

Report to the Cabinet Member for Environment, Planning and Cultural Services
Report submitted by: Head of Service - Waste Management
Date: 19 February 2016

Part I - Item No

Electoral Division affected:
South Ribble
Wyre

Proposed waste processing requirements and specification for services delivered by Global Renewables Lancashire Operations Limited
(Appendices 'A' and 'B' refer)

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Executive Summary

As part of its budget strategy Lancashire County Council, in November 2015, adopted a number of policies in relation to the processing of waste through its waste recovery parks at Farington and Thornton, and the County Council owned company that operates them, Global Renewables Lancashire Operations Ltd (GRLOL).

The waste management service has reviewed options and made recommendations in relation to delivery of these policies, which are provided in detail in Appendix 'A'. In line with the budget policies already approved, the proposals detailed within the report will result in significant changes to the waste processing operations conducted at the waste recovery parks and reductions in the services provided to the County Council by GRLOL.

The service changes will provide the lowest cost, lowest risk operation to the County Council which it is considered can be delivered within the prescribed revenue budget; delivering a revenue saving of £8.5m per annum on current operations.

Early delivery of the service changes is likely to save £5m - £8m of allocated transitional reserve over the financial years 2016-17 and 2017-18.

The nature of the proposed service changes are such that there will be the requirement for GRLOL to significantly transform the Company resulting in what is anticipated to be in excess of 250 job losses.

The services provided by GRLOL are done so under a Service Level Agreement. A revised Service Level Agreement, reflecting the revised services detailed in this report is attached for approval at Appendix 'B'.

Given the complexity of the changes required to be delivered to both operational processes and in transformation of the Company, and to provide flexibility and efficiency in adapting to any circumstances that may occur during these changes, it is recommended that authority to make minor amendments to the SLA be delegated to the Head of Service - Waste Management; subject always to the premise that any amendments do not fundamentally alter the basis of the SLA.

It should be noted that the service changes proposed do not impact on the County Council's ability to process recyclables or compost garden waste collected from households.

This is deemed to be a Key Decision and they provisions of Standing Order 27(1) have been complied with.

Recommendation

The Cabinet Member for Environment, Planning and Cultural Services is asked to approve:

1. The proposed waste processing requirements and specification for services to be provided by GRLOL as set out in the report and Appendix 'A', and the associated Service Level Agreement attached at Appendix 'B'.
2. That authority to make minor amendments to the Service Level Agreement is delegated to the Head of Service – Waste Management.

Background and Advice

As part of its consideration of budget options Lancashire County Council, on the 26 November 2015, adopted the following policy position in relation to the Council's waste company, Global Renewables Lancashire Operations Limited (GRLOL) and processing operations delivered at the Farington and Thornton Waste Recovery Parks ("the WRPs"):

- 1. To reduce processing activities and associated costs within the Farington and Thornton waste recovery parks, where these processes are uneconomic relative to available alternative disposal options.*
- 2. In ceasing processing activities any related plant and equipment will be 'mothballed' and maintained to take advantage of future market opportunities.*
- 3. Cease composting of co-mingled food and garden waste. Advise waste collection authorities that in future the council will only provide facilities for composting green waste that does not include food.*

4. Downsize the council's waste company through a transformation and restructuring exercise.

5. Cease the Environmental Education service (including adult and community programme) provided by the company.

6. Cease the waste minimisation and communications services provided by the waste company.

7. Undertake market testing and procurement activity to determine potential market opportunities for reconfiguring the entirety of the council's waste services. This will include exploring the release of value from assets including the council's waste recovery parks, transfer stations and long term landfill contracts.

To reduce the revenue budget from 1st April 2016 by £8.500m and to use £7.750m reserves in 16/17 and £4.500m reserves in 17/18 to fund the 'transition period' to enable service reconfiguration by 1st April 2018.

Subsequently, the waste management service has reviewed potential options for the delivery of the policy and its recommendations are reported at Appendix 'A'.

A summary of the recommendations is as follows:

1. That waste transfer operations are established for residual waste at Farington and Thornton waste recovery parks (to also accommodate the transfer of other waste types).
2. To note that IVC composting processes are to cease with immediate effect at Thornton WRP and from 1 April 2016 at Farington WRP.
3. That separate windrow facilities are procured for garden waste composting.
4. That the Materials Recovery Facility (MRF) operations are continued subject to ongoing review.
5. That redundant processing equipment and other assets be protected and preserved whilst market options are assessed and such that they could be re-introduced into service should future opportunity present itself.
6. That GRLOL be requested to agree a new operating structure with the County Council based on the proposed service requirements; and appoint to that structure at the earliest opportunity.
7. The Company be requested to deliver its transformation as soon as possible.
8. That all 'soft' services provided by the Company are ceased from 31 March 2016 or as soon after as practicable.

GRLOL ("the Company") operates the two WRPs and provides services to the County Council under the terms of a Service Level Agreement (SLA). The SLA details the service requirements of the County Council and service specifications required of the Company.

The policy decision and subsequent recommendations have a significant impact on the Company and the services it provides for the County Council. The key changes in this respect can be summarised as follows:

Residual waste

Residual waste will no longer be treated at the WRPs but instead the WRPs will act as waste transfer facilities, transferring residual waste to third party facilities for processing, treatment and/or disposal. It should be noted that transfer facilities will also be provided for garden waste and recyclables at the WRPs as required.

The base financial position for this operation has been calculated using the worst case scenario; which would involve additional landfilling of residual waste. However, it is intended that alternative processing and treatment options be procured, thus reducing the need to landfill residual waste and potentially increasing the financial saving achieved.

There will be no impact on the recycling of recyclables collected at doorstep as a result of this residual waste proposal.

Garden Waste

The WRPs currently compost co-mingled garden and food waste through a complex in-vessel composting (IVC) process; which is required as result of the food content. The IVC process is significantly more expensive than traditional garden waste composting yet the food content is extremely low; less than 1%. On this basis the budget policy is to cease composting of co-mingled garden and food waste.

As a result it is intended that the IVC facilities at the WRPs will be closed and third party open windrow contracts procured in order to provide the most cost effective means of treating garden waste.

All of the processing equipment made redundant as part of the changes to residual waste and garden waste treatment will be protected and preserved by the Company as part of its service to the County Council.

Co-mingled and source separated dry recyclables

Co-mingled and source separated dry recyclables are the recyclables (i.e. glass, cans, plastic, cardboard etc.) collected from households. These are processed through the Materials Recovery Facility (MRF) at Farington WRP.

Recycling at home provides the most significant contribution to recycling in Lancashire and it is critical that adequate facilities are provided to maintain this service to householders. Whilst there is an ongoing need to ensure that the existing

MRF operation remains cost effective by comparison to other processing options, it is not intended that any changes be made to the existing MRF operation.

Soft Services

Under the existing SLA the Company carries out additional 'soft' services on behalf of the County Council which include an environmental education service, adult and community programme, waste minimisation programme, community sector development programme and communications and community liaison programme which will be ceased under the new service arrangements.

The nature of the changes to treatment processes and the soft services provided by the Company will require a major transformation of the Company and its operating structure. The Company will be required to make in excess of 250 redundancies in order to deliver this transformation. Once informed of the service the County Council requires it to deliver, the Company will agree a costed structure with the County Council to establish a budget which will form the basis of its operating charge to the County Council for the forthcoming financial year.

In order to facilitate these proposals and instruct the Company of the service changes, a revised SLA, to apply from 1 April 2016, is included at Appendix 'B'. The Cabinet Member for Environment, Planning and Cultural Services is requested to approve the proposed SLA and associated service requirements.

Given the complexity of the changes required to be delivered to both operational processes and in transformation of the Company, and to provide flexibility and efficiency in adapting to any circumstances that may occur during these changes, it is recommended that authority to make minor amendments to the SLA be delegated to the Head of Service - Waste Management; subject always to the premise that any amendments do not fundamentally alter the basis of the SLA or the proposals for delivery of the policy decision detailed in Appendix 'A'.

Consultations

GRLOL has been consulted in the development of options for delivery of services and in relation to its transformation and restructuring.

As the Council Council's partner in delivery of waste services, Blackpool Council has been consulted on these recommendations.

Implications:

This item has the following implications, as indicated:

Financial

The review, analysis and recommendations detailed in Appendix 'A' represent the lowest cost option for the County Council.

The actual saving that will be achieved as a result of these service changes will be dependent upon a number of factors, not least of which will be a revised company

structure and operating cost. However, the analysis indicates that the £8.5m annual revenue budget reduction required to be delivered as part of the County Council's budget policy will be achieved as a result of these changes.

In adopting this recommendation the County Council will also reduce its reliance on reserves during the budgeted period. It is anticipated that the service changes and Company transformation will take several months to complete in full and the saving achieved will increase progressively during the period. For example, it is anticipated that the service changes and transformation could be completed by the autumn of 2016 and in such circumstances the County Council will have reduced its allocated spend from the transitional reserve by between £5m - £8m.

The 'one-off' Company transformation costs incurred, which will include redundancy costs, decommissioning costs and contract breakage costs are estimated to cost up to £4.5m. Some of these costs (circa. £2.3m) may be capitalised, the others will be funded from the overall savings made.

GRLOL

The recommended service will have significant implications in terms of redundancies at the Company, as has been highlighted. Whilst the actual number of redundancies will be dependent upon formulation of a revised Company structure it is anticipated this will be in excess of 250 posts.

Risk management

As identified in Appendix 'A', the proposed services present the lowest cost option for the County Council, but also the lowest risk option in operational and environmental terms; offering a significantly reduced risk profile in comparison to the existing service.

There is some uncertainty with regards to the final Company operating costs which also provides some financial uncertainty insofar as achieving the budgeted revenue reduction is concerned. However, it is considered that the service being recommended is the lowest base position for the County Council. In the event that it cannot be delivered within budget, the County Council would need to seek further efficiencies in operations or from elsewhere within the waste service budget.

The financial position adopted in relation to offtake and disposal costs for residual waste is based on utilising guaranteed and contracted landfill airspace and as such this presents no risk. It is intended to source alternatives to landfill which it is believed can be secured at the same or less cost than landfill. Should this not be the case, the County Council would either take greater advantage of contracted landfill capacity or reduce the savings it achieves by sourcing more expensive alternatives.

As both client and shareholder of GRLOL, the Company transformation provides risk to the County Council in both financial and operational areas; and there are key personnel issues associated with a transformation of this scale and nature. It is intended to mitigate these risks by ensuring that the transformation and operational changes are dealt with expeditiously by the Company and delivered at the earliest opportunity.

Human Resources

County Council officers have been working with the Company to support its transition, including providing HR and legal support. With the County Council's assistance, the Company has also put in place an employee support programme which was launched at the beginning of January. Services include practical workshops, careers service, technical support centres and emotional support. Emotional support can be accessed via the Company's occupational health team or from the employee support service delivered by the County Council.

Equality Analysis

An Equality Analysis in relation to Waste PFI was undertaken and presented to the Cabinet on 26 November 2015 as part of its consideration of the budget proposals.

The Equality Analysis can be viewed at:

<http://council.lancashire.gov.uk/ecSDDisplay.aspx?ID=1428&RPID=8214378&sch=doc&cat=13868&path=13868>

List of Background Papers

Paper	Date	Contact/Tel
N/A	N/A	N/A

Reason for inclusion in Part II, if appropriate

N/A