

SWP Future

Strategic business case for a co-owned entity for waste services

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1. Purpose

- 1.1. This document sets out the strategic business case for delivering the waste management services of the Surrey Waste Partnership (SWP) partner authorities in a new and innovative way.
- 1.2. As well as setting out the case for change, this document describes what the proposed arrangements could look like and how they could work. It aims to give all partners enough information to decide whether or not to pursue further detailed assessment of the proposed new working arrangements.

2. Background and current arrangements

- 2.1. SWP is made up of Surrey County Council (SCC) and the 11 district and borough councils in the county. It aims to manage Surrey's waste in the most efficient, effective, economical and sustainable manner.
- 2.2. The 11 district and borough councils are waste collection authorities (WCAs) and are responsible for the collection of Surrey's municipal waste. The county council is the waste disposal authority (WDA) and is responsible for running Surrey's 15 community recycling centres (CRCs) and the disposal and treatment of all waste and recycling from the WCAs and the CRCs.

- 2.3. Surrey's authorities currently deliver waste services individually either through in house (DSO) arrangements or via a third party contractor. Each authority also has an in house team which manages the DSO or contractor.
- 2.4. Surrey's authorities collaborate via SWP which has no specific powers or delegated authority but helps the authorities to work towards delivering a joint strategy, which was adopted by all partners in 2015. SWP pools money centrally and manages a wide range of joint initiatives including communications campaigns, door stepping households with low recycling rates and improving recycling at flats.
- 2.5. A diagram summarising the current arrangements is shown in Figure 1.

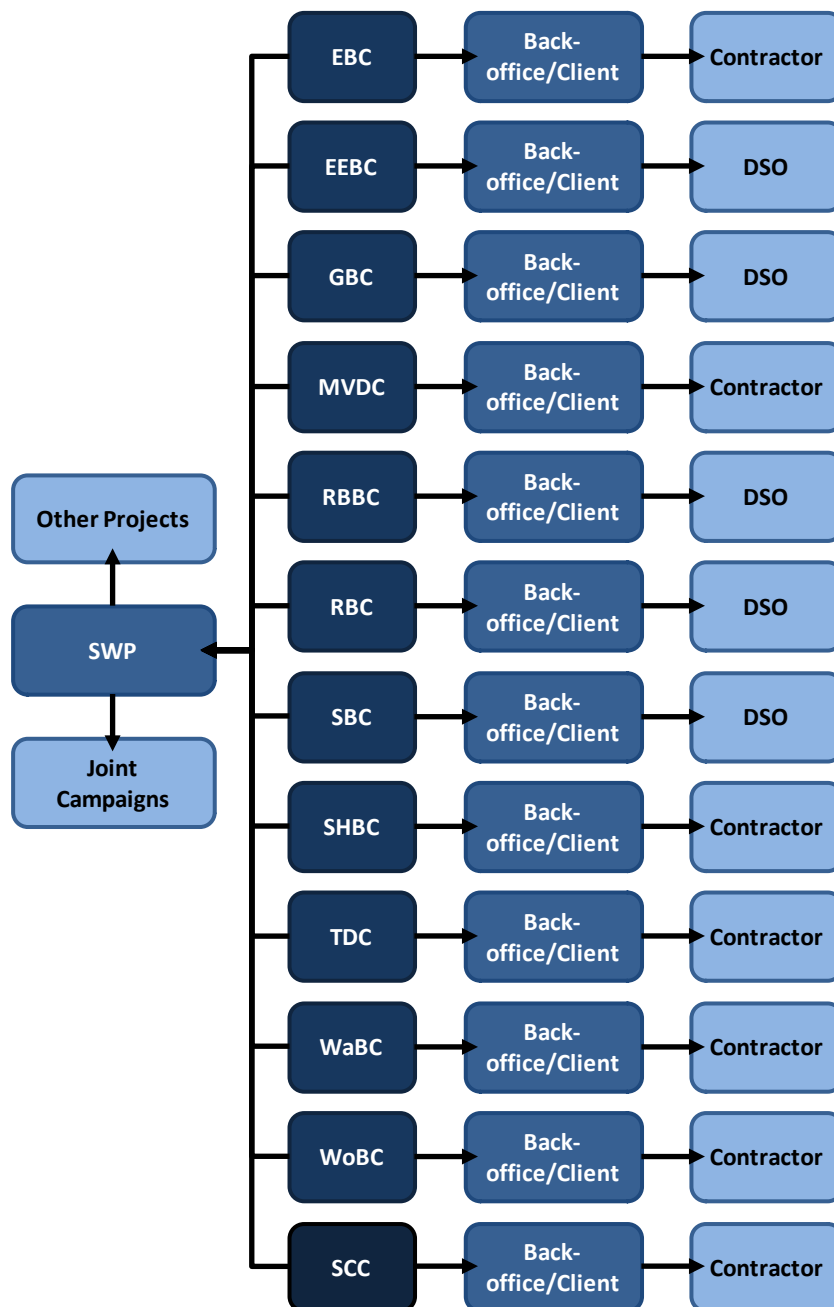


Figure 1: Current arrangements for delivering waste management services in Surrey

- 2.6. The two-tier nature of waste management in Surrey has resulted in a complicated set of statutory and non-statutory financial transfers between the WDA, the

WCAs and SWP, totalling around £11 million per year. The majority of these payments are used to support and incentivise WCAs to maximise recycling.

- 2.7. Despite the complicated structure of the current arrangements, much has been achieved by the SWP over the last few years. Waste collection arrangements have largely been aligned, the range of recycling materials able to be collected has greatly increased, and food waste collection from houses is now universal. These improvements in the service for Surrey residents have resulted in performance increases, with the overall recycling rate rising from 35% in 2007/8 to around 53% today.
- 2.8. Alongside these performance and service improvements, the overall annual expenditure on waste management in Surrey has been contained at around £79 million, despite a rise in population and increases in the cost of waste disposal.

3. Issues with the current arrangements

- 3.1. Whilst recycling rates are relatively high and the costs of waste management have been contained, there are several major areas where further improvements could be made, yielding major savings and other benefits to Surrey taxpayers. These improvement areas include:
 - 3.1.1. **Operational efficiency** – running waste services as efficiently as possible
 - 3.1.2. **Capturing recycling** – maximising the proportion of household waste that is recycled
 - 3.1.3. **Value from recycling** – maximising the value of collected recyclables
 - 3.1.4. **Commercial waste** – maximising income from commercial waste services
 - 3.1.5. **Back-office** – running service management functions as efficiently as possible
- 3.2. Unfortunately, issues with current waste management arrangements in Surrey mean that potential improvements in these areas are being stopped or delayed. Table 1 explains how.

Table 1: Summary of issues with current waste management arrangements in Surrey

Issue	Description
Different budget lines mean different priorities	WCAs focus on collection and the WDA on CRCs and disposal. These different priorities make it difficult to align decision making and focus on improving the areas with the biggest taxpayer impact.
SWP has no delegated authority	Authorities are not obliged to implement any decisions agreed by SWP, making it difficult to deliver joint improvement projects.
Confused governance	Each authority's officers receive instructions from SWP Members and its own Members. Sometimes the instructions can conflict with each other, which can harm the delivery of joint projects.
Too many interfaces between bodies	There are interfaces within each authority, between WCAs, between WCAs and the WDA and between all authorities and SWP. As a result, delivering joint improvement projects requires many interactions and is therefore very slow and time intensive.

Issue	Description
Lack of economies of scale for collecting waste	By running individual collection services, there are missed opportunities for savings from route optimisation, sharing staff, productivity improvements, operational management efficiencies and procurement efficiencies.
Duplication of assets and holdings	Depots, spare vehicles, offices and equipment could be shared more effectively to release capital.
Lack of economies of scale for managing recyclables	Whilst collected recyclables can be managed jointly in the current two-tier system, new financial mechanisms will need to be put in place which can be difficult and time consuming.
High risk on recyclables prices for each authority	If WCAs make their own arrangements for processing recyclables (as they currently do) they are fully exposed to the notoriously volatile commodities markets.
Jointly procuring contracts and infrastructure is complicated	Without a jointly owned and governed legal body for waste services it will be difficult and time intensive to jointly procure major services/assets, requiring a bespoke agreement to be created each time. This can severely delay procurement.
Inconsistent collection services	Most WCAs' collection services are broadly similar, however there are differences between all of them which can confuse residents and make joint communications difficult. Recycling improvements may be smaller as a result.
Resident confusion about who delivers waste services	Residents may not know who to talk to in order to ask questions and properly engage with their waste services. They may fail to recycle effectively as a result.
Conflicting central and local communications	Each authority delivers communications on waste and recycling in addition to SWP's joint communications. Messages can sometimes contradict each other and confuse residents, and communications work can be duplicated unnecessarily.
Uneven distribution of back office staff across the county	If there are insufficient staff in an area, improvement projects cannot be delivered effectively.
De-centralisation of knowledge and experience	Knowledge and experience is shared through SWP, but this is done infrequently and incompletely meaning some partners do not benefit from it.
Duplication of back office roles	Similar jobs are duplicated across Surrey's authorities, particularly in the areas of staff and contract management. Reducing unnecessary duplication will save money.

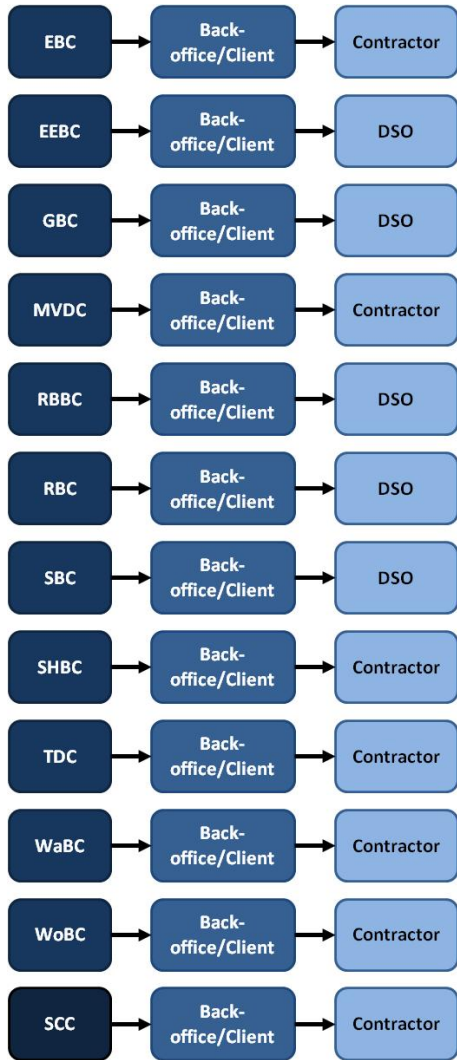
3.3. At a time when all of Surrey's authorities face unprecedented financial challenges, the need to drive major improvements in waste management has never been greater. However, if the issues above are not overcome, improvements will continue to be small and slow.

3.4. A major transformational change to the way that Surrey's authorities work together is the only way that all of the issues in Table 1 can be resolved and major improvements realised.

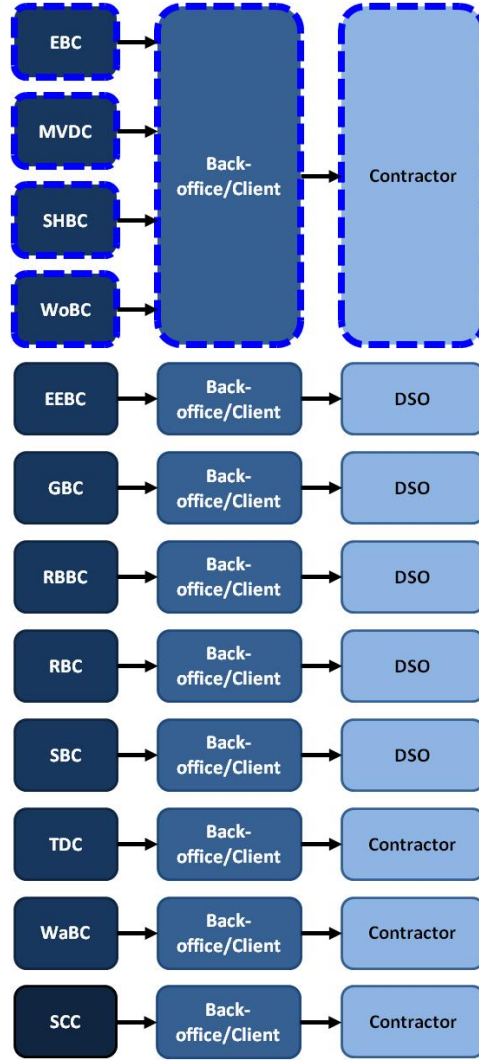
4. The case for change

- 4.1. This section briefly explains the proposed transformational change and estimates the scale of the benefits that could be expected as a result.
- 4.2. Figure 2 is a blueprint which sets out the journey from the current arrangements/state to a final state where a single joint entity manages the delivery of waste services for all 12 of Surrey's authorities.

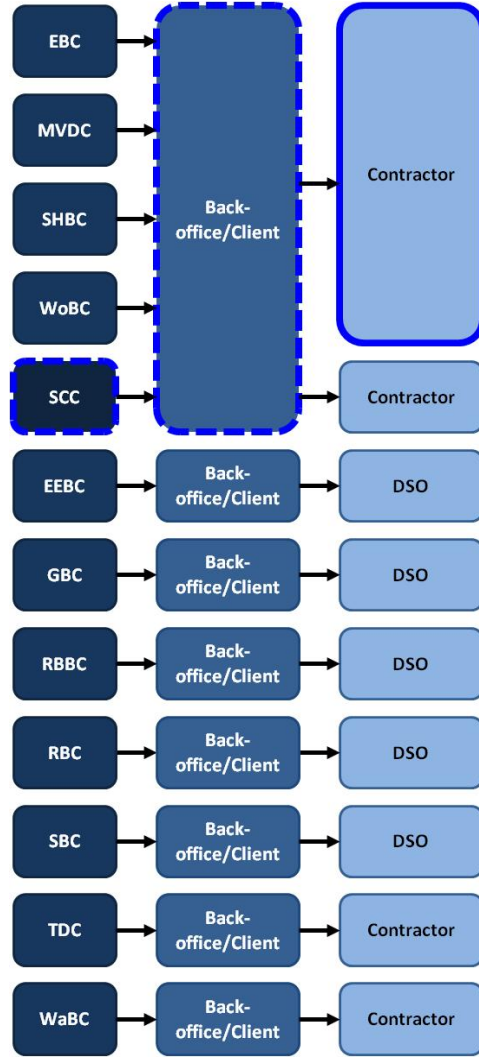
Current state



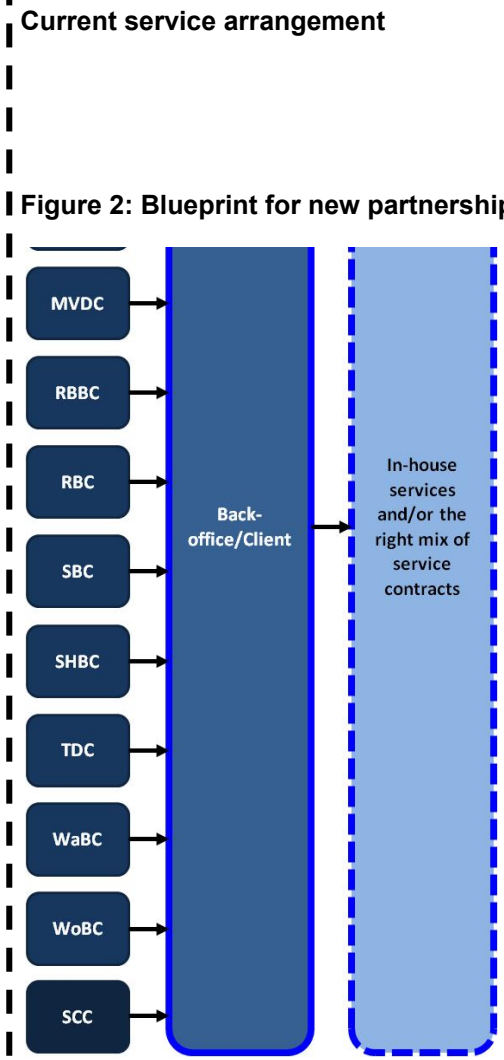
Tranche 1



Tranche 2



Tranche 3/Final state



Current service arrangement

Figure 2: Blueprint for new partnership working

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- 4.3. It is important to note at this stage that four WCAs: Elmbridge, Mole Valley, Surrey Heath and Woking (The Four) are about to appoint a single contractor to deliver their waste collection and street cleansing¹ services (Tranche 1 in Figure 2).
- 4.4. An inter authority agreement has been drafted which sets out how The Four plan to manage the joint contract. It says that a single entity will be set up that will deliver all of the waste management responsibilities of the four authorities. The single entity will manage the contractor and deliver all other office based services related to waste management and street cleansing (where applicable).
- 4.5. By creating a single entity and joint contract, The Four will overcome many of the issues associated with the current arrangements and realise significant benefits. The assessment below estimates what these benefits might be and what further benefits could be realised by expanding the single entity to include the rest of Surrey's authorities.
- 4.6. **Cost benefit analysis**
 - 4.6.1. In 2015, SWP undertook a high-level assessment of the financial benefits from moving to a county-wide joint entity. This was done using a ready reckoner from the consultancy IESE which estimated a savings range of £8m to £12m a year.
 - 4.6.2. SWP has since commissioned a far more comprehensive cost benefit analysis, using a bottom up approach and considering both financial and non-financial costs and benefits. The work was awarded to Eunomia Research and Consultancy, the same contractor that has been providing technical advice to the joint contract procurement team.
 - 4.6.3. Using a comprehensive portfolio of data held centrally by SWP, and experience from many other local authorities (including Somerset and Dorset waste partnerships) Eunomia estimated the costs and benefits of moving from the current arrangements to the final state described in Figure 2.
 - 4.6.4. The net financial benefits that are unlocked by this transformational change are shown in Figure 3. The benefits from Tranche 1 alone are also shown separately on the graph. Results are presented in ranges i.e. high, low and central cases, in order to emphasise the uncertainty inherent in forecasting the outcome of complex re-organisations and partnership working.

¹ Woking BC will not be delivering street cleansing services through the joint contract because street cleansing is done through its existing grounds maintenance contract

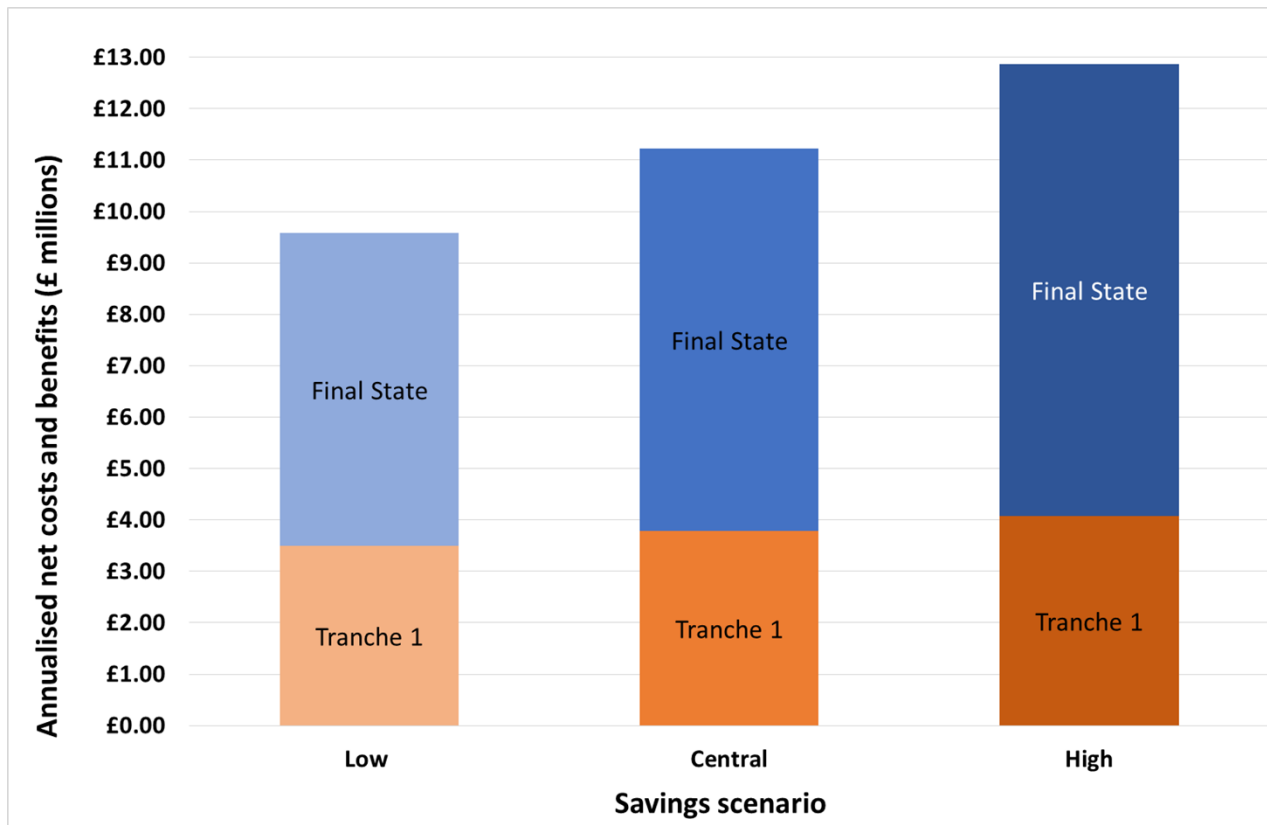


Figure 3: Net financial benefits from moving to a joint entity

- 4.6.5. It can be seen from Figure 3 that the financial benefits are significant. If all of Surrey’s authorities moved to the final state, annual savings of between £9.6m and £12.9m could be realised. The savings range is similar, although slightly higher, to that projected in 2015 using the IESE ready reckoner.
- 4.6.6. Figure 4 takes the middle bar from the graph above and breaks it down into the five key improvement areas to show where the costs and savings are projected to occur.

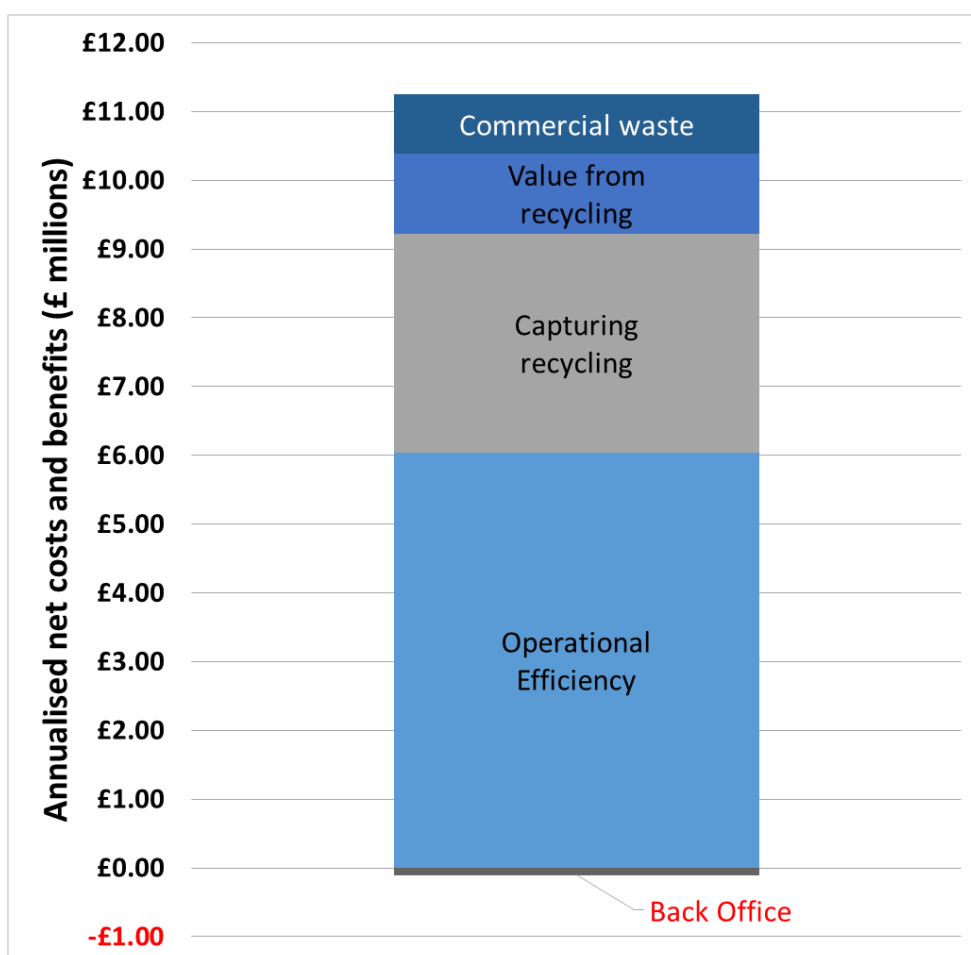


Figure 4: Breakdown of Costs and Benefits (final state, central case)

4.6.7. The costs and savings in Figure 4 are broken down further in Table 2 below. The table also explains how working in the final state will allow these costs and savings to be realised.

Table 2: Breakdown and explanation of costs and savings in the final state central case scenario

Area	Item	Saving (£ millions)	Explanation
Operational Efficiency	Collection costs	£4.18	These savings can only be achieved by a unified collection service. They come from maximising the efficiency of a service over a county-wide area.
	Collection system increased productivity	£0.86	
	Sharing vehicles	£0.16	
	Sharing depots	£0.33	Some of these savings are technically possible if all partners work together. However the barriers posed by the current system are currently preventing them from happening, and with the exception of the joint contract, there are no plans in place that will realise these savings.
	Sharing collection staff	£0.30	
	Joint buying vehicles	£0.14	
	Joint buying fuel	£0.03	
	Joint buying bins and containers	£0.02	
			Creating a single entity with a unified collection service will mean that all partners will share these savings and a simple organisational structure means there will be fewer organisational barriers to delivering them.

Area	Item	Saving (£ millions)	Explanation
	Joint contract procurement	£0.03	This saving is only possible from jointly procuring a unified collection service.
	Sub-total	£6.04	
Capturing recycling	Avoided disposal savings	£3.45	Recycling will increase in a Surrey-wide joint entity due to faster joined up decision making, fewer organisational barriers, consistent communications to residents, simpler customer interfaces for residents, consistent application and enforcement of recycling policies and sufficient staff resourcing to deliver improvement projects. A consistent and optimised collection system will also make recycling as easy as possible for residents.
	Fees/income on additional recycle	-£0.26	
	Sub-total	£3.19	
Value from recycling	Improved materials marketing	£1.16	Significant savings are available from selling all of Surrey's collected recyclables together. Whilst possible via current arrangements, a joint entity will make the process much faster and easier by removing organisational barriers and interfaces, and removing the need for setting up new financial arrangements which could cause major delays. The final state will involve consistent collection system across the county supported by strong consistent communications, which will maximise the quality and therefore the value of the materials.
Commercial waste	Integrating commercial waste services	£0.86	Only four partners currently offer commercial waste services and only Guildford do so on a large scale. With the current arrangements there is little appetite or capacity to increase commercial waste coverage. A joint entity would provide a central marketing and sales capability, improved route density, a consistent collection system for all businesses across the county, the necessary bin weighing and tracking technology and central management systems for data and customers. It would also operate with a more commercial approach.
Back Office	Back office staff	£0.41	The costs associated with setting up and running a joint entity are significant due to the potential size of the organisation. These costs will be partly offset by savings from reduced duplication of roles, joint communications activities and a more efficient back-office team.
	Joint communications	£0.06	
	Support service	-£0.41	
	Setup costs (annualised)	-£0.17	
	Sub-total	-£0.11	
Total		£11.14	

- 4.6.8. Further savings could be achieved from waste transfer stations² once collection rounds are rationalised. These could come from closing unnecessary sites, extending/adjusting opening hours and scheduling delivery slots to avoid queuing. All of this could be done much faster and more effectively through a joint entity due to its simplified decision making and management structure.
- 4.6.9. All of the financial benefits described above will be shared between all participating authorities (via the principles described in 5.9). By including both tiers in the joint entity, the full range of savings are accessible to all partners. This encourages decision makers to align their thinking and focus on improvements that deliver the greatest benefits to the Surrey taxpayer.
- 4.6.10. In addition to the financial benefits of creating a joint entity, there are other net benefits from making this transformational change. For example, due to the reasons given in Table 2, recycling rates are projected to increase (Figure 5) which will lead to environmental performance and reputational improvements.

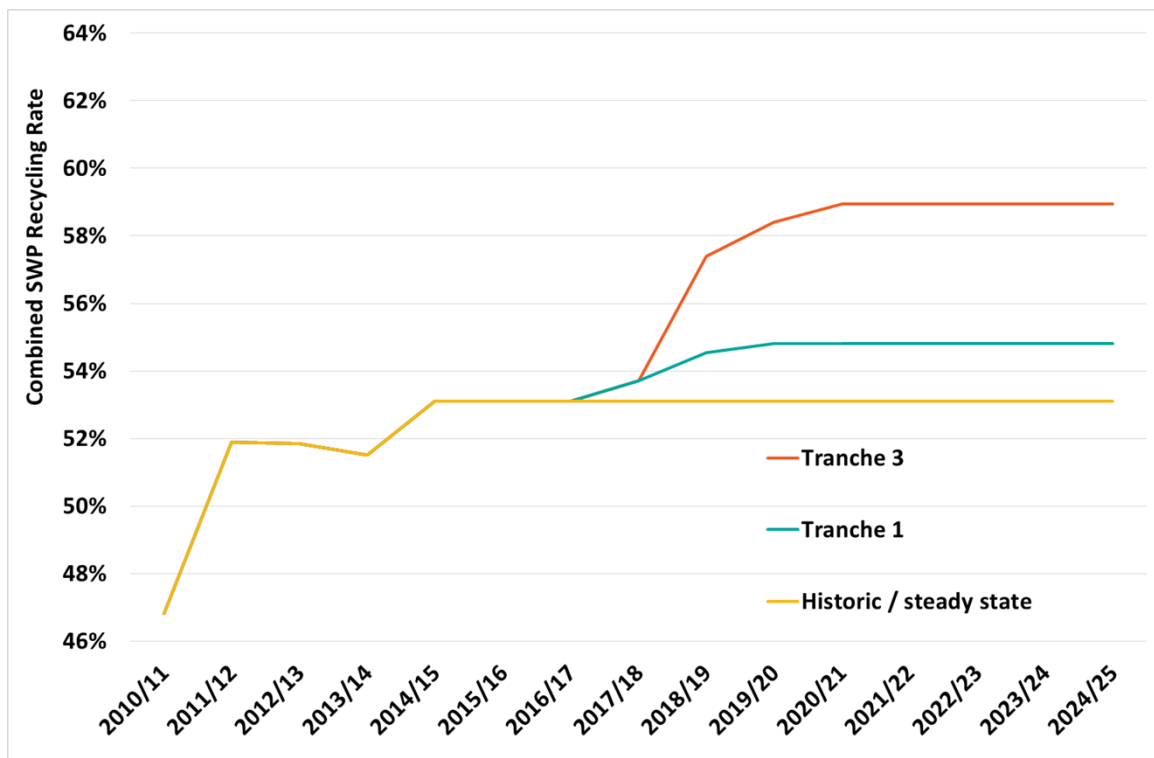


Figure 5: Projected recycling rate improvements

- 4.6.11. The environmental improvements resulting from increased recycling are shown in Figure 6 in terms of carbon dioxide equivalent (CO₂e).

² These savings were not modelled in the cost benefit analysis because doing so would require a high level of detailed analysis involving many different factors/variables.



Figure 6: Projected environmental improvements in terms of avoided CO2e

4.6.12. The significant financial and environmental benefits described above can only be fully and efficiently achieved by creating and successfully transitioning to a single co-owned joint entity for waste management. By doing this, Surrey’s authorities will be recognised nationally and internationally as exemplars for best practice in waste management. This will in turn deliver major reputational benefits.

4.6.13. The following section sets out how the joint entity could work, including how the financial benefits described above could be shared (see cost sharing principles in section 5.9).

5. Operation of a joint entity

5.1. This section gives outline proposals for what the joint entity will do and how it will do it. The proposals have been developed using best practice from other partnerships that have developed successful joint entities for waste services.

5.2. Aim

5.2.1. The joint entity will act as an enabler for participating authorities to meet the requirements of SWP’s joint strategy. As the joint entity will be entirely aligned with SWP’s objectives, it makes sense that it shares SWP’s organisational aim:

5.2.2. “To manage Surrey’s waste in the most efficient, effective, economical and sustainable manner.”

5.3. Objectives

5.3.1. To achieve the aim, the joint entity will work towards the following objectives:

- 5.3.1.1. **Deliver improvements.** Through optimised decision making, planning and implementation processes, deliver waste management improvements that deliver best value to Surrey residents.
- 5.3.1.2. **Share costs and benefits.** Share in a fair and equitable manner the costs of delivering the waste services of the partner authorities, and the benefits that come from delivering improvements.
- 5.3.1.3. **Remove organisational barriers.** Create and implement governance, organisation and management structures that remove the organisational barriers to delivering the aim and achieving the performance targets.
- 5.3.1.4. **Mutual trust.** Work together in a spirit of mutual trust, support and respect, and to ensure that when difficulties or differences of opinion arise they are addressed quickly, honestly and openly.
- 5.3.1.5. **Protect partners' interests.** Create and implement joint working arrangements in such a way as to ensure that the interests of each individual partner authority are protected.

5.4. Performance targets

- 5.4.1. The joint entity will have its own set of performance targets that are relevant to the participating authorities. These targets will be set once it is known which authorities are joining the entity. At the very least the entity will adopt the targets of the SWP joint strategy³.

5.5. Functions

- 5.5.1. This section describes the functions that the joint entity will deliver.
- 5.5.2. Surrey's authorities currently deliver the waste management and street cleansing functions described in Table 3. They are split into operational functions and service management (back office) functions.

Table 3: Summary of proposed functions for a joint entity

Operational	
Collection authorities	
<ul style="list-style-type: none"> • Operating depots • Collection from households and businesses (where applicable) of: <ul style="list-style-type: none"> ○ Residual waste ○ Dry mixed recycling ○ Separate recycling (textiles, WEEE) ○ Food waste ○ Garden waste ○ Healthcare waste ○ Bulky waste 	<ul style="list-style-type: none"> • Litter picking • Street sweeping • Collection of fly-tipping & dead animals • Delivering all collected wastes to tip points
	Disposal authority
	<ul style="list-style-type: none"> • Operating Community Recycling Centres • Operating material mgmt infrastructure: <ul style="list-style-type: none"> ○ Transfer stations ○ Eco Park ○ Future infrastructure (MRF) • Haulage from transfer stations to

³ Available here:

https://www.surreywastepartnership.org.uk/__data/assets/pdf_file/0004/76387/JMWMS_Rev2_v6_STRAT_EGY.pdf

<ul style="list-style-type: none"> • Collection of materials from bring banks • Emptying litter bins • Graffiti removal 	<ul style="list-style-type: none"> • treatment facilities • Gate fees for treating collected materials 	
<p>Service management</p> <p>Collection and disposal authorities</p> <ul style="list-style-type: none"> • Contract management • Data management • Financial management • Staff management • Public relations & communications • Policy & improvement projects • Interface with other public bodies • Governance and reporting • Support services: <ul style="list-style-type: none"> ○ Financial (payroll & payments) ○ Banking services ○ ICT & ICT services ○ HR services 		<ul style="list-style-type: none"> ○ Legal services ○ Procurement ○ Planning • Office consumables, furniture, utilities • Asset management as landlord or owner • Insurance <p>Collection authorities only</p> <ul style="list-style-type: none"> • Enforcement against the public • Customer management <ul style="list-style-type: none"> ○ Green waste service ○ Commercial waste service <p>Disposal authority only</p> <ul style="list-style-type: none"> • Financial relationships with other WCAs (only if there are WCAs outside the entity)

5.5.3. To make the joint entity fully effective, all of the participating authorities will devolve all of their waste management and street cleansing functions to the joint entity. This is unless the responsibilities are managed by other departments and separating them would not represent best value.

5.5.4. Maximising the delegation of functions to the entity will in turn maximise the entity's influence over the total waste management system thus enabling it to make significant improvements to the whole system.

5.6. Governance

5.6.1. The most common way of governing a local authority joint entity is via a joint committee. Section 101(5) of the Local Government Act 1972 and section 20 of the Local Government Act 2000 permit two or more local authorities to appoint a joint committee to discharge any of their functions jointly⁴.

5.6.2. A joint committee consists of one or more representatives from each of the partner authorities. This is usually the Member with responsibility for the area in question. Decision making is equal, i.e. each partner gets one vote. However the arrangement may retain certain decisions back to the original authorities. The joint committee is usually advised by a board consisting of the lead officer from each partner authority.

5.6.3. A joint committee governance structure is used successfully by other co-owned single tier waste partnerships including Somerset, Dorset and Shropshire. Following a robust assessment of governance options, the four

⁴ Waste Partnership Routemap: Partnership Options, Defra and IESE, 2010

joint collection contract authorities have also decided on a joint committee to govern their single entity.

- 5.6.4. A joint committee will be used to govern the joint entity. The committee will operate using the same principles being used by The Four, which are summarised below.
- 5.6.5. There are certain decisions that cannot be made by the joint committee and must be referred back to the partner authorities. These 'Tier 1' decisions cover the following areas:
 - 5.6.5.1. Approval of an authority's contribution to the annual budget
 - 5.6.5.2. Decisions resulting in expenditure beyond the budget
 - 5.6.5.3. Decisions called in by Scrutiny Committees
 - 5.6.5.4. Major service changes with impacts beyond waste
 - 5.6.5.5. Fees, for example garden and bulky waste collection
 - 5.6.5.6. Contract extension or termination
 - 5.6.5.7. Property disposals/acquisitions
 - 5.6.5.8. New authorities joining the agreement
- 5.6.6. A Tier 1 decision that is not agreed by all authorities shall not be implemented unless no other authority is made worse off or otherwise returned to a no worse position.
- 5.6.7. Other decisions are delegated downwards to the joint committee, then to the advisory board and then to the 'authorised officer' who manages the joint entity (see Figure 7).

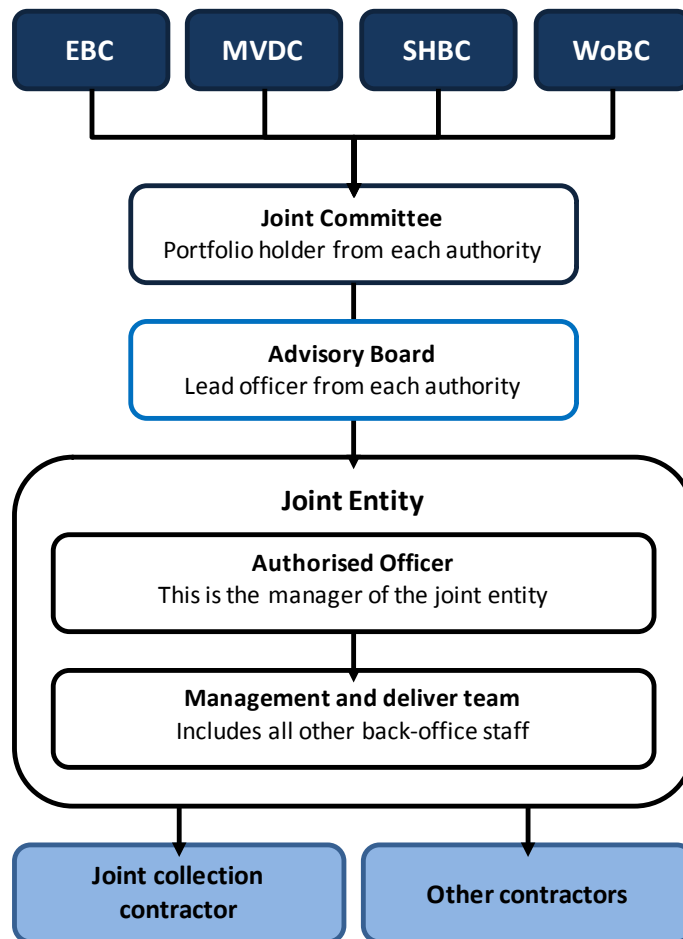


Figure 7: Governance structure for the joint collection contract

- 5.6.8. The key constitutional arrangements of the joint contract authorities' joint committee can be summarised as follows:
- 5.6.8.1. One Member representative is nominated from each authority to the joint committee
 - 5.6.8.2. One senior officer representative is nominated from each authority to the advisory board
 - 5.6.8.3. A chairman and vice-chairman are appointed for three year terms
 - 5.6.8.4. Each member of the committee has one vote. If a decision will be detrimental to any authority, it must be agreed unanimously. Other decisions are agreed by majority and the chairman has the casting vote.
 - 5.6.8.5. A meeting is not quorate unless all partner authorities are represented
 - 5.6.8.6. Meetings are held at least four times a year
- 5.6.9. The equal representation provided by this joint committee model is a further major benefit of a joint entity, particularly to WCAs who, under current arrangements, are subject to the statutory powers of the WDA. Under this model, each partner has an equal vote, and therefore an equal voice in decision making regardless of their size as an authority or their share of the

budget. This means that the entity is truly co-owned and power is shared evenly between partner authorities.

5.7. Legal form

5.7.1. A joint committee, as described above, is a decision making body that can have participating authorities' functions delegated to it and can act as an executive for those functions. However, it does not have a legal personality in its own right, so it cannot enter into contracts, own assets or employ staff. The committee must therefore commission a legally recognised entity to deliver its functions.

5.7.2. There are two types of legal form that the entity could feasibly take:

5.7.2.1. **Administering authority:** one of the participating authorities takes on the three key administrative roles – let contracts, employ staff ('pay and rations'), and support the joint committee. It does not have to host the staff, who could be hosted by a different authority or at an independent leased office. A legally binding inter authority agreement (IAA) is used to define the rights and responsibilities of all partner authorities.

5.7.2.2. **Limited company:** a company is set up to let contracts and employ staff. It receives its directions from the joint committee. The board of directors is made up of a senior officer from each authority. An IAA is still needed to define the rights and responsibilities of partner authorities, but a company will also require a memorandum, articles of association, and a shareholder agreement.

5.7.3. Many factors need to be considered when deciding which of these two legal forms would be most suitable for the joint entity. The key considerations are described in Table 4.

Table 4: Key considerations for the possible legal forms

Consideration	Administrating authority	Limited company
Financial	<ul style="list-style-type: none"> • No setup fees • Tax exempt • No external audit and reporting overheads • Easy access to existing support services and office space • Cannot generate profit. In practice this means that any income from commercial waste services must not exceed the cost of delivering household waste services. 	<ul style="list-style-type: none"> • Administration fees of £30k - £50k per year from: <ul style="list-style-type: none"> ○ Registration as a company ○ Registration for VAT and corporation tax ○ Compiling tax returns ○ External auditing and reporting • Corporation tax payable on 'profit' (in this case, any budget surplus) • VAT unlikely to be payable but by delivering waste services through a company, the VAT exempt status of some authorities may be threatened • Directors are personally liable and may need to be indemnified • Fully enabled to generate profit

Consideration	Administrating authority	Limited company
Simplicity	<ul style="list-style-type: none"> • Legal setup is straightforward and can be done quickly and based on similar arrangements delivered elsewhere • Not as 'neat' as a company especially if administrative and host authorities are different 	<ul style="list-style-type: none"> • Legal setup is complicated, see above and 5.7.2.2. • Once setup a company is a clear and distinct legal body
Governance	<ul style="list-style-type: none"> • Using a joint committee and IAA to govern an administering authority is a tried and tested way of jointly running waste services. • Decision making responsibilities of the authorities, committee, and officer team can be clearly defined 	<ul style="list-style-type: none"> • The joint committee cannot directly control the company. The directors have a legal duty to act in the company's best interest and if this conflicts with the direction of the committee then problems could arise. • This model has not yet been used elsewhere for delivering cross-tier local authority waste services under a joint committee.
Independence	<ul style="list-style-type: none"> • Can be branded separately • Will always be affiliated with the administrative authority although the IAA would prevent the admin authority from having any extra influence or power 	<ul style="list-style-type: none"> • Completely independent • Possibly easier to brand separately and foster a unique independent culture

5.7.4. The considerations in Table 4 are numerous and complicated. They require further detailed consideration when the plans for creating a joint entity are more developed. In the meantime, The Four are initially intending to use the administering authority model to deliver their joint services pending further discussion. The administering authority model will therefore be used as the default legal form for the wider joint entity proposed in this business case.

5.8. Joining the entity

5.8.1. The joint entity will initially consist of The Four (see Tranche 1 in Figure 2). It is proposed that it will then expand to include SCC (Tranche 2) plus any other WCAs that wish to join. These other WCAs will need to decide on their level of membership of the joint entity. There will be two membership options:

5.8.1.1. **Full membership:** where all of the WCA's functions are moved to the joint entity and the WCA adopts the unified collection service

5.8.1.2. **Partial membership:** where all of the WCA's functions are moved to the joint entity but the WCA retains its existing collection service (albeit that it could be managed through the Joint Entity)?

5.8.2. Full membership, including adoption of the unified collection service will deliver the greatest benefits, as described in Section 4.6. This is the recommended option.

- 5.8.3. The unified collection service would be delivered through the joint contract which is currently being procured by The Four. The contract duration is 10 years in the first instance but it can be increased with flexible extensions up to an additional 14 years. It has not been decided what form the unified collection service will take when the joint contract ends.
- 5.8.4. Therefore, to obtain full membership, a WCA will initially need to join the joint contract. The draft IAA created by The Four allows other WCAs to join the contract “where it is lawful to do so in accordance with procurement law, there is a positive benefit to the (original Partner) authorities and the costs of the procurement, set up and mobilisation of the contract is recognised by way of a joining fee or other benefit”.
- 5.8.5. All of Surrey’s WCAs were named on the OJEU⁵ notice when the contract was tendered so it is unlikely that procurement law will be a barrier to potential joiners. It is also likely that an overall positive benefit will be realised due to the scale of joint collection benefits described in Section 4.6. But how new joiners contribute to the costs of procurement, set up and mobilisation of the contract will need to be determined on a case-by-case basis, because the type and scale of benefits that each authority brings is likely to vary.
- 5.8.6. Partial membership may be attractive to some WCAs that wish to retain control of their local collection services. If this happened, some savings could be realised in the areas of capturing recycling, value from recycling, back office and some small operational efficiencies. However the full savings from operational efficiencies and commercial waste are unlikely to be achieved. Also, the governance of a joint entity with several different collection services is likely to be more complicated, less aligned and subject to conflicts of interest, so this option is not recommended.
- 5.8.7. If a WCA wishes to pursue the partial membership option, then assessments of benefits and feasibility will need to be undertaken and agreements reached on a case-by-case basis between the joint entity authorities and the potential joiners.

5.9. Cost sharing principles

- 5.9.1. Every year, each of the participating authorities will contribute a proportion of the joint entity’s total budget. There are many different ways of doing this, so rather than starting from scratch, the cost sharing principles and methodologies of Somerset, Dorset, Shropshire and the joint collection contract authorities have been reviewed and assessed for suitability. From this work, the following high-level cost sharing principles have been developed:

- 5.9.1.1. Costs will be shared on a fair and equitable basis

⁵ Official Journal of the European Union

- 5.9.1.2. Partners will be protected from extra costs resulting from the unilateral decisions of one partner
- 5.9.1.3. Each partner will own a percentage of the total budget so that any savings or cost increases are shared by all partners
- 5.9.1.4. The budget will be set in advance each year and agreed by each individual authority
- 5.9.1.5. If a decision by the joint committee results in expenditure beyond the budget, the revised budget must be approved by each individual authority
- 5.9.2. As described in Section 4.6 this cost sharing method allows all partners to benefit from the savings that a joint entity will deliver. This will encourage decision makers to align their thinking and focus on improvements that deliver the greatest benefits to the Surrey taxpayer.
- 5.9.3. All partners will be keen to know how the costs of delivering their waste services through a joint entity will compare to current arrangements. To do this will require detailed modelling work, which cannot be done without the agreement of the high level principles of this business case. It is therefore proposed that modelling work will take place once the business case has been agreed. Timescales for this are presented in the following section.

6. Timescales

- 6.1. The four joint collection contract authorities have agreed to set up an interim entity by the end of March 2017 for the purposes of managing the joint collection contract. This will happen regardless of whether or not a wider joint entity is being pursued.
- 6.2. The Four will be recommending a preferred joint contractor to their cabinets/councils between September and December 2016. At the same time, they and SCC have committed to take this business case for a wider joint entity to their cabinets/councils. If this leads to further work being approved, the following process will take place:
 - 6.2.1. A detailed **business plan** for the wider joint entity will be created by the end of **April 2017**
 - 6.2.2. Each partner must reach a **decision in principle** on whether or not they wish to join the entity by the end of **July 2017**
 - 6.2.3. A legally binding **inter-authority agreement**, describing exactly how the joint entity will work for all partners will be created by the end of **August 2017**
 - 6.2.4. Participating partners will have **approved and signed** the inter-authority agreement by the end of **November 2017**
 - 6.2.5. The joint entity will **go live** at the start of **April 2018**. From this date, all existing waste service and service management functions of the

participating authorities will have moved into the joint entity and will be governed by the joint committee. Authorities moving to the unified collection service will do so when their existing contracts expire.

- 6.3. In order to create the detailed business plan and inter authority agreement, much further work is required, particularly around the financial mechanisms. The financial work will determine, in detail:
 - 6.3.1. the current waste management budgets/costs for each partner
 - 6.3.2. the detail of the cost sharing mechanism for the joint entity
 - 6.3.3. a mechanism for the two-tier financial relationship between the joint entity and non-participating WCAs
 - 6.3.4. the expected cost to each partner of joining the entity compared to a two-tier financial relationship
 - 6.3.5. the joint entity setup costs and a proposal for funding them
- 6.4. The outputs of the financial and other detailed work will be presented in the business plan in May 2017.
- 6.5. A transformational change of this magnitude clearly carries risks. A high level assessment of these risks is provided in Appendix 1.

7. Conclusion

- 7.1. Creating the county-wide co-owned entity for waste services that has been described above can address all of the issues with the current system referred to in Section 3. Table 5 explains how.

Table 5: Explanation of how a joint entity can overcome the issues of the current system

Current system issue	How the proposed joint entity can solve the issue
Different budget lines mean different priorities	All partner authorities share the entire budget and have equal decision making powers on all waste functions. Priorities are therefore aligned.
SWP has no delegated authority	The joint committee will have delegated authority over all waste functions of the participating authorities.
Confused governance	The governance structure is simple and will be well defined through an IAA so that responsibilities are clear.
Too many interfaces between bodies	The joint entity will have far fewer interfaces than the current system because it is a single body reporting to a single committee.
Lack of economies of scale for collecting waste	The joint entity will have a unified collection service that will enable economies of scale. If partners join the entity but retain their individual collection services, some economies of scale could still be achieved through closer joint working facilitated by the joint entity's governance and management structure.
Duplication of assets and holdings	Depots, spare vehicles, offices and equipment will be fully rationalised under a joint entity.

Current system issue	How the proposed joint entity can solve the issue
Lack of economies of scale for managing recyclables	All partners will share the savings from improved economies of scale through the joint entity's cost sharing mechanism. This will make the central management of recyclables simpler to implement.
High risk on recyclables prices for each authority	The risk of price changes for recyclables will be mitigated through joint marketing and shared through the joint entity's cost sharing mechanism.
Jointly procuring contracts and infrastructure is complicated	As a single legal body, the joint entity can procure contracts and infrastructure far more simply and efficiently.
Inconsistent collection services	A joint entity will encourage all WCAs to join the unified collection service. If WCAs join but retain their existing collection services, these will need to be aligned with those of the unified service.
Resident confusion about who delivers waste services	The joint entity can be setup and branded in a way that provides residents with a single point of contact for waste services and removes confusion.
Conflicting central and local communications	A joint entity will deliver all waste communications centrally, removing the need for the duplication of campaigns.
Uneven distribution of back office staff across the county	Joint entity staff will be managed centrally and improvement projects will focus on the problem areas where the biggest value improvements could be made, whilst ensuring that all residents receive a top quality service regardless of location.
De-centralisation of knowledge and experience	In a joint entity, knowledge and experience from all participating partners will be centralised and shared.
Duplication of back office roles	The joint entity's back-office will be set up so that duplication is avoided.

7.2. By overcoming the issues of the current system, a joint entity can enable the significant financial, environmental and reputational benefits described in this business case to be realised, and enable waste services to be delivered in a fairer and more inclusive way.

7.3. Each partner is asked to consider this business case, engage in the development of the detailed business plan and reach a decision on their future involvement with the entity in accordance with the proposed timescales.

8. Next steps

8.1. **Joint Committee Members** from the joint collection contract authorities to review the business case at their **21 September** meeting

8.2. **SWP Members** to discuss the business case at their **28 September** meeting

8.3. **Joint collection contract authorities and SCC** to take this business case through their approvals processes by the end of **November 2016** with the following recommendation:

- 8.3.1. The [Executive] supports further development of the co-owned model single tier entity for waste services and asks the relevant [Corporate Head of Service, in consultation with the Executive Member] to work with partner authorities within the Joint Waste Collection Services Committee and SWP to develop the model with the aim of presenting a business plan to the [Executive] in 2017.
- 8.4. **Other authorities** to consider the business case, and raise all questions to SWP by the end of **February 2016** to facilitate the development of the detailed business plan

Appendix 1: Risk Assessment

Table 6: A high-level assessment of risks associated with developing the joint entity

RISK	Initial score			MITIGATION	Post mitigation score		
	IMPACT 1-5	PROBABILITY 1-5	LEVEL IxP = 1-25		IMPACT 1-5	PROBABILITY 1-5	LEVEL IxP = 1-25
One or more of the joint contract authorities does not want to expand the scope of the joint entity to include other authorities.	5	2	10	<ul style="list-style-type: none"> Hold regular project team and one-to-one meetings to identify concerns and solutions Incorporate solutions in the business case, business plan and new IAA Develop contingency plans for a joint entity that excludes one or more joint contract authorities 	3	1	3
SCC does not want to join the entity	4	2	8	<ul style="list-style-type: none"> Involve SCC in all joint contract project team discussions Engage SCC financial officers and develop proposals that they are comfortable with Keep SCC Members informed of proposals and progress 	4	1	4
Other WCAs do not want to join the joint entity	3	5	15	<ul style="list-style-type: none"> Keep officers and members informed of the proposals and benefits Model the costs and benefits of joining the entity for each individual partner Encourage and undertake one-to-one visits to discuss proposals and concerns in detail 	3	4	12
The joint contract does not get adopted	3	2	5	<ul style="list-style-type: none"> Make sure that the governance and cost sharing arrangements allow joint entity to work effectively whilst allowing partners to retain individual collection services See joint contract project risk assessment for probability mitigation measures 	2	2	4

RISK	Initial score			MITIGATION	Post mitigation score		
	IMPACT 1-5	PROBABILITY 1-5	LEVEL IxP = 1-25		IMPACT 1-5	PROBABILITY 1-5	LEVEL IxP = 1-25
The expanded joint entity interferes with the success of the joint contract	3	2	5	<ul style="list-style-type: none"> Agree governance rules that give the joint contract authorities the right level of control over the contract 	3	1	3
The entity's founding partners disagree on key elements of the proposals for the joint entity, such as the functions, delivery model and cost sharing mechanism.	4	3	12	<ul style="list-style-type: none"> Discuss regularly at officer and Member level at project team and one-to-one meetings Discuss thoroughly with finance officers from all partners 	4	1	4
The entity is unable to deliver benefits at the projected level.	4	3	12	<ul style="list-style-type: none"> Review and refine the benefits estimates at key development stages (business plan and inter-authority agreement) Closely review benefits realisation once the joint entity is set up and quickly identify and communicate risk areas 	4	2	8
Delays in work to develop the joint entity result in a delayed start date	3	4	12	<ul style="list-style-type: none"> Make sure that the programme of work is adequately funded and resourced All partners commit to provide staff to deliver the work Programme governance is clearly defined and used correctly 	3	2	6
Delays in approving the business case, business plan or inter-authority agreement	3	3	9	<ul style="list-style-type: none"> Get all partners fully involved in the development of proposals Keep all partners updated on proposals throughout their process Use SWP meetings to give progress updates and seek feedback Programme manager to make sure that the item is on all partners' forward plans Provide template cabinet/council reports for partners to adapt 	3	2	6