



NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	Environmental Services Re-provision - Selection of Service Delivery Option
---------------------	---

AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	19 th October 2016
Key Decision:	Yes
Within Policy:	Yes
Policy Document:	No
Directorate:	Customer and Communities
Accountable Cabinet Member:	Cllr Alan Bottwood
Ward(s)	Borough Wide

1. Purpose

- 1.1 The purpose of this report is to approve the choice of a service delivery option for the future delivery of environmental services when the current arrangement comes to an end on 5th June 2018.

2. Recommendations

That Cabinet:

- 2.1 With effect from 6th June 2018, agrees to Contract Out Environmental Services to an external provider selected through an OJEU procurement process.
- 2.2 Delegates authority to carry out the OJEU procurement process to the Director of Customers and Communities, in consultation with the Cabinet Member for Environment.

- 2.3 Approves a supplementary estimate to create a budget for the OJEU procurement process of up to £400,000, to be funded from the 'Delivering the Efficiency Plan' reserve, in accordance with paragraph 4.2.8.
- 2.4 Requires quarterly update reports on progress against the programme to Cabinet.

3. Issues and Choices

3.1 Report Background

- 3.1.1 For the purposes of this report, services that sit under the environmental services banner are waste and recycling, street cleansing and grounds maintenance, including maintenance of parks and allotments, and other ancillary services.
- 3.1.2 Environmental services also currently include some highway services for which the council and Northamptonshire County Council (NCC) have agreements in place, namely tree maintenance, grass cutting, weed spraying and shrub maintenance on highway land and services to Northampton Partnership Homes (NPH), namely grass cutting, litter picking and shrub maintenance.
- 3.1.3 It will be determined at a later stage of this project whether the services referred to in paragraph 3.1.2 will continue to be provided within the council's environmental services contract.
- 3.1.4 Until June 2011, environmental services were delivered in-house.
- 3.1.5 On 9th February 2011, following a robust procurement process (the then) Cabinet took a decision to enter a joint contract with Daventry District Council (DDC) with Enterprise Managed Services Ltd (EMS).
- 3.1.6 EMS was acquired by Amey PLC in April 2013, however this change in company ownership has no direct bearing on the current contractual relationship between NBC/DDC and EMS.
- 3.1.7 The contract between NBC/DDC and EMS was for a period of seven years, with the option to extend for an additional seven years, subject to the agreement of all three parties to the contract. DDC has already taken the decision not to extend the contract and the option to extend for this reason falls away without the need for NBC to undertake the otherwise necessary evaluation of the extension option.
- 3.1.8 The environmental services contract will therefore expire on 5th June 2018.

Commissioning Options Evaluation Process

- 3.1.9 In order to put a new environmental service in place from 6th June 2018, the Council needs to decide how it wishes the service to be delivered in the future. This has necessitated the requirement to undertake a robust evaluation of potential service delivery options.

3.1.10 The Council worked closely with waste industry experts, Eunomia Research & Consulting Ltd (Eunomia), to undertake a commissioning options review. The Executive Summary of their Report is attached at Appendix 1 of this report. Their full report contains commercially sensitive information and is therefore a confidential background paper available to Members of the Council under the guidance of the Borough Secretary. Where appropriate, information has been extracted from the Eunomia Report into this Cabinet Report.

3.1.11 At the start of the commissioning options review, it was determined that a single package covering all services was likely to deliver best value for reasons of synergy and economies of scale.

3.1.12 A high level evaluation of a long list of service delivery options was then undertaken. This was used to develop a short-list of the three options, which were then appraised in detail against the criteria of cost and quality/risk. Cost was given a weighting of 40% and quality/risk was given a weighting of 60%.

3.1.13 A brief description of the three short-listed options is provided below:

- Contracting Out – going back to the market to conduct a new procurement exercise.
- Insourcing – bringing the services in house to be delivered through a Direct Services Organisation (DSO) or similar.
- Local Authority Company (LAC) – delivering the services using a local authority owned company, either starting a new company or using an existing company founded by another authority.

3.1.14 Before the detailed option evaluation could commence, it was necessary to undertake a preliminary process to model and benchmark the current household waste collection service against agreed waste collection options in order to select the most appropriate service baseline to carry forward to the commissioning options stage.

3.1.15 The detailed options appraisal was undertaken in two stages as set out in paragraph 3.1.16 below (figure 1). Stage 1 entailed determining the baseline position for the waste collection services (as per paragraph 3.1.14) and stage 2 consisted of the commissioning options review.

3.1.16 Fig 1 - Key Modelling Stages



3.1.17 A Target Operating Model (TOM) had previously been developed to enable risks to the continuity of the environmental services contract to be mitigated. It was decided that the TOM was of sufficient robustness to be used to create the baseline for street cleansing and ground maintenance services.

Cost Modelling

3.1.18 Detailed financial models were developed so that each commissioning option could be compared against key cost components.

3.1.19 A key conclusion of this step of the review was that all three delivery options are likely to deliver a more expensive service than the current contract.

3.1.20 The analysis was subject to extensive challenge from the Council's Finance service to ensure the assumptions made were reasonable and robust, in particular around the differences between the options.

3.1.21 The analysis appeared to conclude that the contractor is currently delivering the service at a loss, which was confirmation of what the Council already understood the case to be.

3.1.22 The assumption for the commissioning options review was made that the predicted loss in the current contract arising from the modelling is not carried

forward into a future contract and thus the modelled service cost increased compared to the current contract.

3.1.23 Results of the cost modelling indicated relatively small differences in cost between all three options, the difference between each being insufficient to differentiate between them with a high level of confidence, in any case, but particularly so, once even a small margin of error is allowed for.

3.1.24 The Local Authority Company (LAC) option delivered the lowest modelled cost solution for running environmental services, partly because it avoids the generation of profit for a private sector contractor, whilst operating with unit labour costs similar to those in the private sector.

3.1.25 However, it must be noted that the low cost of the LAC is also due to a working assumption about the treatment of staff pensions which would be highly sensitive to the Council choosing to take a different approach to staff pensions than the lowest cost option that has been modelled, and to changes in required pension contribution levels.

3.1.26 The Contracting Out option delivered a higher modelled cost to that of the LAC and a comparable modelled cost to Insourcing. The estimated cost associated with this option is sensitive to the profit margin that the market would be seeking which it is not possible to predict with a high level of certainty.

3.1.27 The Insourcing option delivered a modelled cost solution which is marginally higher than the Contracting Out option and is therefore the most expensive modelled solution overall.

Quality/Risk Assessment

3.1.28 The methodology used for the qualitative assessment of the commissioning options review is based on a detailed risk analysis of key criteria predominantly focused on the following strategic aspects:

- budget certainty and financial risk
- flexibility and control
- performance
- market conditions
- best value
- operational risk, and
- pension contribution and pension scheme provided to the workforce.

3.1.29 The quality/risk assessment concludes that the Contracting Out option performed best in the quality and risk assessment by some margin. The LAC option was middle ranking in the assessment, and the Insourcing option performed less well than the other two options.

Overall Results – Options Comparison

3.1.30 The two criteria of cost and quality/risk were subsequently combined into a single 'score' using the agreed weighting, as per paragraph 3.1.11, to determine the overall ranking as set out in Table 1.

Table 1: Overall Results

Criterion	Cost *	Quality and Risk **	Total	Rank
LA Company	40	55	95	2
Contracted Out	39	60	99	1
In-house	38	52	90	3
Notes:	<p><i>* For cost, the points achieved by each option are determined as follows: the maximum number of points are awarded to the option achieving the lowest modelled cost solution and the other options are awarded points using a deviation from the lowest scoring option.</i></p> <p><i>**For quality and risk, the points achieved by each option are determined as follows: the maximum number of points are awarded to the option achieving the lowest quality/risk score and the other options are awarded points using a pro-rata assessment of the difference between the maximum available risk score and the lowest achieved risk score.</i></p>			

3.1.31 A sensitivity test of the weighting agreed for the two criteria of cost and quality/risk was also undertaken by considering a scenario where a 50/50 weighting is applied to the two criteria and a scenario where the cost criteria is weighted more than the quality/risk criteria. The sensitivity test concluded that the ranking shown in Table 1 is unchanged.

Commissioning Options Review - Conclusion

3.1.32 The commissioning options review provides a very robust analysis of a wide range of data, but there is inevitably a margin of error due to a variety of factors that have a level of inherent uncertainty associated with them over the lifetime of this type of contract.

3.1.33 The overall conclusions of the commissioning options review must be viewed with the reality of paragraph 3.1.32 in mind.

3.1.34 Overall the process identifies that the Contracting Out option delivers the best result overall and the best balance of benefits and risks, although this is only marginally so and therefore any service delivery option would be a suitable commissioning option for the Council from a cost and quality/risk perspective.

Audit

3.1.35 To add an additional layer of assurance to the commissioning options review process, the Council's internal auditors, PWC, undertook a short, sharp review. The executive summary of their report is attached at appendix 2.

3.1.36 The field work for the audit was completed in September and it was therefore used to inform the outcome of the commissioning options review process. It focused on the robustness of the process which the Council followed to appraise the options for renewing the Environmental Services contract; and the adequacy and completeness of the evidence on which the decision is to be made.

3.1.37 Particular attention was paid to ensuring decision makers could be assured of the rigour of the financial analysis and the assumptions that underpinned the modelling.

3.1.38 The overall conclusion of the audit was that the governance process was robust.

Procurement

3.1.39 The selection of Contracting Out as the preferred option for the delivery of future environmental services requires the development of a procurement strategy and an associated procurement process.

3.1.40 To deliver the procurement strategy/process it will be necessary to appoint expert consultancy support, through the Council's proper procedures.

3.1.41 In addition to the support referred to in paragraph 3.1.36 above, both internal and external resource will be required to carry out a successful procurement of environmental services, from areas such as environment, finance, legal, HR, and assets.

3.1.42 The procurement will need to be carried out through an OJEU procurement process.

3.1.43 The procurement will be undertaken in full accordance with the Council's corporate governance procedures. The programme will continue to be led by the Management Board, acting as the Programme Board, and a cross-discipline Project Team led by the Director.

3.2 Choices (Options)

- 3.2.1 Cabinet could choose, with a high level of confidence, any of the three service delivery options that have been evaluated for the future delivery of environmental services.
- 3.2.2 No option strongly emerges as being significantly better than either of the other two.
- 3.2.3 In light of the outcome of the commissioning options review and after consultation with the Director of Customers and Communities, Cabinet has expressed its preference to further Contract Out environmental services.
- 3.2.4 Cabinet has been advised by officers including the Chief Executive, the Director, Borough Secretary and Chief Finance Officer that this is a reasonable choice for it to make given the close ranking of each option that has emerged from the evaluation process and the allowance that should be made for a margin of error.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 There are no policy implications directly arising from this report.

4.2 Resources and Risk

- 4.2.1 The cost of the current environmental service contract for NBC is £6.9m per year.

Commissioning Options Review – Cost

- 4.2.2 It should be noted that the commissioning options review is not an exercise that is intended to predict the future cost of environmental services as there are a range of factors that are not yet known, or are yet to be determined, which will have a major impact on future cost, e.g. recycling credits, performance standards, service design.

- 4.2.3 There are however some key financial differences between service delivery options that will have either a positive or negative impact on cost, e.g. profit margin, overheads, pension contributions. The purpose of the commissioning options review (from a cost perspective) is to provide a high level comparison based on these variable cost factors.

Commissioning Options Review - Risk

- 4.2.4 Risk was determined to be a major factor to be considered in selecting the preferred commissioning option. Therefore, to augment the assessment of risk contained within the qualitative assessment, a detailed risk assessment of

key strategic criteria was carried out. A summary of the outcome is set out in the table at paragraph 3.1.30.

Procurement

- 4.2.5 To develop and deliver the procurement strategy/process it will be necessary to appoint expert consultancy support, through the council's proper procedures. Other internal and external resource will also be required from areas such as Environment, Finance, Legal, HR, and Assets.
- 4.2.6 The estimated cost of implementing the Contracting Out service delivery option is £280,000, which compares favourably to the one off cost assumptions for the other two commissioning options. This figure is an estimate and actual costs may be higher or lower than this sum.
- 4.2.7 In order to ensure a high level of consultation and communication with all stakeholders across the town it is estimated that a budget of £120,000 is put in place. Again, this figure is an estimate and actual costs may be higher or lower than this sum.
- 4.2.8 It is therefore proposed that a total budget of up to £400,000 is established from reserves, to be spent as appropriate and necessary for all and any aspect of the project to ensure its successful delivery.
- 4.2.9 These costs to be funded from the 'Delivering the Efficiency Plan' reserve and in year service underspend, and monitored by the Programme Board.
- 4.2.9 The Chief Finance Officer sits on the Programme Board.

4.3 Legal

- 4.3.1 The commissioning options review has had the benefit of ongoing legal oversight. The Borough Secretary is on the Programme Board.
- 4.3.2 The commissioning options review itself, and the decision arising from it to select Contracting Out as the preferred service delivery option, is legally sound.
- 4.3.3 The forthcoming procurement will require a high level of legal advice and support. An experienced set of legal advisers will be appointed and will be put in place in good time to ensure sound progression of the procurement process and a sound outcome to the Contracting Out process.

4.4 Equality and Health

- 4.4.1 An equality impact assessment (EIA) has been undertaken and has been used to inform the recommendations of this report.
- 4.4.2 There will be full compliance with relevant equalities legislation as service design and service standards are developed and implemented and a further EIA will be undertaken as the process progresses.

4.5 Consultees (Internal and External)

- 4.5.1 A community engagement framework has been developed to ensure stakeholders are fully involved in the environmental services re-provision process. The community engagement framework is drawn from a broad range of stakeholder groups, including Resident Associations, Parish Councils, Friends Groups, Park Management Committees, partner agencies, Councillors and staff.
- 4.5.2 In addition to the consultation undertaken via the community engagement framework, an Ipsos MORI survey has been commissioned. The survey entailed 1,000 interviews with residents from across Northampton which sought their views on various aspects of environmental services. Once fully completed, the Ipsos MORI survey information will be used to inform service design going forward.
- 4.5.3 A Cabinet Advisory Group was set up, at the request of the Leader of the Council, to oversee the environmental services re-provision process. The decision to involve key elected members from all political parties reflects the strategic importance of environmental services to the future of Northampton.

4.6 How the Proposals Deliver Priority Outcomes

- 4.6.1 Environmental Services contribute to 'Creating Empowered Communities' in Northampton by making Northampton cleaner, greener, tidier and more attractive.

5. Background Papers

Eunomia – Commissioning Options Review, October 2016 (partly exempt for commercial reasons)

Internal Audit Report 2016/17 – Environmental Services

Julie Seddon, Director of Customers and Communities