



Initial Commissioning Options
Appraisal, Waste Collections

Derbyshire Dales District Council



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1. Introduction

Derbyshire Dales District Council ('the Council') commissioned Recircle Consulting ('Recircle') to undertake a Commissioning Options Appraisal in relation to waste collection services. The purpose of the Commissioning Options Appraisal is to:

- ❶ set out the project context and help the Council to understand the market conditions for waste collection services;
- ❷ identify the options available to the Council in commissioning services to discharge its duties as a Waste Collection Authority; and
- ❸ undertake a qualitative assessment of the options so that the Council can understand the characteristics of each.

The Commissioning Options Appraisal is intended to examine the different service delivery methods for waste collection services in the event the Council wishes to explore an alternative to the Waste Collections Contract delivered by Serco. This report details the first stage of the Commissioning Options Appraisal - details regarding the scope and phasing of the project are provided in Section 4 below.



2. Glossary

Term	Meaning
Commissioning Options Appraisal	This appraisal of the available options for the Council to commission waste collection services to fulfil its statutory obligations under the EPA1990
CRM	Customer relationship management software
Deposit Return Scheme (DRS)	A new recycling system for beverage containers, DRS is a scheme in which a small deposit is added to the price of an item, in-store or online, which can be refunded to the consumer when they return the packaging for the item, and is proposed to be implemented in England in 2024 via the Environment Bill
Direct Service Organisation (DSO)	A DSO is a business unit of a United Kingdom local authority
EPA1990	The Environmental Protection Act 1990, which sets out statutory duties for Waste Collection Authorities
Extended Producer Responsibility (EPR)	EPR is a policy approach under which producers are given a significant responsibility – financial and/or physical – for the treatment or disposal of post-consumer products. EPR is proposed to be implemented in England in 2023 via the Environment Bill.
HGV	Heavy Goods Vehicle
Independent Review	The review relating to failings in the waste collection service, as resolved by Members at the Environment and Communities Committee meeting of 17 th November 2021 and in accordance with the Terms of Reference agreed at the same meeting
LARAC	The Local Authority Recycling Advisory Committee: www.larac.org.uk
Local Authority Company (LAC)	A Council-owned company which can be setup to deliver services to the Council under a Service Level Agreement
Management Information System (MIS)	A system for the collection, storing, processing and reporting of data in relation to waste collections and contractor performance
P&Ps	Policies and procedures
RCV	Refuse collection vehicle
TUPE	The Transfer of Undertaking (Protection of Employment) Regulations 2006
Waste Collection Authority (WCA)	A local authority in the UK charged with the collection of municipal waste under the EPA1990



Term	Meaning
WCA duties	The statutory duties for waste collections which apply to Derbyshire Dales District Council under the EPA1990
Waste Collections Contract	The current waste collections contract between Derbyshire Dales District Council and Serco (2020 – 2028)
Waste Disposal Authority (WDA)	A local authority in the UK charged with the disposal of municipal waste under the EPA1990



3. Background and Context

3.1. Statutory duties

The Council has statutory duties as a Waste Collection Authority (WCA) under Environmental Protection Act 1990 ('EPA1990'), which require it to collect and process household wastes. To discharge its duties as a WCA, the Council has historically opted to outsource waste collection services to the private sector, with a specialist waste collections contractor delivering the services on behalf of the Council.

In 2017-18, ahead of the expiry (in 2020) of the contract with Serco, the Council considered the options regarding how it could discharge its future duties as a WCA. The Council considered alternative service delivery options, such as to deliver the service 'in-house' or via a Local Authority Company ('LAC'). Following these considerations, the Council concluded that it would continue outsourcing its waste collection service requirements.

During the period 2018-20, the Council undertook work to procure a new Waste Collections Contract. Following a competitive tender process, Serco was awarded a new contract to deliver waste collection services for the Council for the period 2020 to 2028. This new Waste Collections Contract is a direct replacement for the previous waste contract under which Serco operated on behalf of the Council.

3.2. Waste Collections Contract

Since Serco commenced the Waste Collections Contract in August 2020, the Council witnessed significant issues with the delivery of the services. These included failing to complete all required collection rounds, high numbers of missed collections, and issues with provision of incomplete or unreliable data pertaining to the delivery of the Services.

The Council has received complaints from residents regarding the standard of the service. To understand the issues further, the Council commissioned an independent review of the Waste Collections Contract ('the Independent Review') to better understand the extent of performance issues and the market context.

The Independent Review identified that whilst there may be some mitigating circumstances, Serco has performed poorly (and continues to perform poorly) against its contractual obligations.

3.3. Market conditions

Since the Council procured the Waste Collections Contract, there have been significant changes to the market conditions for delivering such services. Factors such as increased volumes of waste due to the national shortage of Heavy Goods Vehicles (HGV) drivers, the Covid-19 pandemic, and increasing fuel / energy prices are all changing the landscape for delivery of waste collection services. These issues are discussed further in Section 5.

3.4. Commissioning Options Appraisal

The Council is currently working with Serco to resolve the performance issues on the Waste Collections Contract, with the primary objective of restoring services for residents through application of contractual mechanisms and discussions with Serco on variations which may be required to address changes in



market conditions. Providing support to Serco is likely to offer the fastest route to restoring the delivery of services to the high standards expected of the Council.

Notwithstanding the above, in the event the Council's relationship with Serco under the Waste Collections Contract becomes untenable, then the Council will need to understand the options it has available to ensure continuity of waste collection services. This Commissioning Options Appraisal identifies and assesses the options available to the Council under these circumstances.



4. Scope of the Commissioning Options Appraisal

This Commissioning Options Appraisal considers the service delivery options which may be available to the Council in the event the Council agrees with Serco to end the existing relationship. This will enable the Council to consider how best it can continue to discharge its statutory duties as a WCA and minimise further disruption to services. The Commissioning Options Appraisal considers the range of options available to do this, using examples from other local authorities to demonstrate previous precedence along with the deliverability of the options.

The Commissioning Options Appraisal applies a qualitative assessment to describe the relative characteristics of each option. It may also be necessary to undertake a quantitative assessment in the future, to obtain a better understanding of potential future costs for service delivery, given the current flux in market conditions.

This Commissioning Options Appraisal reviews only the *service delivery methods*; as such it does not consider the *service design* (the types of containers / vehicles used for collection, frequency of collections, waste streams collected etc). It is appropriate that the *service delivery methods* and *service design* should be considered separately. At this time, it is understood that revisiting the service design is not considered a priority to the Council. The Council could revisit this decision in the implementation of any future option it decides to take.

This Commissioning Options Appraisal assumes that the Council will not seek to work in partnership with any neighbouring local authorities at this time. This is because the Council is faced with many challenges to restore services to the standards expected of the Council, and this is treated as a major objective for the project. Partnering may bring some opportunity to find efficiencies in the service delivery, but it would also introduce additional complexities. This notwithstanding, partnering remains an option available to the Council for consideration, and is discussed further in Section 8 of this report to provide additional context and to set out potential partnering options for the future.

4.1. Process for the Commissioning Options Appraisal

The process for the Commissioning Options Appraisal has been designed to be delivered in two stages so that the Council can receive an initial assessment of the options within a short timescale. The proposed process is as follows:

- 📍 **Stage 1:** A qualitative assessment of the options, to provide useful information for the Council to help provide direction and / or eliminate options.
- 📍 **Stage 2:** A more detailed review of selected options, which may include (to the extent relevant) a quantitative estimate of future costs for delivering the waste services, and development of a 'roadmap' for implementation of the options.

This report covers Stage 1 of the Commissioning Options Appraisal.



5. Market Conditions

5.1. Introduction

In assessing the future options for delivery of waste collections, it is important to consider the current market conditions. There are several issues which are heavily impacting / influencing waste collections, including:

- ❑ The national shortage of HGV drivers;
- ❑ The increased volumes of waste collected from households, due to Covid-19 related behavioural changes;
- ❑ Upcoming legislative changes; and
- ❑ The cost of fulfilling WCA duties is likely to continue to increase in the short- and medium-term.

This section of the report discusses these key issues and considers how they may impact the options within this Commissioning Options Appraisal.

5.2. National shortage of HGV drivers

It is widely accepted that there is a national shortage of HGV drivers, and that this is impacting many businesses / operations which are reliant on road haulage. The Road Haulage Association estimates that there is a deficit of 100,000 HGV drivers in the UK in a market which employs c.600,000 drivers in total. Potential reasons for this driver shortage include:

- ❑ Covid-19 has caused increased illness / isolation time, reducing utilisation of existing HGV drivers;
- ❑ Covid-19 was a factor in motivating HGV drivers to return to their country of origin during extended periods of lockdown and restricted travel;
- ❑ The uncertainty of Brexit and future rights to live and work in the UK has forced many drivers to return to their country of origin;
- ❑ Retiring drivers, combined with a shortage of training and testing capacity, is reducing the pool of HGV drivers in the UK;
- ❑ Driver wages have been suppressed for a long period of time, which is likely to have limited the attractiveness of this career path; and
- ❑ The introduction of IR35 tax legislation has resulted in a change in the agency labour market for drivers, with reduced availability and higher costs.

The HGV driver deficit is not limited to the UK - many countries in mainland Europe also have a deficit of HGV drivers. It is estimated that the European Union has a total deficit of 400,000 HGV drivers. Alongside Brexit and suppressed driver wages, this is likely to make it difficult to attract trained HGV drivers to the UK. It is therefore likely that, in order to reduce the deficit, new drivers will need to be trained - and it is likely to take some time for these drivers to come through the pipeline.

Most local authorities across the UK have, over the last two years, had difficulties in securing sufficient HGV drivers to undertake all collection rounds in their area – and many continue to experience these



difficulties. The Local Authority Recycling Advisory Committee (LARAC) estimates that almost all its 300 local authority members have experienced such difficulties¹.

There is anecdotal evidence to suggest that the deficit in HGV drivers is creating an upward pressure on wages in this market. As local authority wages are typically low, this could mean that local authorities across the UK may continue to struggle to attract sufficient drivers for some time to come. It is likely that local authorities will be required to adjust driver wages to attract drivers. Private sector employers of HGV drivers are likely to be able to respond to the market correction in wages for these roles at a faster pace than local authorities. It is therefore possible that UK local authorities may continue to face issues with securing sufficient HGV drivers for some time to come, irrespective of how they commission waste collection services (although noting that in an outsourcing arrangement, the private sector employs the staff and therefore may be able to respond faster).

5.3. Increases in Household Waste generated

Waste data across UK local authorities clearly shows a relationship between the Covid-19 pandemic and changes in household waste. As the nation responded to the pandemic with enforced 'lockdown' restrictions, people were required to work from home. Whilst offices are now being utilised again, working patterns remain very different compared with pre-pandemic, with a 'hybrid' approach to office use being more widely adopted by employers.

This shift in working patterns can be seen in household waste data, where some local authority waste streams have increased in volume by significant proportions. This increase in waste volume is a result of diversion of waste which would otherwise have been deposited in workplace bins, and therefore be handled via commercial waste arrangements.

With hybrid and flexible working likely to be a sustained feature of future life, it is anticipated that waste volumes will, on balance, increase from the pre-pandemic baseline. An inevitable outcome of increased waste volume will be an increase in the Council's costs for waste collection, handling, and processing.

Where more waste is presented by each household during each collection, refuse collection vehicles (RCVs) will reach their capacity limit sooner, and after collecting from fewer households. This means that the RCVs must tip their loads prior to continuing collections, causing disruption / time delays in completing the collections. Depending on the extent of the change, re-optimisation of the collection rounds may be required. It is entirely possible that additional vehicles and staff, including trained HGV drivers, could be required to meet the additional demand for capacity which results from this increase in household waste.

It is possible that foreseen future legislative proposals such as the Extended Producer Responsibility scheme (EPR) and the Deposit Return Scheme (DRS) could cause a significant reduction in some household waste streams, which may mitigate some of the impacts of the Covid-19 pandemic, as discussed below.

¹ LARAC News, dated 13th January 2022: <https://larac.org.uk/news/larac-survey-shows-impact-omicron-frontline-services>



5.4. Policy landscape / legislative change

There is a number of upcoming legislative changes which will impact on household waste collections – this section outlines two of the most important changes to note.

5.4.1 Deposit Return Scheme (DRS)

DRS will divert a significant amount of beverage containers away from the household recycling scheme and into the new DRS system, and this is likely to cause a significant reduction to the volume of dry recycling collected by local authorities from households.

It should be noted that DRS is targeted at removing the highest value materials from the dry recycling stream, which will reduce the revenues the Council could obtain through sale of these recyclable materials (following the sorting process). Whilst the scope and details of the DRS system are yet to be confirmed, it appears likely that it would include aluminium and steel beverage cans, HDPE and PET plastic bottles, and glass bottles. Aside from glass, these materials have the highest values of any materials found within the dry recycling stream.

DRS will therefore likely reduce the number of tonnes of dry recycling which the Council collects and sends for processing (therefore reducing the cost for these aspects), but the revenues received from the sale of the separated dry recyclables will also be significantly lower. It is difficult to forecast the aggregate impact of these competing factors, but the Council may wish to consider the potential future volume changes in its long-term strategy for waste management.

Following implementation of the DRS system, the impacts will be seen immediately within household waste. The Council is likely to see a step-change to the dry recycling stream once the DRS 'goes live'.

5.4.2 Extended Producer Responsibility (EPR)

EPR will see legal and fiscal changes which aim to drive packaging producers to utilise recycled materials and to promote the future recyclability of their packaging. This may help to simplify packaging materials and enhance householders' ability to correctly segregate packaging materials for recycling, reducing residual waste and reducing contamination in the recycling waste stream.

The impact of EPR on household waste is difficult to forecast because the response to the legislative changes will be driven by the private sector. It is likely to take some time for the system to become established, understood, and optimised.

Following implementation of the EPR system, it is likely that there would be an immediate, if modest change in household waste quantity and composition. This is likely to be followed by a longer period of gradual change as the system develops.

5.5. Cost increases

At the time of writing, the cost of living is increasing rapidly. Across the UK, fuel costs have risen by around 27 pence per litre in the last 12 months, a rise of c.23%. Labour costs are increasing in response to supply / demand dynamics, and commodity prices are trending upwards. Two of the largest costs associated with waste collection services are labour and fuel.

As discussed in Section 5.2 above, the shortage of HGV drivers is placing an upwards pressure on driver salaries.



Section 5.3 identifies that recent increases in household waste volumes are likely to become long-term trends, to an extent, due to hybrid working.

Putting these factors together, it seems likely that the costs of collecting household waste will increase, and this will occur irrespective of how the Council decides to commission waste collection services.

Legislative changes such as EPR and DRS may help to reduce the volume of household waste, and this could mitigate this impact in the future. However, the Council should be aware of these factors and the uncertainty of future costs which they will bring.

The Council may be able to mitigate the impacts of cost increases by looking at alternative service designs for waste collections, which could help find efficiencies or improve recycling rates. Improving recycling rates will, overall, reduce the cost of the waste service – this is because, in general, the processing of recycling is less expensive than the processing of residual waste. Efficiencies and improvements in recycling could be found through initiatives such as the following examples:

- move from a two-weekly to a three-weekly residual waste collection, which would encourage residents to utilise their recycling capacity in preference of residual waste capacity. There is strong evidence linking restrictions on residual waste capacity with improvements in recycling performance.
- increasing the capacity for dry recycling (e.g. by using two wheeled bins). This would also have the benefit of reducing contamination between the two existing dry recycling streams (fibres / containers).

This notwithstanding, the current cost mechanisms between the Council and Derbyshire County Council (as Waste Disposal Authority) may cause some difficulties in realising these potential savings. It may be appropriate for the Council to open a dialogue with Derbyshire County Council to see how these savings could be unlocked for both parties.



6. Options

6.1. Outline of available options

There are essentially two options for local authorities to deliver their WCA duties:

- outsourcing service delivery to the private sector; and
- delivering the service ‘in-house’.

In addition, there are sub-options for the delivery of an in-house service, including via a Direct Service Organisation (DSO) or a LAC.

Table 1 sets out the typical options for commissioning WCA services:

Table 1: DDDC’s options for commissioning waste collection services

#	Option	Description
1	Outsourced	Private sector company delivers the services on behalf of the Council, following a procurement process.
2	In-house, via a DSO	Council delivers the service using staff that would be directly employed by the Council.
3	In-house, via a LAC	Council delivers the service using a LAC, where the LAC would employ the staff.

This Section 6 provides an outline description and some appropriate context for each of these options (“the Options”).

6.2. Option 1: Outsourced

The Council’s existing approach to commissioning its waste collection service is outsourcing to a private sector waste management company. The Council has applied this approach since August 1989. In general, the Council performs very well against waste performance indicators, with recycling performance for 2019/20 at 55.6% (ranking 29th of 337 WCAs in England) and waste generated per person at 383.8 kg/pp/yr (ranking 16th of 337 WCAs in England). The previous contract for waste collections (delivered by Serco from 2012 to 2020) was, in general, successfully delivered with high levels of resident satisfaction. This indicates that the outsourced service delivery method has not impeded the Council’s ability to deliver highly successful and high performing waste collection services.

In the future, the Council could continue to commission its waste collection services in this way by procuring a new contract for waste collections. The Council will be able to use the contract to allocate risks to the Contractor as appropriate – this allows the Council to manage its own risk portfolio. However, the waste collections market has seen a number of cases in recent years where private sector contractors have recorded significant financial losses as a result of such risk allocations – often resulting in the Contractor seeking to mitigate their losses, for example through contract variations or agreeing early-termination of the agreement.



If the Council opted to continue to outsource these services, then it will need to consider the procurement strategy which it adopts. The Council will need to consider how it will package the services covered by the Waste Collections Contract, specifically considering the processing of dry recycling.

Option 1 represents a continuation of the Council's current approach to fulfilling its Waste Collection Authority Duties. There are risks associated with this Option which the Council will need to consider in its assessment – further detail and discussion is set out in Section 7.

6.3. Option 2: In-house, via DSO

Options 2 describes a solution where the Council delivers the service in-house, as a DSO. Delivering waste collection services via a DSO could be considered a 'traditional' model for discharging WCA duties. Approximately 40% of local authorities fulfil waste collections via a DSO.

The Council would take on the responsibilities associated with all aspects of the service. This would include transferring the relevant staff from Serco to the Council, taking responsibility for the assets used to deliver the services, and taking responsibility for all operational risks. As such, the Council would gain greater control over the service without the restrictions imposed by a detailed contractual arrangement. However, the Council would lose the ability to allocate risks to a contractor.

Within Derbyshire, the majority of neighbouring local authorities opt for this method for some or all waste collections, including Derby City Council, Erewash BC, North East Derbyshire DC, Bolsover DC and South Derbyshire DC.

Option 2 represents a significant shift in the approach to the Council fulfilling its WCA duties, compared with the current arrangements. It will present some challenges in the transition from the existing arrangements, and a change to the culture of how the service is delivered.

6.4. Option 3: In-house, via a LAC

An alternative method for delivering an in-house solution is to setup a LAC and appoint this entity to deliver waste collection services. Approximately 10% of local authorities fulfil their WCA duties via a LAC.

The Council would take responsibility for all aspects of the service and would setup an 'arms-length' company to deliver the services on the Council's behalf. The LAC would be 100% owned by the Council, and therefore the Council would take on the responsibilities associated with all aspects of the service. This would include transferring the relevant staff from Serco to the LAC, taking responsibility for the assets used to deliver the services, and taking responsibility for all operational risks. As such, the Council would gain greater control over the service without the restrictions imposed by a detailed contractual arrangement. However, the Council would lose the ability to allocate risks to the private sector, and it may still be constrained by any arrangements it has with the LAC – i.e. there may be less flexibility compared to Option 2: DSO.

Within Derbyshire, none of the WCAs utilise a LAC to deliver an in-house solution. High Peak BC has a less common model of delivery, where waste collection services are delivered by a LAC which is owned by a different local authority (Cheshire East Council) and contracted to High Peak BC in a commercial arrangement. This model is made possible because a LAC has greater flexibility to deliver commercial services, compared to a DSO. This arrangement is effectively outsourcing, and it is understood that High Peak BC would have undertaken a procurement exercise to form this arrangement.



Option 3 would involve a similar shift in the approach and culture in fulfilling WCA duties, but also brings some additional complications associated with setting up a separate legal entity and delegating responsibilities through some form of legal agreement.



7. Qualitative analysis of Options

In this Section 7, the three Options are characterised and assessed qualitatively, to provide an overview of the Options available to the Council.

7.1. Overview qualitative analysis of Options

This assessment identifies key elements relating to the commissioning of WCA duties, allowing a qualitative comparison of the Options.

Each element is qualitatively assessed in Table 2 below using Red / Amber / Green (RAG) analysis.

Table 2: Overview qualitative analysis of Options

Key element	Assessment		
	Option 1: Outsourced	Option 2: In-house, DSO	Option 3: In-house, LAC
Staffing / management of workforce	Green	Red	Red
Acquisition of expertise	Green	Yellow	Yellow
Deliverability	Yellow	Green	Yellow
Ability to transfer risk	Yellow	Red	Red
Cost implications	Red	Red	Red
Flexibility / control	Red	Green	Yellow
Transition timescales / continuity risk	Red	Yellow	Yellow
Commodity price risk	Yellow	Red	Red
Service efficiency	Green	Green	Green
Current market conditions	Red	Green	Green
Assets	Green	Yellow	Yellow

7.2. Discussion

This section sets out a discussion on each of the key elements set out above.



7.2.1 Staffing / management of workforce

Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
RAG status			
TUPE	Existing staff would transfer from Serco to the incoming contractor. The new contractor would handle all staffing issues.	The Council would directly employ staff to deliver the services, and these staff would fall under the Council's management structures and hierarchy.	The staff would transfer from Serco to the LAC. The LAC would be responsible for managing the staff.
Staffing levels	The staff who transfer from Serco may not provide a full workforce for the service, because Serco currently sources some of the existing workforce through agencies. The incoming contractor would be made responsible for providing sufficient staff to deliver the services and would therefore likely need to recruit additional staff.	The staff who transfer from Serco may not provide a full workforce for the service, because Serco currently sources some of the existing workforce through agencies. The Council will likely need to recruit additional staff.	The staff who transfer from Serco may not provide a full workforce for the service, because Serco currently sources some of the existing workforce through agencies. The LAC will likely need to recruit additional staff.
Employment terms and conditions	The incoming contractor would be required to undertake due diligence on the employment terms and conditions of the staff and satisfy themselves of these arrangements in consideration of their solution / tender.	The Council would need to review the existing employment contracts for any staff transferring from Serco and consider how these contracts align with Council employment contracts. It is possible that there may be some issues to overcome when transferring staff to the Council – these could include terms and conditions which are not typical (and as such may not be acceptable) such as performance related pay.	The Council would need to review the existing employment contracts for any staff transferring from Serco and consider how these contracts align with Council employment contracts.



Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
Policies and procedures	The incoming contractor would provide the relevant policies and procedures (P&Ps) for workforce.	The Council would apply its own P&Ps for the workforce, and would need to consider whether there is a need for new / bespoke P&Ps to be developed to cover all aspects of the services.	The LAC could apply the Council's P&Ps for the workforce, or the LAC could develop new P&Ps tailored for the purpose of the LAC.

7.2.2 Acquisition of expertise

Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
RAG status			
Acquisition of expertise	<p>The incoming contractor would acquire the existing knowledge and experience of the current workforce via the Transfer of Undertakings (Protection of Employment) (TUPE) transfer of staff.</p> <p>The incoming contractor would be required to provide any additional expertise it may need to fulfil the service requirements, and as most waste collection contractors operate nationally, it is likely to do so from an extensive pool of experts.</p>	<p>The Council would acquire the existing knowledge and experience of the current workforce via the TUPE transfer of staff.</p> <p>The Council would need to recruit additional expertise and / or outsource expert professional advice to transition to a DSO and to design and optimise the waste collection services.</p>	<p>The LAC would acquire the existing knowledge and experience of the current workforce via the TUPE transfer of staff.</p> <p>The Council would need to outsource expert professional advice to set up the LAC, and to draft a bespoke agreement between the Council and the LAC for the provisions of the services.</p> <p>The LAC may need to recruit additional expertise and / or outsource professional support to design and optimise the waste collection services.</p>



7.2.3 Deliverability

Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
RAG status			
Procurement outcome	<p>The Council should be aware that undertaking a procurement exercise would not guarantee a satisfactory outcome. The waste collection market has contracted due to consolidation and companies exiting the market. The remaining contractors do not have sufficient capacity to bid for all projects, and so they are selective about which projects they pursue. It can therefore be difficult to generate sufficient competition to drive value for money through such a procurement exercise.</p> <p>In addition, a waste collections contract for the District may not be an attractive proposition for the private sector waste contractors. The value of a contract for waste collection services in Derbyshire Dales is quite low, with the current cost of c.£3M per annum – this compares to an average of c.£11M per annum across England. Further, the Council's rurality increases the risks of delivering waste collection services in the District, because travel times during waste collection rounds are high and the risks associated with travel / access are higher</p>	<p>As this option does not involve procuring a complex waste collections contract, the Council will be exposed to substantially less risk associated with an unsuccessful procurement.</p> <p>The Council would need to procure a dry mixed recycling processing provider, which has less risk of failure (provided the Council delivers an 'on-market' procurement).</p> <p>The Council would need to procure vehicle technology such as 360-degree cameras and 'in-cab technology' system with associated Management Information System (MIS). This technology will enable the Council to accurately and efficiently record detailed information regarding the service performance, process this data, and generate reports to assist with managing the service.</p>	<p>As this option does not involve procuring a complex waste collections contract, the Council will be exposed to substantially less risk associated with an unsuccessful procurement.</p> <p>The LAC would need to procure a dry mixed recycling processing provider, which has less risk of failure (provided the LAC delivers an 'on-market' procurement).</p> <p>The LAC would need to procure vehicle technology such as 360-degree cameras and 'in-cab technology' system with associated MIS. This technology will enable the LAC to accurately and efficiently record detailed information regarding the service performance, process this data, and generate reports to assist with managing the service and to submit to the Council.</p>



Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
	(e.g. greater risk of inclement weather causing service disruption, compared to an urban setting).		
Transition	<p>There would be a transition between Serco and the incoming contractor. Serco has obligations under the Waste Collections Contractor to help with the transition to an incoming contractor. Similarly, obligations would be placed upon the incoming contractor to manage the transition and mobilisation period.</p> <p>The Council will need to manage an extensive dataset through a re-procurement, and to support this transition.</p>	<p>The Council would need to identify the legal and practical steps to transition the services from Serco. For the most part, this work would be in the Council's control, and therefore the deliverability risk should be relatively low. However, there would be an interface with Serco during the transition to the DSO, generating risk associated with Serco's level of cooperation.</p>	<p>The Council would need to identify the legal and practical steps to setup the LAC and transition the services from Serco. For the most part, this work would be in the Council's control, and therefore the deliverability risk should be relatively low. However, there would be an interface with Serco during the transition, generating risk associated with Serco's level of cooperation.</p>

7.2.4 Ability to transfer risk

Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
RAG status			
Risk transfer	<p>Outsourcing provides the Council with the ability to transfer risk to the contractor, e.g. operational risks.</p> <p>However, contractors may seek variations if their business model is significantly impacted by a risk event occurring – there is an extent</p>	<p>Operating the service via a DSO will inherently prevent the Council from transferring risk. As such, all risks would be owned by the Council.</p>	<p>Operating the service via a LAC will inherently prevent the Council from transferring risk. As such, all risks would be owned by the Council.</p>



Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
	<p>to which the Council may not be isolated from these risks</p> <p>Private sector can accept some risks but not all, depending on their nature – e.g. risks outside of the contractors control.</p>		

7.2.5 Cost implications

Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
RAG status			
Cost	<p>The cost of delivering the services via outsourcing arrangements will be determined by (<i>inter alia</i>):</p> <ul style="list-style-type: none"> 🔴 Waste collection contractor market conditions 🔴 the ability to generate competition in the procurement 🔴 the commercial positions within the contract 🔴 the perceived risks associated with the service 🔴 market conditions for labour and fuel 🔴 the commodity market for dry recyclables 	<p>The costs of delivering the services via a DSO will be determined by (<i>inter alia</i>):</p> <ul style="list-style-type: none"> 🔴 the success of the Council to transition the services and the future management of the services 🔴 market conditions for labour and fuel 🔴 increased cost of staff pensions due to local authority pension scheme 🔴 no corporate profit margin being applied 🔴 the commodity market for dry recyclables 🔴 foreseen and unforeseen legislative changes <p>The overall cost of the service is likely to increase, compared with the Serco contract, as a</p>	<p>The costs of delivering the services via a LAC will be determined by (<i>inter alia</i>):</p> <ul style="list-style-type: none"> 🔴 the success of the Council to transition the services to the LAC 🔴 the success of the LAC in the future management of the services 🔴 market conditions for labour and fuel 🔴 no corporate profit margin being applied 🔴 the commodity market for dry recyclables 🔴 foreseen and unforeseen legislative changes <p>The overall cost of the service is likely to increase, compared with the Serco contract, as a result of the impacts of the Covid-19</p>



Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
	<p>● foreseen and unforeseen legislative changes</p> <p>Procuring a new contract represents a 'rebase' of the costs, and the Council should expect the overall costs of the services to increase due to the current market conditions.</p>	<p>result of the impacts of the Covid-19 pandemic on household waste and the increasing cost of labour and fuel.</p>	<p>pandemic on household waste and the increasing cost of labour and fuel.</p>

7.2.6 Flexibility / control

Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
RAG status			
Flexibility / control	<p>Outsourcing will provide the opportunity for the Council to revisit its service prior to commencing a procurement (if time is available to do so).</p> <p>However, once a new contractor is appointed, there may be less flexibility for the Council to make changes to the service. The Council would have the ability to vary the contract, but this may incur cost increases and / or erosion of the commercial position for the Council.</p>	<p>Delivering the service via a DSO would provide the Council with the greatest level of flexibility and control over the service. The Council would be able to make changes to the service at its own discretion, without the constraints that can be imposed by a contract.</p>	<p>The Council would be the sole shareholder in the LAC and would exercise control over the company similar to that which it exercises over its own departments. Therefore, this option should offer the Council a greater level of control compared to outsourcing.</p> <p>As there would be a legal agreement in place between the Council and the LAC, there may be some constraints to the Council making changes – although these are likely to be less significant compared to an outsourcing arrangement.</p>



7.2.7 Transition timescales / continuity risk

Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
RAG status			
Timescales	It could take approximately two (2) years to procure a new waste collections contract. It will be necessary to have agreed exit-arrangements (to some extent) with Serco prior to publishing a procurement notice, which may further delay the delivery of this option.	It could take approximately twelve (12) months to mobilise the service via a DSO. It may be necessary to have agreed exit-arrangements with Serco for the Waste Collections Contract prior to commencing the DSO mobilisation work.	It could take approximately eighteen (18) months to mobilise the service via a LAC. It may be necessary to have agreed exit-arrangements with Serco for the Waste Collections Contract prior to commencing the LAC mobilisation work.
Procurement risk	In the event that the Council undertakes a procurement exercise and does not achieve a successful outcome, the Council may need to deliver further interim services within short timescales. This could be in the form of extending pre-existing interim arrangements (if relevant) or procuring an interim contract. The potential need for this interim service represents a key risk to the outsourcing approach.	Procurement risk is limited to the processing of dry recycling, and is unlikely to cause delay to the project.	Procurement risk is limited to the processing of dry recycling, and is unlikely to cause delay to the project.
Interim arrangements	There could be a scenario where the Council / Serco exit the current contractual arrangements prior to the Council having a replacement contractor in place. In this instance, the Council may be forced to implement interim arrangements for waste collections, to ensure continuity of waste collection services in the District. The options regarding how this could be achieved will need to be investigated, with procurement regulations and market appetite being two key considerations.		



7.2.8 Commodity price risk

Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
RAG status			
Commodity price risk (dry recyclables)	The Council may be able to share the risk of changing commodity prices with the contractor, although it is anticipated that the Council would retain the majority of the risk (>60%).	The Council would retain 100% of the risk associated with commodity prices for dry recyclables.	As the LAC is wholly owned by the Council, 100% of the risk associated with commodity prices for dry recyclables would be retained by the Council.

7.2.9 Service efficiency

Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
RAG status			
Service efficiency	There are many examples of efficient services and inefficient services across all commissioning options. As such, service efficiency is not considered to be sensitive to the commissioning option, but instead is achieved through appropriate service design, implementation, optimisation, and communications.		

7.2.10 Current market conditions

Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
RAG status			
Waste collection contractor market	Challenging market, with few providers active in the market. Bidders are selective in the projects they bid for, reducing potential for competition.	Not reliant on waste collection contractor market.	Not reliant on waste collection contractor market.



Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
	Bidders are likely to exercise caution and diligence on their assessment of commercial risks / rewards.		
Labour costs, including HGV drivers	An incoming contractor would likely be prudent in their assumptions on future labour costs, to mitigate the risks to its commercial interests in the contract. This may result in risk pricing.	Increasing labour costs, and in particular the recent surge in HGV driver costs due to low supply, will impact on the cost.	Increasing labour costs, and in particular the recent surge in HGV driver costs due to low supply, will impact on the cost.
Fuel	Fuel costs would be indexed annually at a market rate, and so would track (by proxy) the market price.	Fuel costs incurred will directly track the market price.	Fuel costs incurred will directly track the market price.

7.2.11 Assets

Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
RAG status			
Transition	<p>The Council would need to provide interface management in the transition of assets from Serco to the incoming contractor.</p> <p>Following the transition, the incoming contractor would be required to manage the existing Council assets (vehicles, bins, and the Longcliffe depot), and this would be set out in the contract.</p>	<p>The Council would be responsible for the provisions of all assets required for delivery of the services.</p> <p>The primary assets (vehicles, bins, and the Longcliffe depot) are already within the Council's ownership or control, although it would need to manage the transition from Serco to the Council.</p>	<p>The Council would need to make the primary assets (vehicles, bins, Longcliffe depot) available to the LAC.</p> <p>The Council would need to provide interface management in the transition of assets from Serco to the LAC.</p> <p>The LAC would need to procure some additional elements such as a MIS and 'in-cab</p>



Attribute	Option 1: Outsourced	Option 2: DSO	Option 3: LAC
		<p>The Council would need to procure some additional elements such as a MIS and 'in-cab technology' and integrate these with the Council's existing CRM. The Council would also need to put in place appropriate measures to manage and maintain these assets.</p>	<p>technology' and integrate these with the Council's existing CRM. The LAC would also need to put in place appropriate measures to manage and maintain these assets.</p>
Vehicles	<p>The vehicles would either revert to the Council from Serco or could be passed from Serco to the incoming contractor. In either case, the Council would need to inspect the vehicles and maintenance records and check compliance with the exit arrangements in the Waste Collections Contract. The incoming contractor may not be willing to accept risks associated with the vehicle condition and previous maintenance undertaken, and so the Council may not be able to achieve the same level of risk transfer in the new contract.</p>	<p>The vehicles would revert to the Council, from Serco. The Council would need to inspect the vehicles and maintenance records and check compliance with the exit arrangements in the Waste Collections Contract.</p>	<p>The vehicles would revert to the Council, from Serco. The Council would need to inspect the vehicles and maintenance records and check compliance with the exit arrangements in the Waste Collections Contract.</p>



8. Option Implementation

The Options under consideration are alternatives to the existing arrangement with Serco. As such, to implement any of these Options, the Council would need to terminate the Waste Collections Contract. This section outlines some key factors relating to termination of the Waste Collections Contract, for the Council's consideration.

8.1. Routes to termination

Two possible routes to termination have been identified:

- ❶ Utilising the mechanisms set out in the terms of the Waste Collections Contract to terminate the agreement; and
- ❷ An agreement (outwith the contractual provisions) between the Council and Serco to terminate the Waste Collections Contract on an agreed date.

The Waste Collections Contract provides a mechanism to terminate the contract, but this mechanism can be triggered only in limited circumstances. Should the Council wish to pursue termination then it would need to establish if such rights exist under the terms of the Waste Collections Contract, and it will need to consider how best to approach the termination process – requiring specialist legal, technical, and commercial advice.

It may be possible to agree with Serco an early termination of the Waste Collections Contract. This approach would fall outside of the existing contractual mechanisms, and as such ought to be considered as a 'negotiated exit'. This approach would also require specialist legal, technical, and commercial advice to ensure that any agreement fairly represents the Council's position and costs, alongside ensuring that the service can transition to the new provisions without disruption.

8.2. Key factors to consider

There are several key factors which the Council would need to consider, should it pursue termination of the Waste Collections Contract:

- ❶ Serco would continue providing the Services for a period following initiation of the termination process, until such time that the Council has an alternative service provision in place. There is a risk that the performance standards of the services being delivered by Serco could further reduce during this period. The Council may be able to mitigate this risk through careful monitoring of performance, applying the available contractual mechanisms as appropriate, and through constructive discussions with Serco.
- ❷ The transition period to implement a new long-term service provision could be lengthy (12-24 months). During this time, the Council would need to either:
 - continue utilising Serco's services under the Waste Collections Contract; or
 - procure an interim service to cover the period from termination through to commencement of the new service provision (which could be implemented in a shorter period than a long-term solution).



- ❶ The Council is likely to incur additional costs in the short-term, as it invests in the development of a new service provision and manages termination of the Waste Collections Contract. There may be an extent to which these costs can be recovered from Serco, through negotiation or legal action.
- ❷ The workload for Council Officers will increase until such time that a new long-term service provision is mobilised and 'bedded in'. There may be a need for additional resources to be deployed in order to deliver numerous workstreams simultaneously.
- ❸ Specialist support will be required for some key matters, such as the TUPE transfer of staff from Serco to the new service provision, and the transfer of assets such as the Longcliffe depot and the waste collection vehicles.
- ❹ The deployment of an alternative Option will require a new approach to data collection / processing / reporting. This will mean that either the Council or a future contractor will be required to provide such a system, and this system will need to be interfaced with the Council's CRM. Data collection and provision is a key part of waste service provision; the information obtained is used to fulfil the Council's statutory reporting obligations.
- ❺ The scope of the Waste Collections Contract includes services to process dry mixed recycling (blue-lidded bin). The Council will need to procure a new dry mixed recycling processing service to maintain continuity of services. It could take three to six months to procure an alternative service under standard procurement rules, although exemptions from these rules may be applicable.
- ❻ Collection rounds are not currently optimised to the current circumstances. It may be necessary to redesign / optimise the waste collection rounds ahead of / as part of the implementation of the future service provision, which would require the support of a specialist contractor / software.
- ❼ Licences / consents are required to deliver the services (e.g. Vehicle Operators Licence). As Serco is the current holder of these licences / consents, there may be a need to transfer licences or make new applications.



9. Partnership arrangements

9.1. Introduction

This Commissioning Options Appraisal considers the service delivery methods for the Council and assumes that, at this time, the Council is not seeking to form a partnership arrangement with neighbouring local authorities for the delivery of waste collection services. This is because the Council is faced with many challenges to restore services to the standards expected of the Council, and this is treated as a priority objective. Partnering may bring some opportunity to find efficiencies in the service delivery, but it would also introduce additional complexities.

There are current examples of other UK local authorities partnering to share waste collection services, including Bolsover and North East Derbyshire who partner for the delivery of dry recycling collection and processing.

This section provides some further discussion on partnering, solely for information purposes and so that the Council may consider this option in the future.

9.2. Partnering options for the Council

The Council has previously engaged with neighbouring WCAs to discuss the prospect of partnership arrangements. At that time, there was no interest from neighbouring WCAs in forming such a partnership. One of the primary reasons for this was because procurement cycles for each Council were not well aligned, and so a long lead-in period would have been required to implement such a partnership.

As the Council is now considering options which each involve a change to the procurement cycle, this may reduce or remove this constraint, and it is therefore possible that the Council could find an appropriate partner.

The geography of the region means that the District is bordered by four of the nine WCAs in Derbyshire, as well as East Staffordshire District Council and Staffordshire Moorlands District Council. This provides many potential options to explore.

9.3. Benefits / disbenefits of Partnering

The most significant benefit of partnering with neighbouring local authorities is that collection rounds can be designed and optimised over a larger area / number of households, which can provide some efficiencies in service delivery. Partnering may also provide new opportunities to access additional sites, e.g. for use as a depot, for waste transfer, or for waste processing.

Partnering can allow local authorities to 'pool' their waste collection services to create a single, larger scope – this could be done to leverage the market by increasing the annual revenue of the contract, and thus making it more commercially attractive to the private sector. The benefits of leveraging the market would be lost in the event the Council opted to deliver the services 'in-house' via Option 2 or Option 3.

Expanding the scope of collection services through partnering may well provide scope for efficiency gains, but it must also be recognised that it would bring additional complexity to arrangements. There would be a greater number of parties required to agree decisions before changes can be implemented, and the parties may not always be aligned on the best course of action.



9.4. Forming a partnership

To form a partnership, the Council will need to discuss and agree the general terms of the partnership with the partnering local authority (or authorities). A legal agreement between the parties will need to be put in place, and the Council would need to seek specialist professional support to deliver this. The agreement will need to set out / allocate responsibilities and how the costs would be shared.

9.5. Partnership summary

Overall, the benefits of the Council forming partnership arrangements are likely to be relatively small, with the best outcome being a small increase in efficiency of the services. In the Council's current context of receiving poor performance in the Waste Collections Contract, the Council's priority objective is to restore the services to the level expected by the Council, and this may be easier to achieve without introducing the complexities of a partnership arrangement.



10. Summary / Recommendations

10.1. Summary

It is considered that continuing with Serco is likely to represent the 'path of least resistance' for the Council. It may also have the shortest delivery programme of the Options, although this is contingent on Serco's response to the current situation. On balance, utilising Serco and restoring service provision ought to be considered the Council's primary aim.

However, if there is no prospect of successfully restoring the services with Serco then the Council may wish to pursue an alternative Option, of which the Council has three available. Each of the Options has benefits and disbenefits, and none provide a 'golden bullet' solution to the Council's current issues with the waste collection services.

Each option attracts significant risks to its implementation and delivery. The waste collections market is currently a "sellers' market" due to the lack of competition, and the District has attributes which are likely to make the project a high-risk prospect. Bringing the service in-house will require a step-change in the approach taken by the Council to manage waste collections and will create a significant administrative burden compared with an outsourcing approach.

10.2. Recommendations

- 📍 The timescales to mobilise and implement the Options is relatively long (12 to 24 months). It is recommended that the Council takes measures to mitigate risks to the project programme and transition by ensuring there is sufficient time within exit arrangements with Serco to allow a new solution to be implemented.
- 📍 It is recommended that the Council considers undertaking a quantitative assessment of the costs for delivering the future waste service, so that it can budget for these provisions accordingly.
- 📍 The Council may wish to reassess the waste collection service design, as there may be changes which can be made to help optimise the service and improve recycling rates in the District.

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