

Gloucester City Council

Meeting:	Cabinet	Date:	10 March 2021
Subject:	Waste, Street Scene and Grounds Maintenance Services Options Report		
Report Of:	Leader of the Council and Cabinet Member for Environment		
Wards Affected:	All		
Key Decision:	Yes	Budget/Policy Framework:	No
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Appendices:	1. Financial Review of Waste Contract Proposals (KPMG) 2. Budget Implications		

EXEMPTIONS

The Report is available for General Release. However, the Appendices to the report contain commercially confidential financial information.

The public are likely to be excluded from the meeting during consideration of any of the information contained in the appendices to the report as they contain exempt information as defined in paragraph (3) of schedule 12A to the Local Government Act 1972 (as amended).

1.0 Purpose of Report

- 1.1 To make recommendations for the delivery of Waste, Street Scene and Grounds Maintenance services beyond the current contract end date of 31 March 2022.
- 1.2 The recommendations are made following an independent financial review and detailed options appraisal.

2.0 Recommendations

2.1 Cabinet is asked to **RESOLVE** that:

- (1) the assessment and analysis set out in this report is received and noted;
- (2) the option to have the services delivered by Ubico from 1 April 2022 is approved
- (3) Urbaser are thanked for their co-operation and the submission of a comprehensive offer to the Council
- (4) the Council places on record its thanks to Amey and its staff for the way that they have sustained essential public services during the pandemic and the positive and constructive way that the company has engaged with the City Council in recent years.

- (5) arrangements are made to join the Ubico partnership as a shareholder
- (6) a detailed mobilisation plan is developed and implemented with Ubico
- (7) delegated authority be given to the Corporate Director (after consultation with the Cabinet Lead for Environment) to implement these decisions.

3.0 Background and Key Issues

- 3.1 The Council's contract for Waste, Street Scene and Grounds Maintenance Services comes to an end on 31 March 2022.
- 3.2 The Council commissioned WYG to undertake an independent assessment of the options available to the Council as a consequence of the ending of the contract.
- 3.3 The first phase of this work resulted in a report to Cabinet which recommended a two-stage approach. That process has now completed, with some options being eliminated in November.
- 3.4 On 11 November 2020 Cabinet RESOLVED that:
 - (1) the Options Appraisal and Best Value Review is received and noted
 - (2) the option to commence a formal procurement on the open market is not taken forward
 - (3) the option to bring services back in-house is not taken forward
 - (4) the option to extend the Amey contract is deferred until 31 January 2021 at the latest to provide the opportunity for an offer to be finalised by the new owners of Amey (Urbaser)
 - (5) the option to have the services delivered by Ubico from 1 April 2022 is maintained as a preferred option, subject to further developing and refining of the detailed cost model and mobilisation plan
 - (6) a full financial and legal appraisal of the remaining model(s) is undertaken
 - (7) delegated authority be given to the Corporate Director (after consultation with the Cabinet Lead for the Environment) to implement these decisions.
- 3.5 As part of this final stage in the selection process, KPMG were engaged to undertake an independent financial appraisal of the Amey/Urbaser and Ubico proposals. Appendix 1 details KPMG's findings which have been reviewed by Council Officers and WYG.

4.0 Services

- 4.1 The Council issued both Amey/Urbaser and Ubico with technical specifications setting out the requirements of the Council for the following service areas:
 - Waste and recycling
 - Street cleansing
 - Grounds maintenance
 - Arboriculture
 - Toilet cleaning

- 4.2 Except for IT requirements, the technical specification was based upon the existing service requirements and did not include any material service changes, enhancements or reductions.
- 4.3 We also issued an additional specification which included the Council's requirements for ICT and data handling as well as matters such as complaints handling, environmental standards and dealing with inclement weather and civil emergencies.
- 4.4 In addition to the technical specification for street cleansing, we asked for a price for some items of work (enhancements) which do not currently form part of the service but which were felt to be necessary key requirements:
- Improved response times, to deal with deteriorations in cleansing standards;
 - An emergency standby and call-out service for incidents out of normal working hours; and
 - Enhanced requirements for the cleansing of high-speed roads
- 4.5 We did not prescribe a format for responses; we simply set out a request for responses that indicated how each party would deliver the requirements of the specifications and deploy their staff and mechanical resources.
- 4.6 The responses were received on time and were comprehensive, with a more-than-adequate level of detail.
- 4.7 The responses were reviewed by Council Officers and by WYG/TetraTech.
- 4.8 It is pleasing to note that both parties have submitted robust service plans in response to the specifications: in both cases, the resource levels proposed were in line with those currently deployed; and the detailed plans showed that thought had gone into how to make the best use of those resources.
- 4.9 WYG/TetraTech's view is that both responses are fit for purpose; and that both parties' proposals will deliver services to at least the current standards, plus the enhanced street cleansing services mentioned above.
- 4.10 Not unexpectedly, there are some differences between the two bids:
- Urbaser has included additional service options for the Council to consider: but these come at additional costs to the Council and since these additional costs have not been considered within KPMG's financial appraisal, they have been set aside for comparative purposes.
 - The Ubico proposal is based on utilising a new vehicle fleet; whereas, Urbaser (in the main) propose to continue to use the current fleet.
 - Both ICT / data management solutions should deliver to the requirements of the specification, which are at a much higher level than the Council currently enjoys; and which should greatly aid contract management. Overall, the solution proposed by Urbaser appears marginally better than that proposed by Ubico, particularly since it is more well-established.
 - The Urbaser offering includes certain items of added value and some of these involve additional cash or social value benefits: a Community Benefit Fund of £10,000 per annum; an annual £5,000 fund for tree planting; and £12,000 for depot improvements. Whilst notable, these offers are relatively marginal to the substantive contract.

- The Ubico offer describes their approach to working with the Council and local community to improve quality of life and provides some examples where this has been effective. It also outlines opportunities for innovation and economies of scale through the partnership, for example development of a commercial waste business that the Council would fully share.

4.11 From a technical standpoint, the independent evaluation by WYG/TetraTech is that both offers are entirely capable of acceptance.













5.0 Financial Review of Waste Contract Proposals

5.1 As part of the options appraisal process, KPMG were engaged to conduct an independent financial appraisal of the two proposals.

5.2 KPMG's analysis and findings are set out in confidential Appendix 1 to this report. The table below summarises KPMG's findings. The Appendix compares the Net Present Cost (NPC) over 10 years and highlights some matters, that are not financially quantifiable but should be considered because they are potential commercial differentiators between the two options (see Appendix 1, section 3.3 for more detail).

5.3 To aide relative comparability between the two proposals, KPMG assigned a RAG Rating (Red, Amber, Green) as follows:

- **Green** - Low risk / low potential to have a negative impact or may result in a benefit to the Council.
- **Amber** - Medium risk / medium potential to have a negative impact to the Council;
- **Red** - High risk / high potential to have a negative impact to the Council.

Summary of Proposal Comparison			
#	Item	UBICO Proposal	Urbaser Proposal
Financial Appraisal			
	NPC after Adjustments	Appendix 1, 4.1.4	Appendix 1, 4.1.4
Non-Financial Appraisal			
1	Ongoing price certainty		
2	Cost transparency and control		
3	Robustness of proposal pricing		
4	Governance and flexibility		
5	Aging asset cost certainty		
6	Recyclate income upside		



5.4 KPMG's conclusion is that the NPC for UBICO is lower than the NPC for Urbaser. **The UBICO proposal therefore ranks first from a financial appraisal perspective.**

5.5 From a non-financial perspective, there is little difference overall, however on balance KPMG's assessment is that **the UBICO proposal would likely be more**

commercially beneficial than the Urbaser proposal. The two key factors from the above being:



- (1) *'Aging asset cost certainty item'*, with Urbaser choosing to 'sweat' the leased fleet assets, there is a higher risk of unexpected maintenance costs that the Council may need to contribute towards in addition to the consequential risk impact on quality or reliability of the service if the fleet is unavailable.
- (2) *'Governance and flexibility'*, delivering the services through UBICO as a TECKAL company will provide the Council with more governance autonomy and better implementation flexibility to make service changes and improvements.

6.0 Social Value Considerations

Proposal Comparison		
Item	UBICO Proposal	Urbaser Proposal
Social value		

- 6.1 Both proposals provide for better alignment with the City's approach to community-based service delivery and the social value derived from that approach. They also both incorporate a commitment to pay employees the real living wage, invest in the health and well-being of their staff, and provide an opportunity for local employment.
- 6.2 The Urbaser offer proposes a Community Benefit Fund of £10,000 per annum, development of a community plan, and suggests working with a charity to reuse furniture collected through the bulky waste service.
- 6.3 The Ubico proposal outlines how they would approach working with the Council and partner organisations/agencies to improve quality of life through community engagement and by helping to address antisocial behaviour (eg targeted groundworks and street furniture provision). They cite examples where this has been successful and led to fewer incidents of fly tipping and vandalism. Ubico's proposal also outlines their Ubico Academy initiative and approach to training and development, encouraging local employment and apprenticeships.
- 6.4 Because the Ubico proposal would see the Council become a shareholder of the company with a seat at the Board, there would be a greater degree of control and flexibility in delivering services that meet our social value ambition eg devolution to local communities.

7.0 Environmental Implications

Proposal Comparison		
Item	UBICO Proposal	Urbaser Proposal
Environmental		

- 7.1 The Urbaser offer is based on making use of the existing fleet over a five-year extension. This limits the opportunity for doing anything significant with the fleet until after the extension period. However, they have specifically noted new provision for electric vehicles; two replacement vehicles and one additional supervisor vehicle.
- 7.2 Ubico outlined their active alternative fuel trials in their proposal which are now at an advanced stage. Ubico advised that, as a shareholder, the Council would be

able to benefit from the outcome of this and similar trials across the partnership. They advised that they would work closely with the Council to explore the use of fuel alternatives. The Ubico offer requires a new fleet from day one, so the opportunity exists to explore green technology and/or benefit from the latest technological advances.

7.3 Both offers promote the use of sustainable materials (particularly for grounds maintenance) and different methodologies for some aspects of street cleansing which reduce the use of chemicals. For example, weed spraying alternatives, and, in the case of Urbaser, soil and peat alternatives. Urbaser's proposal also includes the offer of a £5,000 fund for tree planting, £12,000 for depot improvements, use of bio engine-oil, and a proposed trial of recycling street sweeper arisings.

7.4 The current model of service delivery is in line with the emerging Government Waste Strategy and both proposals would provide for the ability to respond to changes in the waste services landscape. However, as a shareholder of the company, the Ubico proposal would provide a greater degree of control, governance and flexibility in responding to a changing environment.

8.0 Alternative Options Considered

8.1 The contract options process has considered a wide range of alternative options and has systematically narrowed those options. This final stage of the appraisal process has considered submissions from Urbaser and Ubico. These have been reviewed by Council Officers and independently assessed by:

- WYG/TetraTech - external sector expertise
- KPMG - independent financial appraisal (Appendix 1)

9.0 Reasons for Recommendations

9.1 The recommendations set out in this report reflect the conclusions of a detailed options appraisal, an independent financial appraisal, and an assessment by officers which have carefully considered both final options presented to the Council.

10.0 Future Work

10.1 On approval of the recommendations in this report, the Council will need to work with the preferred partner to negotiate and agree the legal model, including governance arrangements, and develop a detailed mobilisation plan. This will include the safe and successful transition of services, investment in fleet, and the design and implementation of agreed service and technology enhancements.

10.2 To aide this work, KPMG have identified areas for further exploration with the preferred partner to support the Council with future negotiations.

11.0 Financial Implications

11.1 The KPMG Financial Assessment set out at Appendix 1 considers the long-term financial implications for both contracts. It calculates a 'net present cost' for each proposal to help make the two proposals comparable.

- 11.2 The net present cost projects the payments to be made on each contract and discounts these back via the Greenbook discount rate of 6.09%. This takes account of the time value of money to produce a total contract cost over the 10-year period, with the Ubico proposal ranking first on the financial appraisal.
- 11.3 The Council is required to set an annual budget. The tables attached at confidential Appendix 2 report how the two proposals compare against the anticipated budget for 2022/23 under the existing contract pricing, both offers include the additional 'enhanced services' which have been requested. The 2022/23 Money Plan will be updated to incorporate the new contract costs.
- 11.4 The analysis from KPMG indicated Ubico as the preferred bidder. Should the Council decide to accept the Ubico offer, the Council will need to manage the following financial implications:
- The Ubico offer would require a £5m capital investment at the start of the contract with an additional £5m during the contract for the purchase of vehicles. On currently available interest rates, the costs to service this investment are £738k per annum, this has been included in the Ubico base contract cost above (Appendix 2). There would be a reduction in the current five-year capital programme of £600k which would result in a saving of £13k in interest over a similar 5-year period and £600k in loan repayment.
 - Mobilisation costs of £483k (£493k with inflation) will be required in 2021/22 before the start of the contract. This will be met from expected capital receipts or will be met from reserves.
 - Under the Ubico contract, the Council would be responsible for the sale of recyclates. It is reasonable to assume this would require additional staff capacity to manage this service.
 - Ubico is a TECKAL company and as reported by KPMG this will provide the Council with more governance autonomy and flexibility. However, in noting these benefits there will be additional demands on senior Councillors and Managers to engage in the effective governance of this company, and in relation to the financial management and reporting required by the Council for such a company.

(Financial Services have been consulted in the preparation of this report.)

12.0 Legal Implications

- 12.1 The legal implications of the two options considered in this report are set out below:
- a) A contract with Ubico Ltd will enable the Council to benefit from the "TECKAL" exemption and award directly to the company without a procurement exercise. The Council will have to become a shareholder in Ubico Ltd prior to award.
 - b) Clause 6.1 of the present contract with Amey/Enterprise AOL Ltd permits extension of its term, subject to the matters addressed in the Options report presented to Cabinet on 15 July 2020. Also, any extension should be of at least five years duration. A lesser period will require the agreement of the contractor and formal variation of the contract terms.
- 12.2 TUPE regulations will apply if the recommendations in this report are accepted.

(One Legal have been consulted in the preparation of this report.)

13.0 Risk & Opportunity Management Implications

- 13.1 These are set out in detail within the 'Financial Review of Waste Contract Proposals' at Appendix 1.
- 13.2 It is worth pointing out that both proposals represent a change from the current fixed price, resource based contract; both bidders have proposed a 'cost plus' model, whereby the 'plus' is a profit margin mark-up for Urbaser and a nil margin in the case of UBICO, given it is a TECKAL company. Prices for both bids are best estimates based on experience and specifications. Therefore, the Council will be exposed to a greater cost risk than under the current arrangement.
- 13.3 The Urbaser proposal provides a contractual element of control via a cost control mechanism that would limit increases to no more than 2.5% above the annual contract uplift (ie after applying the agreed indexation which takes into account salaries and other standard price increases), and the Ubico proposal provides a greater degree of direct control over costs due to the Council being a shareholder and having a seat on the Board. However, the Council would be fully responsible for costs under the Ubico arrangement. Both proposals would pass any savings back to the Council. This is discussed further in 3.3.4 of the financial appraisal at Appendix 1.
- 13.4 Ubico highlighted a number of potential partner benefits in their submission. For example, a combined depot could be explored which could unlock land sale windfalls for all partners net of developing a new combined site. This opportunity would also allow for further running cost and environmental benefits. Another commercial opportunity identified was the potential to develop a commercial waste business that the Council would fully share. There are also opportunities for cross-boundary working that would enable cost savings and/or service improvements. For example, clearance of highways which border neighbouring authorities could be coordinated to deliver efficiencies.
- 13.5 In terms of service delivery, both operators are experienced operators of waste, street scene and grounds maintenance services.

14.0 People Impact Assessment (PIA) and Safeguarding:

- 14.1 There are staffing and TUPE implications for the preferred option. A PIA will be undertaken if this option is deemed proceedable.

15.0 Community Safety Implications

- 15.1 A detailed mobilisation plan and monitoring arrangements will be required to ensure a safe and successful transition of services to the new provider.

16.0 Staffing & Trade Union Implications

- 16.1 TUPE regulations will apply if the recommendations in this report are accepted.

Background Documents: None