

ABERDEEN CITY COUNCIL

COMMITTEE: Housing and Environment

DATE: 24 August 2010

DIRECTOR: Pete Leonard

TITLE OF REPORT: Waste Management Services Contract Progress Report

REPORT NUMBER: H&E/10/122

1. PURPOSE OF REPORT

This report provides an update on the Waste Management Services Contract and provides an outline specification for the development of an Alternative Solution to the Contract.

2. RECOMMENDATIONS

1. That Committee notes the progress made to date on updating the Waste Management Services Contract.
2. That Committee recommends that Finance and Resources Committee approve the allocation of Zero Waste Fund monies to development works at Sclattie and East Tullos Transfer Stations to allow continuance of efficient recycling and waste disposal services.
3. That Committee approves the continuation of the development of an Alternative Solution based upon the following infrastructure and service development:
 - Development of a Materials Recycling Facility at the 'Four Fields' site in Altens to handle commingled recyclables collected by Aberdeen City Council.
 - Development of two new Recycling Centres, one at the former Grove Nursery Site in Hazlehead and the other in the Bridge of Don area, this latter to replace the Scotstown Road site.
 - Operational Improvements to the remaining three Recycling Centres (Sclattie, Pitmedden Road and Greenbank Crescent) to achieve substantial increase in recycling and landfill diversion.
 - The provision of organic waste treatment services to be defined following an options appraisal relating to the collection methods for kitchen and garden wastes.
 - The provision of refuse transfer services at two sites in the city until the development of a residual treatment facility.
 - The provision of landfill disposal services.
4. Committee instructs the Head of Finance, with the assistance of colleagues in Housing and Environment, to identify suitable financial and business analysis support for the development of an Alternative Solution.
5. That Committee approves the decision not to include residual treatment services in the Alternative Solution.

6. That Committee instructs officers to undertake an options appraisal to determine the best method of procuring residual treatment services that conform to the requirements of the Aberdeen City Waste Strategy and to report to Committee on 6 January 2011.

3. FINANCIAL IMPLICATIONS

Continuation of current waste management practices will result in significant increased costs to the Council in coming years. The continued reliance on landfill for waste disposal will increase costs by approximately £1.7 million in 2011/12 and an additional £720,000 per annum thereafter until 2014/15.

The continued reliance on landfill, combined with expensive and limiting kerbside collection of recycling wastes does not demonstrate best value for the Council. In order to expand recycling services it is necessary to develop sorting infrastructure that allows efficient collections across all of the city and prepares recycling wastes for sale as high-value products. Without city-wide recycling collections, the Council will not achieve its own and national targets.

The development of infrastructure required for the continuation of the Waste Management Services Contract can be financed in two ways. Firstly, the WMSC provides for the contractor to develop facilities at its own cost and for the capital cost of developments to be incorporated in to the Rates for the services (currently on the basis of a tonnage based gate fee that depreciates assets across the remaining life of the WMSC). The second option is for the Council to instruct the Contractor to develop the facilities and then make payment for the facilities in full upon commissioning. This requires the Council to allocate Capital Expenditure for these facilities.

The estimated costs, based on early discussion with the Contractor for infrastructure to be developed through the WMSC Alternative Solution are shown in Table 1.

Table 1. Aberdeen City Council Capital Infrastructure for Waste Strategy

Facility	Estimated capital cost (£)
Materials Recycling Facility	4-7 million
Organic Waste Treatment	2-4 million
2 New Recycling Centres	1-2 million

It should be noted that Residual Treatment infrastructure, which may be an Energy from Waste facility, is estimated to require a significantly higher capital commitment of £20-60 million; it is proposed to exclude this infrastructure from the Alternative Solution and address this following an options appraisal.

4. SERVICE & COMMUNITY IMPACT

The proposed Alternative Solution to the WMSC is based upon the recycling and organic treatment elements of the recently approved Aberdeen City Waste Strategy, which in turn is informed by the Vibrant, Dynamic and Forward-Looking policy document. Included in VDFL is a target of 40%

recycling and a commitment to expand recycling services to all households in the city. An EHRIA was undertaken in the development of the Aberdeen City Waste Strategy.

5. OTHER IMPLICATIONS

Legal. Significant legal support is required to ensure that appropriate and secure alterations are made to the WMSC. This specialist support is provided by the Council's external legal advisors.

Personnel. The proposed WMSC variation is required to support waste collection service changes that will expand the extent of collections but also reduce the number of personnel required to collect recycling materials from existing households. By contrast, the development of organic treatment capacity will enable the introduction of food waste collections in multi-occupancy areas; this is likely to require additional collection manpower. The net effect of personnel changes on the collection service will be assessed and addressed at an early stage.

Health and Safety. The infrastructure to be delivered through the Alternative Solution will result in the cessation of the kerbside sort recycling service which requires significant amounts of lifting from ground level of potentially heavy items. Accordingly, a significant manual handling risk is reduced by the proposed service.

6. REPORT

6.1 Background

The WMSC was signed in July 2000 with service commencing in September 2000. The contract duration is 25 (i.e. 15 years extant) with the main purpose of the contract being the construction of a combined Materials Recycling Facility (MRF) and Energy from Waste (EfW) Plant at a site in Altens (the Altens Environmental Park).

Planning permission for this facility was refused in 2004; the contractual consequence of this refusal was to require the two parties in the Contract to agree an Alternative Solution. The Council has since developed a new Aberdeen City Waste Strategy (adopted in April 2010). This, combined with the Council's Transformation Strategy for Waste Management Services (adopted in February 2008), now provides a clear framework for the development of an Alternative Solution.

6.2 Progress to Date

Notwithstanding the failure to secure planning permission for the Altens Environmental Park, the Waste Management Services Contractor, NEM/SITA (now known, and referred to in this report, as SITA UK Limited) has continued to provide 'baseline' services as envisaged under the WMSC and has in addition addressed emerging needs required in response to the developing policies of the Scottish Government and the Council.

The baseline services are:

- Operate Transfer Facilities at Sclattie, Bankhead
- Provide Transfer Facilities in the south of the city; this was provided at the East Tullos Transfer Station until 2006 when the site was shut for Health and Safety reasons (un-sound) building structure). Subsequently, SITA UK Limited has engaged Shanks Waste Solutions to provide a transfer station also in East Tullos.
- Operate the four Recycling Centres in the city (including a new site at Greenbank Crescent, East Tullos, opened under the terms of the WMSC in 2003)
- Provide landfill disposal facilities at Hill of Tramaud
- Manage the restoration and formal closure of the Ness Farm and Tullos Hill Landfill Site

The new services developed in association with SITA UK Limited since the commencement of the WMSC are:

- Develop a facility at Sclattie for accepting, sorting and preparing for dispatch recycling materials arising from the Council's kerbside collection.
- Develop a facility for accepting and transferring food and garden waste at Sclattie and, via a contract with a third party, to provide In-vessel Composting facilities for this waste.

- Modify the operation of the Recycling Centres to allow the separation for recycling of Waste Electrical and Electronic Equipment and provide for storage of refrigerators at Sclattie and arrange for their subsequent recycling.
- Develop a landfill gas to electricity facility at Hill of Tramaud landfill with the Council gaining a share of revenue from electricity sales.

6.3 Current Developments

In parallel with the development of the Alternative Solution, a forthcoming change in circumstances within the Contract requires immediate action. The Council's landfill site at Hill of Tramaud, operated by SITA UK Limited, is likely to close in December 2010. This situation was catered for within the initial WMSC whereby should the site be full before the Altens Environmental Park was opened, SITA UK Limited would reopen the Sclattie Transfer Station. Waste from Sclattie and the East Tullos facility is taken to the Stoneyhill Landfill Site near Peterhead. The contractor would receive a higher gate fee to cover the additional costs this would incur.

The development of additional recycling and kitchen and garden waste facilities at Sclattie means that there is now insufficient room for general refuse transfer at Sclattie. The proposed solution is to construct a new building and ancillary works at Sclattie to enable the site to be used for transfer of all types of wastes. A proposal has been made by SITA UK Limited in relation to this project and this will require an additional contract variation and the expenditure of approximately £450,000. The Urgent Business Committee of 6 August 2010 instructed the Director for Housing and Environment to sign a Contract variation with SITA UK Limited to allow immediate start of works at Sclattie to ensure continuation of waste collection services.

In addition to the works at Sclattie, SITA UK Limited has assessed options and developed proposals for the continued transfer of waste from the south of the city. SITA UK Limited's proposal is to undertake a limited renovation of the East Tullos Transfer Station to permit safe transfer operations to resume (the site has been closed on safety ground since 2006). The redevelopment would allow the site to be operated for a further 5-7 years until new residual waste treatment facilities are developed in the city. Costed proposals are awaited from SITA UK Limited, however, it is anticipated that a further approximately £700,000 is required to bring the facility back into use.

6.4 Funding for Current Developments

In 2007 the Scottish Government introduced the Zero Waste Fund to enable delivery of more sustainable waste management practices in Scotland. The final year of support from the fund is 2010/11 and the Council has been allocated £1,244,000 in capital and revenue funding for this financial year. It is proposed that this non-repeating additional funding is used to finance these important developments that will allow the Council to continue and enhance its recycling services in the future.

6.5 Alternative Solution Requirements

The scope for an Alternative Solution to the WMSC has been derived following the adoption of the Aberdeen City Waste Strategy and the Transformation Strategy for Waste Management Services. These strategies establish the need to:

- Achieve high levels of recycling and composting in the city.
- Generate value from all waste handled by the Council.
- By applying the proximity principle, develop waste treatment infrastructure in Aberdeen wherever possible.
- Adopt the most cost-effective waste management system that meets the needs of the city.

These principles have been applied to the wastes collected by the Council and, as outlined in the Transformation Strategy, the following waste collection and disposal model has been developed:

6.6 Waste Collection:

- Introduce Food Waste Collections for all 57,000 households in Aberdeen currently without a collection.
- Review the existing combined kitchen and garden waste collection to consider separation of these two streams and identify the most cost-effective collection and treatment solution (see Waste Disposal below).
- Introduce commingled on-street and communal recycling collections (to include glass, rigid plastics and tetrapak if technically and commercially possible) to all parts of the city not served with a kerbside collection.
- Convert existing kerbside sort recycling collection scheme to commingled collections (to include glass, rigid plastics and tetrapak if technically and commercially possible)
- Review the need for Recycling Points following introduction of services outlined above).

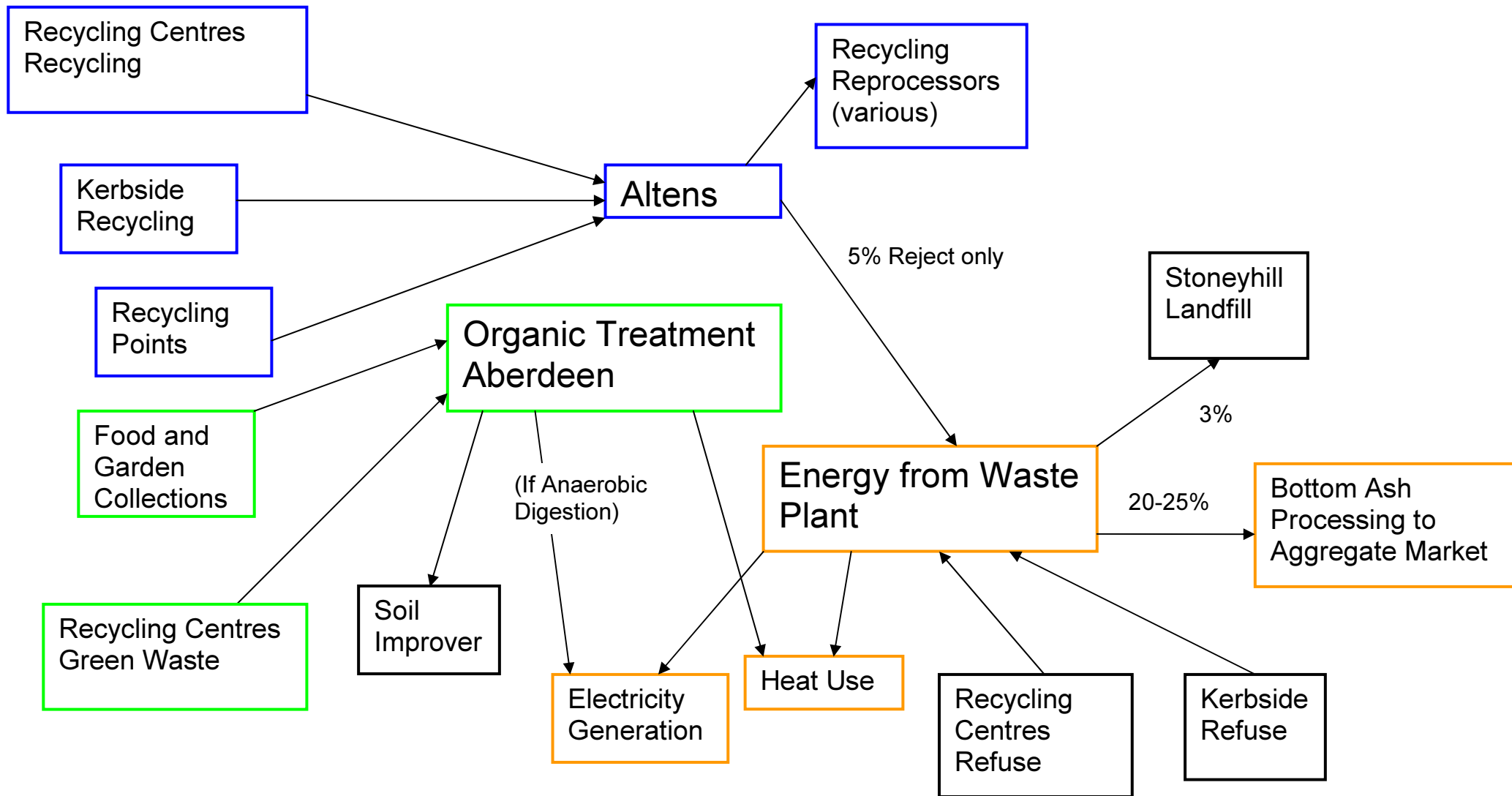
6.7 Waste Disposal;

- Develop a Materials Recycling Facility at the 'Four Fields' site in Altens to handle commingled recyclables collected by Aberdeen City Council.
- Develop two new Recycling Centres, one at the former Grove Nursery Site in Hazlehead and the other in the Bridge of Don area, this latter to replace the Scotstown Road site.
- Introduce operational improvements to the remaining three Recycling Centres (Sclattie, Pitmedden Road and Greenbank Crescent) to achieve substantial increases in recycling.
- Provision organic waste treatment services to be defined following an options appraisal relating to the collection methods for kitchen and garden wastes. Options available include In-vessel composting/open windrow composting/anaerobic digestion or a combination of these in/near Aberdeen.
- Provision of refuse transfer services at Sclattie and East Tullos until the development of a residual treatment facility.
- The provision of landfill disposal services.

- Develop a residual treatment facility in/near Aberdeen that recovers value from waste through further processing for recycling, generation of heat and power from waste or a combination of the two.

A schematic of the Waste Disposal system is shown in Figure 1.

Figure 1. Schematic of Alternative Solution Waste Flows



6.8 Waste Management Services Contract – Alternative Solution

All of the Waste Disposal activities identified above are within the scope of the current WMSC. With the exception of the residual treatment requirement, all elements are assessed to be able to be delivered at best value when considering the capital repayment required for each facility. The major capital expenditure required will be for the MRF and the organic treatment facility (when this is determined). Both facilities will have an anticipated operating life of approximately 10 years before major refurbishment is required therefore capital depreciation can be economically achieved before the end of the WMSC.

It is unlikely that this is to be the case for the residual treatment facility. The scale of capital investment is likely to be in excess of £20 million and quite possibly in excess of £50 million depending on the technology chosen. Facilities of this nature will be designed with an operating life of up to 20 years with depreciation spread across this period. The WMSC has a maximum of 15 years to run; given time required for design, obtaining permissions and construction this is likely to result in a facility being commissioned with 10 or less years of the WMSC left to run. Capital repayment on a facility with a design life of 20 years over 10 or fewer years cannot be demonstrated to be best value over the term of the WMSC.

SITA UK Limited has submitted outline proposals to provide a residual treatment facility however, it is the view of the Council's technical consultants, supported by officers that the options proposed either do not address the requirements of the Aberdeen City Waste Strategy, are not contractually compliant or do not unequivocally demonstrate that the proposed solutions are best value. As a consequence, it is proposed that the residual treatment element of waste management is not included in the Alternative Solution at this stage. Furthermore, it is proposed that the Council undertakes an options appraisal to consider the most appropriate method of delivering a residual treatment solution with the results reported to Committee on 6 January 2011. Subject to appropriate Committee approvals, a procurement exercise will be commenced in early 2011.

The remaining elements of waste recycling, treatment and disposal are to be incorporated into negotiation with SITA of an Alternative Solution to the WMSC.

6.9 Support to Alternative Solution

Work to date with SITA UK Limited in scoping and developing the proposed terms of the Alternative Solution has been undertaken by officers within Housing and Environment. From this stage forward the nature and skills required to reach agreed Alternative Solution change. The following series of tasks are required to be completed to ensure an appropriate and best value Alternative Solution is achieved:

- Aberdeen City Council to provide the scope and specification for the Alternative Solution (90% complete)

- SITA UK Limited to develop a Business Model based on a Contract Waste Data Flow model (initial iteration submitted for model validation)
- Aberdeen City Council to validate Waste Data Flow Model and instruct SITA UK Limited to develop and submit full a Business Model and Proposal document
- Aberdeen City Council to review Business Model and Proposal document and undertake best value analysis. Best value analysis will require each element of the proposal to be scrutinised and, where necessary, benchmarked. The business model supplied by SITA will be required to demonstrate unit costs for all activities and infrastructure to a level of detail that provides transparency. The Proposal documents will also be required to identify what measures SITA has undertaken to achieve best value and mitigation of costs to the Council.
- A period of discussion and refinement of proposals and costs to ensure that the Proposal meets the needs of the Council at appropriate cost.
- Throughout this process work in parallel will continue to review and amend the Contract documentation to ensure that Contract Terms and Conditions are appropriate for the services to be provided.
- Officers to prepare a full Alternative Solution assessment report for consideration by Committee.
- Subject to Committee approval, a formal Contract Variation to be signed by the parties.

The current resource allocated to WMSC management is limited and inadequate for the tasks outlined. The Alternative Solution process is managed by the Strategist - Waste Management but the following specialist skills are required to ensure a robust and best value solution is achieved for the Council:

- **Legal Support.** There is an existing arrangement that legal support to the WMSC is provided by the Council's external legal advisors, Brodies LLP; it is proposed this support continues and includes the Alternative Solution.
- **Technical Support.** The work required to validate and assess the value of the solutions proposed by the Contractor is extensive and will include benchmarking both of the technical solutions proposed but also the proposed cost of those solutions. The Council has a framework provider for Waste Services including contract management purposes, the Halcrow Group. It is proposed that Halcrow is engaged to support the delivery of the Alternative Solution and costs to be allocated to the Waste Disposal Budget.
- **Financial and Business Analysis Support.** The Waste Data Flow and Business Model that form the basis of the Alternative Solution are very complex but are fundamental to the successful future management of the WMSC; an integrated and flexible model will ensure that as inevitable changes are made to the WMSC in the future, these changes can be incorporated into the Business Model and their financial impact assessed easily. Furthermore, scrutiny of the financial proposals is required to ensure best value and to ensure they are in

accordance with the financial expectations of the existing WMSC. No resource is in place for this essential element of the work. It is recommended that the Head of Finance, with the assistance of colleagues in Housing and Environment identifies suitable support for this function in early course.

7. REPORT AUTHOR DETAILS

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8. BACKGROUND PAPERS