of any revenue.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. The London Borough of Croydon as the procuring authority awarded the contracts.
- 7.2. In order to safe guard the interest of the council, each of the Partnership boroughs have signed an inter authority agreement (IAA). The main principles remain consistent with existing agreements. The main elements of the IAA agreement include:
- 7.3. No savings achieved during the life of the contract shall lead to increased costs for any of the other partnership boroughs;
- 7.4. No changes to the scope of the contract shall add to any borough's costs without that Boroughs agreement
- 7.5. The split of costs and income by borough was agreed with the contractors and are the basis for the individual borough charges. These are the starting point for negotiations in how any changes to payments are to be apportioned through the life of the contract.

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 A - Overview and components of contract management – Contract Summary Template

12 BACKGROUND PAPERS

- 12.1. Cabinet Feb 2020 – Annual review

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