

GMCA OVERVIEW AND SCRUTINY COMMITTEE

Date: 13 December 2023
Subject: Provision of Future Waste Disposal Services
Report of: Councillor Tom Ross, GM Portfolio Lead for the Green City Region

Purpose of Report

To make recommendations for the future provision of waste disposal services from 2026.

Recommendations:

The GMCA Overview and Scrutiny Committee are requested to consider and comment on the report and outcomes and note the recommendations which will be considered by the GMCA at their meeting on the 15 December 2023 as below:

1. Note the contents of the report; and
2. Approve the initiation of discussions with the current contractor to extend the Waste and Resource Management Services (WRMS) and Household Waste Recycling Centre Management Services (HWRCMS) contracts in accordance with contract clauses.

Contact Officers

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Equalities Impact, Carbon and Sustainability Assessment:

Recommendation - Key points for decision-makers

To review and comment on the outcome of an options appraisal and make recommendations for the future provision of waste disposal services from April 2026.

Impacts Questionnaire

Impact Indicator	Result	Justification/Mitigation
Equality and Inclusion		
Health		
Resilience and Adaptation	G	
Housing		
Economy	G	
Mobility and Connectivity		
Carbon, Nature and Environment		
Consumption and Production	G	

Contribution to achieving the GM Carbon Neutral 2038 target	The proposal will address the development of a long term strategy for biodiversity enhancement across the operational sites; a review of potential for installation of solar PV and corresponding utilities requirements and costs with financial savings passed back to GMCA; an assessment of ability to include alternate fuelled vehicles and refuelling facilities in the life cycle plan; a detailed plan on how and when the HWRC recycling performance 60% target will be delivered and maintained; a proposal for acceptance and recycling of PTTS ahead of the commissioning of the replacement MRF; and a strategic review of the renew operation.
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G Positive impacts overall, whether long or short term.	A Mix of positive and negative impacts. Trade-offs to consider.	R Mostly negative, with at least one positive aspect. Trade-offs to consider.	RR Negative impacts overall.
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Carbon Assessment

Overall Score	#DIV/0!			
Buildings	Result	Justification/Mitigation		
New Build residential	N/A			
Residential building(s) renovation/maintenance	N/A			
New build non-residential (including public) buildings	N/A			
Transport				
Active travel and public transport	N/A			
Roads, Parking and Vehicle Access	N/A			
Access to amenities	N/A			
Vehicle procurement	N/A			
Land Use				
Land use	N/A			
No associated carbon impacts expected.	High standard in terms of practice and awareness on carbon.	Mostly best practice with a good level of awareness on carbon.	Partially meets best practice/ awareness, significant room to improve.	Not best practice and/ or insufficient awareness of carbon impacts.

Risk Management

In order to support the decision making process, an options appraisal using external resources from KPMG (financial), DLA Piper (legal advice) has been commissioned to appraise the options.

Legal Considerations

In order to support the decision making process, an options appraisal using external resources from KPMG (financial), DLA Piper (legal advice) has been commissioned to appraise the options.

Financial Consequences – Revenue

In order to support the decision making process, an options appraisal using external resources from KPMG (financial), DLA Piper (legal advice) has been commissioned to appraise the options.

Financial Consequences – Capital

As above.

Number of attachments to the report: 0

Comments/recommendations from Overview & Scrutiny Committee

N/A

Background Papers

19/2/2019 – Procurement of Waste and Resource Management Services, GMCA Meeting

Tracking/ Process

Does this report relate to a major strategic decision, as set out in the GMCA Constitution

Yes

Exemption from call in

Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?

No

GM Transport Committee

N/A

Overview and Scrutiny Committee

GMCA Overview and Scrutiny Committee 13 December 2023

1. Introduction

Following the early termination of the Private Finance Initiative (PFI) contract with Viridor Laing (Greater Manchester) Ltd, GMCA ran a procurement process for provision of waste services under two contracts:

- Waste and Resource Management Services (WRMS); and
- Household Waste Recycling Centre Management Services (HWRCMS).

Both contracts were awarded to Suez Recycling and Recovery UK Ltd (Suez) with contract commencement on 1st June 2019 for an initial seven year term with two optional periods of extension. The procurement process resulted in contractual arrangements that delivered efficiencies compared to the previous PFI contract and significant improvements in performance.

The initial seven year contract term of both contracts will expire on 31st May 2026. In the event that a decision was to be made to run a procurement for services from 1 June 2026 then at least two years would be required for the process to complete and for a service provider to mobilise. It is therefore necessary for GMCA to consider the options for future service delivery and to make a decision by the end of 2023 as to whether to run a procurement.

The WRMS and HWRCMS contracts contain two options for extension:

- A period of three years running from 2026 to 2029, actionable at the discretion of GMCA and priced at the time of the tender bid; and
- A further period of five years running from 2029 to 2034, subject to negotiation and actionable by mutual consent of the parties.

The year 2034 is significant for GMCA as that is also when the initial term of the Residual Value Contract (RVC – see section 3 for further details) for supply of residual waste to the Runcorn energy from waste (EfW) plant also concludes.

In order to support the decision making process, GMCA Waste and Resources team has commissioned an options appraisal using external resources from KPMG (financial), DLA Piper (legal advice) and WSP (technical advice) supported by GMCA and district waste officers. The review has also taken account of market intelligence, market capacity information, the approach to commercial risk and future policy

changes affecting waste management that will flow from the national Resources and Waste Strategy (RaWS).

2. National Resources and Waste Strategy

The Department for Environment, Food and Rural Affairs (Defra) has been consulting on the RaWS over the last four years with a series of prolonged delays in publishing consultation responses. Activity has recently stepped up and details of what is proposed and the potential changes that may be needed for both waste collection and disposal arrangements in Greater Manchester (GM) are now starting to become clearer although cost recovery and other fundamental points are yet to be developed.

There are four main elements to the RaWS:

- Deposit Return Scheme (DRS) – reverse vending machines to be rolled out from 2025 at retail premises which will accept in scope drinks containers;
- Extended Producer Responsibility (EPR) – any organisation placing packaging on the market will be charged a fee according to type and quantity of packaging. The fees will form a fund from which local authorities involved in the management of packaging materials will receive payments. The EPR scheme was timetabled to come into effect from April 2024 but this is now delayed until October 2025 (see below for further details);
- Consistency framework for waste collections (now referred to as Simpler Recycling following the Prime Minister’s speech on 20th September 2023 that removed the requirement for separate collection) which sets out the types of materials to be collected from the household; and
- Collection of food waste on a separate, weekly basis from 100% of households from April 2026.

The latest element of the RaWS which has been published is the consultation response on Simpler Recycling. Under these proposals, it appears that all local authorities will be obligated to collect additional materials at the kerbside which will

include pots, tubs and trays from 2026 and plastic films/soft flexible plastics from 2027. The consultation response also included two further consultations on the guidance and implementation of Simpler Recycling, so the complete picture remains unknown at this stage. In July 2023, Defra announced that it will be delaying the implementation of EPR until at least October 2025. The ongoing delays and lack of full details are raising significant uncertainty within the waste industry as to whether the RaWS will be implemented in its current proposed form and when it will be necessary to have infrastructure in place to meet the policy requirements. For local authorities that are imminently due to procure contracts for services, this is also creating uncertainty and resulting in many extending their existing arrangements so as to avoid the potential for risk pricing by the market due to the unknown requirements.

3. Current GMCA Waste Management Contracts

GMCA has a number of waste disposal contracts in place. These are:

- WRMS Contract with Suez for operation of the main waste reception and processing sites, nine sites with attached Household Waste Recycling Centres (HWRCs), operation of the Raikes Lane energy from waste plant (EfW), supply of fuel to the RVC contract (see below), marketing of materials for recycling and operation and maintenance of a transport fleet of c. 70 heavy goods vehicles;
- HWRCMS Contract with Suez for operation of 11 stand-alone HWRCs;
- Residual Value Contract (RVC) with TPSCo (a joint venture between Viridor and Ineos Inovyn) for thermal treatment of a minimum of 325ktpa rail delivered residual waste at the Runcorn EfW; and
- Biowaste offtake contracts for treatment of c.125ktpa of mixed garden and food waste using in-vessel composting (IVC) technology under a framework that runs until 2026.

Since commencing operation of the WRMS and HWRCMS contracts, Suez has significantly improved the services in comparison to the previous contract. This is

particularly so for landfill diversion which has increased from c.90% to over 99% of the c1.1 million tonnes of waste handled each year.

The HWRCs have also benefitted from access control measures being introduced by Suez and GMCA to control the illegal deposit of trade waste. This has been very successful at deterring traders with c.70,000 fewer vehicle visits per month being made to the sites. This has enabled operatives to interact better with site users to capture more recyclable materials and has also significantly improved working conditions for site staff with far lower incidents of verbal and/or physical abuse of staff being reported.

The Suez contracts have delivered significant social value for Greater Manchester principally through the reuse activity being carried out at the Reuse Hub in Trafford Park and via three shops located at HWRCs where items are made available for resale to members of the public. This activity is calculated to generate over £3 of social value return on investment (SROI) for every £1 of contract spend. This is being delivered through charitable donations, skills development, employment and wider community benefits. Suez has also implemented systems that respond to GMCA's requirement for recyclables to be processed as close to GM as possible and avoid export. This has led to c.80ktpa of newspapers and card now being reprocessed at the Saica plant in Trafford (under the previous PFI arrangement, paper and card was exported to Asian markets for reprocessing).

The WRMS contract requires Suez to meet GMCA's obligations under the RVC contract to deliver 325,000 tonnes per annum of processed residual waste by rail to the Runcorn EfW facility. The RVC Contract runs until 2034 following which there is an optional further period of extension of 15 years to 2049. Gate fees for EfW disposal will increase from 2028 when EfW is included in the carbon Emissions Trading Scheme (ETS). Another future factor for consideration with the RVC contract is the plan from Viridor to install carbon capture and storage equipment at the site. This is currently in the final stages of a funding application to Government and, if successful, could be operational for 2028. This could make a significant contribution to decarbonising GM's waste management activities.

The biowaste contracts are for the treatment of c.125ktpa of mixed garden and food waste and will expire in 2026. The Waste and Resources team has commissioned a

specialist consultancy, WRM, to conduct an options appraisal for future treatment of food and garden waste which will report by the end of 2023. Once this options appraisal is completed, a preferred method of service provision post 2026 will be identified and will be the subject of a separate report to GMCA in the future.

4. Market Intelligence

In recent years the waste management market in the UK has gone through a period of consolidation with several mergers and acquisitions reducing the number of organisations having the capacity/capability to bid for large integrated contracts. A review exercise was held with the advisory team to assess the capacity of the market and potential bidders for a future GMCA procurement exercise. This concluded that there are a very small number of waste operators that have the capacity and experience to do this.

The continued uncertainty over the RaWS requirements and timeframes is also affecting the capacity in the market to bid and also the approach to risk allocation. There are at least 17 local authority waste contracts due to expire between 2025 and 2029. A number of these have indicated that they will extend arrangements for two to three years due to the ongoing delays with implementation of the RaWS, whereas others amongst them do not have the ability to extend their contracts so will progress to the market. This means that during the period from 2025 to 2029 there will be a significant number of waste procurements being run by local authorities which will impact on the ability of bidders to respond due to capacity constraints. This will be a factor in determining whether they respond to a GMCA procurement opportunity which will entail significant expenditure on bid costs.

5. Strategic Assets

GMCA has three strategic assets that will also need to factor into the decision making process. The first is the Raikes Lane EfW facility in Bolton. The plant was originally constructed in 1971 and subsequently upgraded with energy recovery and electricity generation equipment between 1998 and 2000. It is a single line facility with c.100ktpa capacity processing residual waste. Conscious of the age of the facility, GMCA Waste

and Resources commissioned WSP to undertake a technical review of the facility to determine options for the future.

The report concluded that:

- The site has a tight footprint and would struggle to accommodate a new build facility with a forecast capital cost in the range of c.£150m to £175m;
- Suez is operating and maintaining the facility well and it should continue to operate into the mid 2030's if maintained to current standards with appropriate investment;
- By the mid 2030's a decision will be required to decommission the plant or install a new boiler at a cost of c.£30m. Given the age of the rest of the plant, installation of a new boiler is unlikely to be economically attractive; and
- As well as the Runcorn facility, there are a number of other new build EfW facilities in the North West due to come on stream in the next 5 years so merchant capacity should be available for the displaced tonnage.

Based on this analysis, the preferred option would be to continue operate the plant until March 2034 to tie in with the end of other GMCA contracts and then consider options including investment in the facility or decommissioning. If this were the selected outcome, then alternate residual waste treatment capacity would be required either through existing arrangements or via a procurement. A procurement process would open up competition from alternate EfW facilities or other forms of residual waste treatment such as gasification technology used to produce Sustainable Aviation Fuel (SAF). In the period up to 2034, a critical factor will be maintaining availability of the Raikes Lane facility and tonnage throughput which will require additional expenditure on life cycle replacement of key elements of the plant due its increasing age. Whichever route is selected for the provision of future services (ie procurement or contract extension), additional expenditure on the Raikes Lane facility will be required.

The Longley Lane Materials Recovery Facility (MRF) has been reviewed as part of the assessment of implications of the RaWS on GMCA waste infrastructure. The requirement to include plastic pots, tubs and trays as well as 'soft' plastics in our dry recyclable collections will mean additional sorting equipment is required. A separate report sets out the conclusions of an options appraisal and the preferred option of development of a new plant inside an existing GMCA facility, a former in-vessel composting facility. This development, if approved, will be initiated by GMCA and would be under construction during a potential procurement process for services from 2026. This increases the potential for bidders risk pricing the operation of this facility due to uncertainty over implementation timescales, operating costs, quality of outputs and market capacity.

Another key asset is the Higher Swan Lane office and workshops in Bolton. The office facility is a modular building that needs modernising and the workshops date back to the 1950's. Both buildings will need improvements to be undertaken in the short term, however significant expenditure will be needed for long term use. The approach to accommodation of contractor support services and vehicle maintenance could be tied into the provision of services post 2034 so that options can be reviewed.

6. Contract Extensions

The option to extend the WRMS and HWRCMS contracts for a further three years from 2026 to 2029 was priced at the time of the procurement and offers GMCA an attractive option from a financial perspective that KPMG has assessed as being well below the likely costs that would result from a procurement process.

Suez has also provided a proposal for the optional five year extension which is based on maintaining all current contract terms and conditions, specifications and contract targets.

The inclusion of a priced three year extension option in the WRMS and HWRCMS contracts was a deliberate action to provide some extended certainty if it appeared that the wider marketplace was not in a position to better that known offer. Including the ability to extend for the further five years followed the same ethos but it was recognised that the bidders would put a heavy risk premium on a period some 11 years away at the time of bidding. However, the ability to actively negotiate a five year

extension was considered likely to generate a lower cost option than that offered as a result of a procurement (because, for example, mobilisation costs would not be incurred, facility performance would be known and not risk priced etc).

The plus three years and plus five years extensions, outside of the financial certainty provided, also give:

- an extended period of service quality continuity and consistency. Change at any point in the period from 2026 to 2034 has the potential to disrupt the quality of service (especially if there is a change of contractor entailing the significant transfer of staffing and resources); and
- a settled period for both the GMCA and the contractor to assess emerging technologies, policies and strategies that require innovation to address. An example of this is the use of alternative energy sources for plant, equipment, fleet and processes. In a period crucial to the achievement of net zero and waste strategy targets a steady state service (as much as that is possible) will give time to carefully consider options.

The extension of the contracts give certainty of price, performance and service delivery during a period of uncertainty from the RaWS and also addresses market capacity concerns in the 2025 to 2029 period over running procurement processes.

To recap, the three-year extension (2026-2029) is at GMCA's sole discretion – i.e., GMCA has the right to extend the contract with no further reference to Suez. The following five year extension (2029-2034) is a mutual option to extend which requires both parties to agree to a further extension.

Consideration has also been given to an option based on exercising the three year extension with Suez and then having an “in-house” service provision for the five years to 2034. A workshop was held with the advisory team and district officers to scope out this option and to identify the critical risks to determine whether to price the option or rule it out at this stage. In summary the workshop concluded that:

- Establishment of an arm's length operating company would be required, however GMCA would be acting as guarantor so would effectively be underwriting all risks;

- Back office support services would be required for HR, payroll, IT and health and safety. These would need to be outsourced due to capacity constraints in GMCA support services to take on another 600 staff;
- There would be a significant requirement to buy in expertise for operation and maintenance of technology sites such as Raikes Lane EfW and Longley Lane MRF;
- Significant risk transfer to GMCA would occur for recyclate and commodity markets and pricing, industrial relations, compliance with necessary consents (planning permissions, environmental permits, operator licences) pension costs, facility performance, life cycle replacement costs, fleet insurance, health and safety and regulatory compliance;
- GMCA would need to be a significant purchaser of specialist mobile plant and fleet which are on long lead times and lacks the buying power of the large waste management companies; and
- Insurance of facilities is a definitive factor. Willis Towers Watson, insurance advisors to GMCA, were engaged to assess whether GMCA would be able to place insurance at the necessary levels in the market for the network of facilities. This work concluded that insurance would not be available and GMCA would therefore need to self-insure. This would require significant reserves to be carried to cover facility loss due to fire for facility reinstatement and business interruption costs.

On the basis of risk transfer and unavailability of insurance, the in-house option has been discounted and not considered further in the modelling of options.

7. Recommended Strategy for Provision of Future Services

Extending the existing contracts has the advantage of:

- Allowing time for the implementation plans for the RaWS to become clearer;
- Allows the potential MRF development to take place with reduced risk transfer for operating costs;
- Allowing time for the market to develop and capacity to respond to future procurement opportunities to be increased;
- Reducing the level of risk transfer to GMCA compared to all other service delivery options;
- Allowing continued operation of Raikes Lane at a guaranteed throughput and secures investment in the facility for operation to 2034;
- Enabling alignment with other GMCA waste contracts with an end date of 2034; and
- Delivering a more competitive modelled financial outcome than running a procurement for services commencing in 2026 or 2029.

The recommended approach to provision of future services is therefore:

1. To rule out undertaking a procurement for services from 2026;
2. To engage with Suez on the contract extension options; and
3. For a report on the outcome of discussions to be presented to a future meeting of GMCA.

8. Legal Advice

Once negotiations have concluded with Suez on extension arrangements, DLA Piper will be able to provide a paper on the legal context and this will be appended to a future report to GMCA.