

BRIEFING PAPER

SUBJECT: TO EXTEND THE WASTE DISPOSAL CONTRACT WITH VEOLIA UNTIL 2030

DATE: 13 NOVEMBER 2014

RECIPIENT: OVERVIEW AND SCRUTINY MANAGEMENT COMMITTEE

THIS IS NOT A DECISION PAPER

SUMMARY:

This report outlines details on the proposal to extend the Waste Disposal Contract with Veolia until 2030. This report seeks to:

- Provide details on current waste disposal contract arrangements;
- Provide an overview of the performance of the current waste management arrangements;
- Provide a synopsis of the financial and non-financial options appraisal which has been undertaken.
- Provides details on Veolia's outline offer of an extension to the waste disposal contract.

BACKGROUND and BRIEFING DETAILS:

1. The waste management contract represents a significant proportion, over 65%, of the waste management budget. With the need to deliver efficiency savings from 2015 a review of the waste management contract was undertaken to determine the optimal way to drive efficiencies and modernise the contract.
2. An option appraisal was undertaken to consider the medium to long term strategic benefits and efficiencies from:
 - **Base case:** the current contract arrangements up to 2023/5
 - **Scenario 1:** an operate-and-maintain partner or alternative delivery model to operate the facilities beyond the expiry of the current contract from 2023/5 up to 2030.
 - **Scenario 2:** an extension to the current contract to 2030 (invoking the existing contract clause); and
 - **Scenario 3:** early termination of the contract with Veolia, moving to an alternative operate-and-maintain partner from 2016/17 to 2030.

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3. Table 1 – Summary of the Non-Financial Assessment of the Options

Scenario	Pros	Cons
Base Case Current Veolia Contract up to its natural expiry 2023/5	<ul style="list-style-type: none"> • Provides flexibility to potentially benefit from new technology or innovations in the market from 2023 	<ul style="list-style-type: none"> • No opportunity to deliver significant savings until after 2023 • Potentially undermine the relationship with Veolia • Need to procure an alternative in 10 years-time e.g. O&M extension, long term contract with new assets, JV etc.
Scenario 1 Veolia contract (as is) up to 2023, then an O&M contract from 2023/5 to 2030 tendered in the open market	<ul style="list-style-type: none"> • Opportunity for a new contract with tighter performance KPIs and cultural alignment, that promotes innovation • Could have greater access to waste income and energy income • Ability to optimise opportunities across SE7 	<ul style="list-style-type: none"> • Greater risk sits with WDAs -3rd party income, availability of plant, plant failure (WDAs would need put aside capital reserves) • 9-12 month procurement process and related costs, transition to new provider • Risk new provider is not competent to run an efficient service • Veolia may be the only bidder in 2023 (hold an advantage)
Scenario 2 Veolia contract extension to 2030	<ul style="list-style-type: none"> • Ability to 'smooth cash flow' to access benefits from 2015 • Provides certainty in current budget process • Veolia hold risks of availability, 3rd party income, plant failure • Veolia incentivised to invest in assets and promotes joint WDAs/Veolia innovation over the short to medium term 	<ul style="list-style-type: none"> • Locked into 5 year contract with Veolia with • limited opportunity to transform the service delivery model. • Opportunity cost that WDAs could be contractually tied into contract which stops access to the future value of waste as a commodity. The waste market is rapidly changing as secondary raw materials are becoming a valuable commodity albeit in a highly volatile market • WDAs contracts will not have co-terminus end dates with other SE7 authorities • There is a legal risk of challenge to the extension (although the contract enables a 10 year extension)
Scenario 3 Early termination of the Veolia contract in 2015 and procure an O&M	<ul style="list-style-type: none"> • Provides flexibility to benefit from greater income share earlier • Opportunity for a new contract with tighter performance KPIs and cultural alignment, that promotes innovation 	<ul style="list-style-type: none"> • Termination cost and resources to negotiate the termination cost outweigh the potential benefit • 9-12 month procurement process and related costs, transition to new provider • Greater risk sits with WDAs -3rd party income, availability of plant, plant failure (WDAs would need put aside capital reserves) • Market perception of WDAs as a client post termination – could drive

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4. **The preferred option is Scenario 2:** an extension to the contract to 2030. This option enables the council to deliver its medium term strategy and efficiencies working with Veolia to modernise services. Rational for the preferred option is:-
- Certainty of financial benefit i.e. Veolia are willing to sign a deal in late 2014 without the need for a resource intensive procurement process.
 - Veolia take operational and maintenance risk on the plant and infrastructure costs within the extension period; costs have been assessed as being consistent with market prices.
 - Veolia are working with the Waste Disposal Authorities to close the contract extension within the agreed time frame and on further innovations and efficiency opportunities brought about by the contract extension.
 - Analysis of costs associated with the contract extension indicate that this provides comparable fees against other Energy from Waste Contracts.
 - The outline offer from Veolia will:
 - Not alter services delivered to the council under the contract, nor the services delivered to the public;
 - Will not change the risk profile of the contract to the council;
 - Will enable savings to be delivered from 1 January 2015.

An integral part of the extension is a commitment from Veolia to jointly invest with the Waste Disposal Authorities in developing and implementing efficiencies to service delivery.

RESOURCE/POLICY/FINANCIAL/LEGAL IMPLICATIONS

Capital/Revenue

5. There are no capital implications. The key revenue considerations of extending the contract are set out in detail in the confidential Appendix 2 to this briefing paper.

Legal

6. The statutory powers to undertake the proposals are set out in the Decision report.

Appendices/Supporting Information:

1. Background to the Waste Disposal Contract
2. Financial Appraisal of Options (Confidential)

**Further Information Available
From:**

Name: Michael Thomas

Tel: 023 8083 2466

E-mail: Michael.Thomas@southampton.gov.uk