

Appendix 1

Governance

To support the governance arrangements in the proposed working model, the council will retain the function of administering the contract and auditing the accuracy of KPI's and compliance with the remedies procedures. A Deputy Authorised Officer (DAO) role will be created to provide the Council's compliance function and to provide support to commissioners and members.

The Deputy Authorised Officer will be the day to day direct contact with Veolia on all issues and will provide support to the Authorised Officer (AO) elected members and citizens in regards to contract management and strategic direction.

The governance structure (set out on page 3) details the frequency and high level terms of reference, for the three tier formal Governance process. In reality the deputy Authorised Officer will have day to day contact with the Provider and elected area leads to ensure the smooth running of the contract.

The new contractual arrangements will involve the Provider self-monitoring its performance. It is important therefore that the council has the ability to verify the information being provided to it.

The verification function (set out on page 2) will need to be robust and a three stage assurance process will be adopted.

The first stage of this function will be at the Operational Group level with the performance data gathered by Veolia will be assessed against the council's KPIs.

The second tier will be carried out by external auditors who will look at the data Veolia have used to compile performance information. All data in the new contract arrangements will be collected and stored on an open book basis. The raw data used by Veolia to compile performance statistics will be available to the council and its external auditors to examine when required. Call centre information, NI195 street-cleansing data compiled as part of reciprocal borough inspections and information from Street Champions will allow independent data to be tracked against the Providers reported performance.

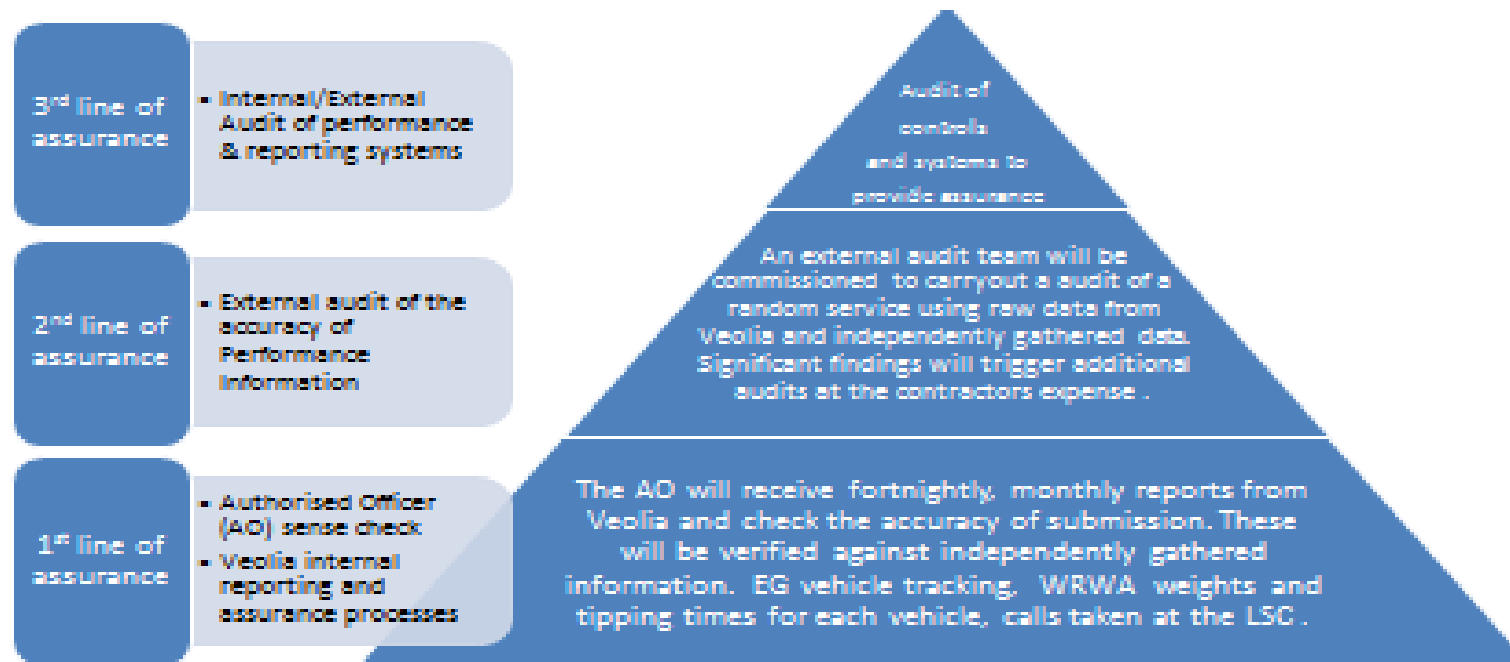
The third stage will be the contract audits carried out by the council's own auditors or partners to ensure systems of control are adequate and properly used.

Audit

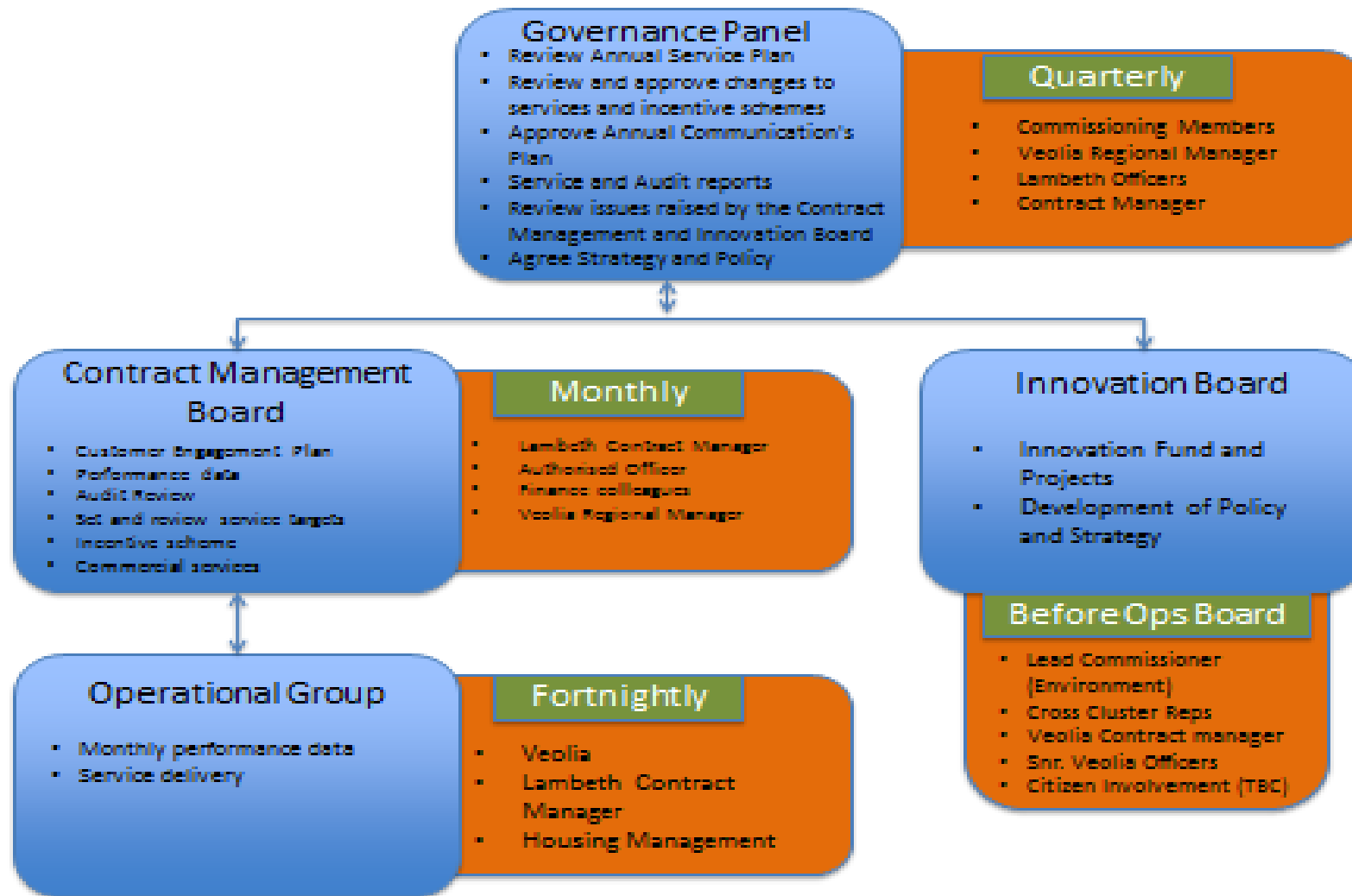
The council will from time to time audit at its expense a number of KPI and other relevant process provide by Veolia to seek assurance of accuracy and suitability of purpose (Stage 2). If in the opinion of the AO the audit produces findings that cause concern, the Authorised Officer or Deputy will inform the Provider in writing of our intention to commission additional audits at the expense of the Provider to satisfy the council to the limit and scope of the failure.

A failure at Audit will be subject to all of the below remedies regardless of the requirement for 300 defaults to have occurred in any continuous 12 month period.

Assurance Model



Governance Structure



Appendix 2

Lambeth Wastes – Incentive Scheme

Principles	Rationale
The incentive scheme is based on the Recycling %	Use of the recycling rate is less likely to be unduly influenced by economic trends, growth in the population and other external influences.
The percentage of the share between the council and the supplier will be agreed on an annual basis.	The ability to set the % share on an annual basis, provides an opportunity to account for additional cost and risk associated with the work plan.
The performance of the recycling rate will be compared to similar boroughs to identify external factors.	This provides protection for the council and the contractor around changes in national legislation for example that impacts the recycling rate. It will prevent the contractor receiving payments for initiatives conducted at national level.
The performance of the recycling rate will be sensed checked annually	This approach will ensure significant growth in a particular type of housing doesn't unduly impact the ability of the contractor to make savings. It also provides comfort to council that the payments made to the contractor reflect the initiatives they are responsible for.
The contractor will only receive a share in genuine budget reduction (This excludes indexation uplifts).	This approach will protect the council in the event recycling shift is outweighed by growth in waste per person.
Where recycling rate falls the contractor will repay the payments for the previous year to reflect the in-year rate.	This arrangement ensures the contractor is not only incentivised to make continual improvement but can also be penalised from the previous year's profit.

There are three examples of the model set out below, the first sets out the impacts on both parties if the level of performance is mixed.

1. In year 1, performance is unchanged and as such there is no benefit.
2. In year 2, performance is improved by 4% creating a reduction in the disposal cost of £14, this is split on an agreed ratio (for the model we have shown 80/20).
3. In year 3 performance remains 4% above the baseline and the £14 benefit are shared remains the same as year 2.
4. In year 4, performance drops by 1.5% to 33.5% this represents a saving against the baseline of £12.50 which is shared as shown. However as performance has dropped in comparison with the previous year the contractor is required to reimburse the difference between the year 3 and year 4 payments.
5. In year 5, performance drops again by 0.5% this provides a saving against the baseline of £12 which is shared on the agreed ratio. However as performance has dropped the contractor is

liable to refund the council the difference between the year 4 and year 5 saving. For clarity the liability is limited to the previous year only.

- The last year of the contract and performance is improved to 35% and the saving is shared on the agreed ratio.

For demonstration purposes only								
	Base Line	2015/16	2015/17	2015/18	2015/19	2015/20	2020/21	Cumulative outcome
Recycling performance	31%	31%	35%	35.0%	33.5%	33.0%	35.0%	4.0%
Cost of waste disposal	£160.00	£160.00	£140.00	£140.00	£147.50	£150.00	£140.00	£877.50
Cost of recycling disposal	£10.00	£10.00	£14.00	£14.00	£12.50	£12.00	£14.00	£76.50
profit share		80/20	80/20	80/20	80/20	80/20	80/20	80/20
Cumulative saving		£0.00	£16.00	£16.00	£10.00	£8.00	£16.00	£66.00
Payment to provider		£0.00	£3.20	£3.20	£2.00	£1.60	£3.20	£13.20
Clawback from Provider		£0.00	£0.00	£0.00	-£1.20	-£0.40	£0.00	-£1.60
Total benefit to the provider		£0.00	£3.20	£3.20	£0.80	£1.20	£3.20	£11.60
Council saving		£0.00	£12.80	£12.80	£8.00	£6.40	£12.80	£52.80
Total Council Benefit		£0.00	£12.80	£12.80	£9.20	£6.80	£12.80	£54.40

The second example is based on poor waste development performance and details how the risk for poor performance sits with the council.

	Base Line	2015/16	2015/17	2015/18	2015/19	2015/20	2020/21	Cumulative outcome
Recycling performance	31%	31%	32%	31.0%	30.5%	29.0%	30.5%	-0.5%
Cost of waste disposal	£160.00	£160.00	£155.00	£160.00	£162.50	£170.00	£162.50	£970.00
Cost of recycling disposal	£10.00	£10.00	£11.00	£10.00	£9.50	£8.00	£9.50	£58.00
Cumulative saving	£0.00	£0.00	£4.00	£0.00	-£2.00	-£8.00	-£2.00	-£8.00
Profit share	£0.00	80/20	80/20	80/20	100	100	100	80/20
Payment to provider	£0.00	£0.00	£0.80	£0.00	£0.00	£0.00	£0.00	£0.80
Clawback from provider	£0.00	£0.00	£0.00	£0.80	£0.00	£0.00	£0.00	-£0.80
Total Profit contractor	£0.00	£0.00	£0.80	-£0.80	£0.00	£0.00	£0.00	£0.00
Council saving/Cost	£0.00	£0	£3.20	£0.80	-£2.00	-£8.00	-£2.00	-£8.00

The final example shows increased performance and the benefits for both parties.

For demonstration purposes only								
	Base Line	2015/16	2015/17	2015/18	2015/19	2015/20	2020/21	Cumulative Outcome
Recycling performance	31%	31%	33%	33.5%	36.0%	36.5%	38.0%	7.0%
Cost of waste disposal	£160.00	£160.00	£150.00	£147.50	£135.00	£132.50	£125.00	£850.00
Cost of recycling disposal	£10.00	£10.00	£12.00	£12.50	£15.00	£15.50	£17.00	£82.00
profit share		80/20	80/20	80/20	80/20	80/20	80/20	80/20
Cumulative saving		£0.00	£8.00	£10.00	£20.00	£22.00	£28.00	£88.00
Payment to provider		£0.00	£1.60	£2.00	£4.00	£4.40	£5.60	£17.60
Clawback from Provider		£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
Total benefit to the provider		£0.00	£1.60	£2.00	£4.00	£4.40	£5.60	£17.60
Council saving		£0.00	£6.40	£8.00	£16.00	£17.60	£22.40	£70.40

Appendix 3

Alternative Options and Evaluation process

Scoring and Weighting Methodology

The evaluation model developed identified a number of criteria that would need to be considered, these were grouped in to two categories.

Quality - making up 60% of the available score.

Cost - making up 40% of the available score.

The split between Quality and Cost is appropriate in this instance based on the Kraljic model an industry recognised approach see table below. In this instance due to extremely limited number of suppliers and the relatively low cost of the in-scope functions in relation to the cost for collecting and treating waste, supports demands a greater focus on quality:

LEVEL OF RISK	+	<p>Leverage Products & Services</p> <p>Price 60% : Quality 40%</p> <p>Collaborative & corporate contracts</p> <p>High volume routine items</p>	<p>Strategic Products & Services</p> <p>Price 50% : Quality 50%</p> <p>High value goods and or services critical to the continuance of a service</p> <p>Strategic Partnerships</p>
	-	<p>Routine Products & Services</p> <p>Price 60% : Quality 40%</p> <p>Routine high volume supplies such as stationery, furniture, clothing, computer consumables</p>	<p>Bottleneck Products & Services</p> <p>Price 40% : Quality 60%</p> <p>Partnering arrangements</p> <p>Very few suppliers in market</p> <p>Low value supply which is critical to a front line service</p>
		-	+

Table 2

Quality Consideration	Weighting Multiplier	% Multiplier
Outcome	5	10
Income (to include, Debt Management, additional income potential)	5	10
Implementation and Change Management	5	10
Indirect Savings (overheads)	4	8
Flexibility (ability to meet future needs)	3	6
Accountability	3	6
Customer Experience	3	6
Innovation and added value (access to external funding)	2	4
Total	30	60
Cost Consideration	Weighting Multiplier	% Multiplier
Cost	20	40

Table 3

Each quality consideration was scored on a scale of 1 – 5. A score of **5** is considered to be a significant improvement on the existing service, **4** representing an improvement, **3** achieving parity with the existing service and scores below **3** delivering a reducing standard of service when measured against the existing service.

The initial **quality score** is also subject to the weighting multiplier that determines the importance attached to each consideration (Table 3), which are then combined to create an overall Quality score for the option.

The **Cost Score** is determined as follows.

Evaluating options where price is a consideration is fairly straightforward; costs are converted to points, using the simple formula set out in the table below. This approach provides clarity for would-be providers and helps in scoring evaluations. Where feedback to suppliers is required, commercial confidentiality can be maintained by substituting scores for costs.

The chart below (table 4) represents the cost to point’s conversion for this options analysis. Three options have been submitted for evaluation and they are recorded in the table below:

Option for Evaluation	price £000's	calculation	points	Weighting	Total Score
Option 1	870	$870/870 \times 5 =$	5.00	20	100.0
Option 2	870	$870/870 \times 5 =$	5.00	20	100.0
Option 3	980	$870/980 \times 5 =$	4.44	20	88.8

If we divide the lowest cost option by the cost of each option and multiply this by the total number of points available (5) we achieve a points score for each option. Multiplying the points scored for each option by the consideration weighting provides a total score for each option which is easily comparable.

The **Quality** and **Cost** score will be combined to rank the options and make recommendations.

Options for Evaluation

Option 1 – In house client services

This option is based on a restructured traditional service with functions, responsibilities, incentives and governance remaining the same.

Option 2 - Integrated Supplier Services

To transfer functions to the existing service delivery contractor with a new governance and remedies structure that supports the associated transfer of responsibility and accountability.

Option 3 – Hybrid service

This option combines elements of options 1 and 2 the in house and integrated models. In this 3rd option the responsibility for developing proposals to deliver the Waste strategy outcomes (Part B specification) would remain within the council with operational elements (Part A specification) being delivered by the Veolia.

Option 4 – Federated services

To integrate the traditional client functions with those from a single or multiple Boroughs. This option could be extended to joint service provision from 2021 when WRWA constituent Borough service contractors become co-terminus.

Option 5 – 3rd Party Supplier

To procure a 3rd party supplier to provide the functions and manage the existing contract with Veolia.

Shortlisting Options

The variety of options initially considered required a significant amount of development to bring to a stage where full comparison between models would be possible. To ensure energy and resource were allocated to the development of only feasible options officers conducted an initial cross cluster joint feasibility assessment based on the agreed quality criteria.

The results of the feasibility evaluation excluded two options initially:

Option 4 - Federated services

This option has been discounted due to it not being deliverable in the short to medium term. Discussions took place with WRWA (Western Riverside Waste Authority) constituent councils and through the Veolia service users group. There was limited interest in sharing best practice and pooling specialist equipment, there was no appetite for federation of client or support functions.

Officers did feel however this attitude might change in 2021 when WRWA contracts are co-terminus, and as such provide a platform for closer/federated working.

And;

Option 5 – 3rd Party Supplier

This option was discounted due to the increased level of separation this would create between suppliers, the council, elected member and ultimately the citizen. It was felt this increased separation would reduce accountability, worsen the customer experience and further reduce the flexibility to meet future demands.

Equally significant would be the increased duplication and potential inefficiency of a 3rd party management model.

The Final options

The feasibility evaluation created 3 Shortlisted options. These options were taken forward for development with colleagues from across the clusters to full evaluation.

Option 1 – In-house client services

Option 2 - Integrated Supplier Services (the recommended option)

Option 3 -Hybrid Services

Option 3 - The Hybrid option

This option was rejected following the application of the quality and cost considerations, which highlighted the fact that Option 1 and 2 offered considerably more in terms of service quality and that option 3 did not deliver the financial savings associated with this commission.