

# London Centre of Excellence

## Waste Contract Management Best Practice Sharing Group

# Welcome

12 September 2006



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# Today's Agenda (1)

- **Welcome and Introductions – Chair**

*The London Centre of Excellence and the London Fire and Emergency Planning Authority*

- **Objectives of the Meeting**

- **Implications of the Acquisition of Cleanaway by Veolia**

*Presentation and discussion*



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# Today's Agenda (2)

*For presentation and discussion:*

- **Conclusions from the LCE Status Review on CRMGT**

*Andy Davies, for London Centre of Excellence*

- **Partnership Boards and Open-book Accounting**

*Peter Ramage, RB Kensington & Chelsea*

- **Performance Management**

*Richard Williams, LB Camden*



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# Today's Agenda (3)

- **Issues Facing the Competitive Market**  
*James Snape, Nabarro Nathanson, followed by questions.*
- **Review, “What Next?” and Close**  
*by 1700 latest.*



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## Objectives of the Meeting



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## Veolia – Cleanaway Implications for London of the proposed merger

# Purpose

- Sketch background to the proposed merger
- Describe the outsourced waste services landscape in London
- Give an update on the merger approval process
- Promote discussion on the impact on the competitive market of this acquisition
- Discuss options open to London boroughs

# Background

- Veolia Environnement announced proposed acquisition of Cleanaway Holdings on 30 June
- **Each** has a UK turnover of about **£500m**
- The transaction is subject to merger approval by the EU competition authorities
- OFT closed window for submission of comments on 15 August.
- European Commission decides on 21 September.

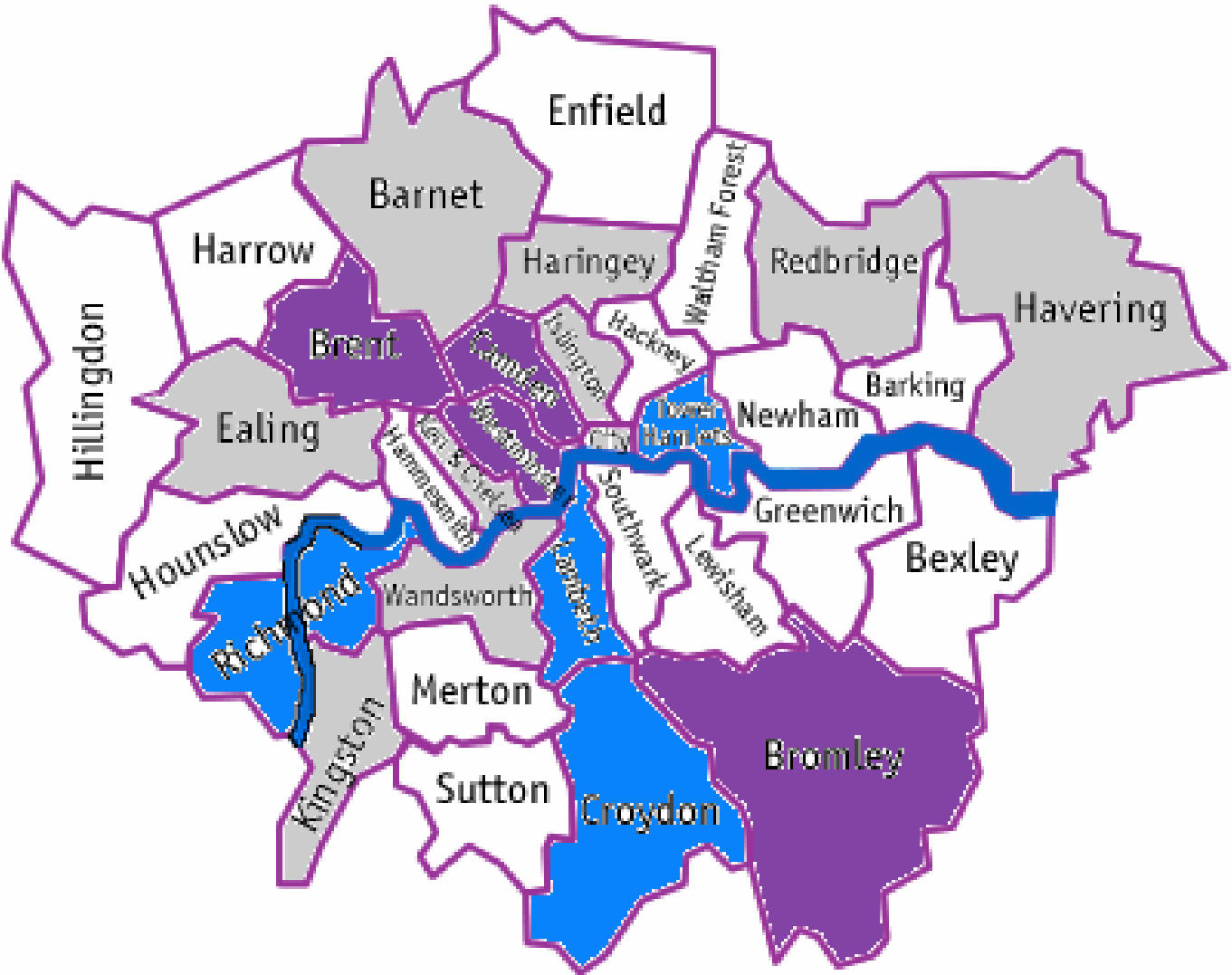
# What Veolia Says


“The new Veolia Environmental Services entity in the UK will have 2006 pro-forma revenues above £1.1 billion (€1.6 billion) and employ more than 13,000 employees and is expected to post strong organic revenue growth in the short and medium term. It expects significant cost synergies arising from **procurement savings, route optimisation, depots rationalization and central costs savings.**”

# The Market in London

- Of 33 London boroughs, **20** have outsourced their refuse collection service
- **Ten** (50%) have a current contractual agreement with either Veolia/Onyx or Cleanaway.
- Last year, London's business was worth **£63m** to Veolia and **£60m** to Cleanaway
- Merger **already impacting** on current tender competitions in London.

# London's Refuse Collection Landscape



-  Veolia / Onyx
-  Cleanaway
-  Other
-  DSO



# Distribution of Contracts in London

	Refuse Collection	Street Cleansing	Recycling / Other
Veolia/Onyx	4	4	1
Cleanaway	4	4	2
Kier	-	1	-
MRS Environmental	2	1	1
Biffa Waste Services	2	1	
SITA	2	1	1
ECT Recycling	2	1	4
ICSL Accord	2	1	-

# Office of Fair Trading

- LCE made representation on 31 August and invited OFT to attend today
- OFT says concerns about market share “not enough on its own to make a case... there is enough competition and no real barriers to entry.”
- OFT has asked European Commission to refer case back to UK to investigate market in **waste incineration**.
- But is Cleanaway even in this market?



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# Discussion

- Is this a genuine problem for London or is OFT right?
- What might Veolia's dominance mean for current and future tender competitions?
- Could this impact on costs and service?
- How could we alleviate the problem?



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**Status Review of  
Contract and  
Relationship  
Management in London**

# Contract and Relationship Mgmt

*We do not* mean the tendering, negotiation and award of contracts.

We mean the whole client-contractor engagement process ensuring that every live contract delivers:

- **Value for money**
- **Performance and compliance**
- **Realisation of intended benefits**
- **Fulfilment of ongoing demand**
- **Sustainable service delivery**
- **Continuous improvement**

It is vital in the context of the Gershon Review and is crucial to the shared services agenda.

# Objectives of the Review

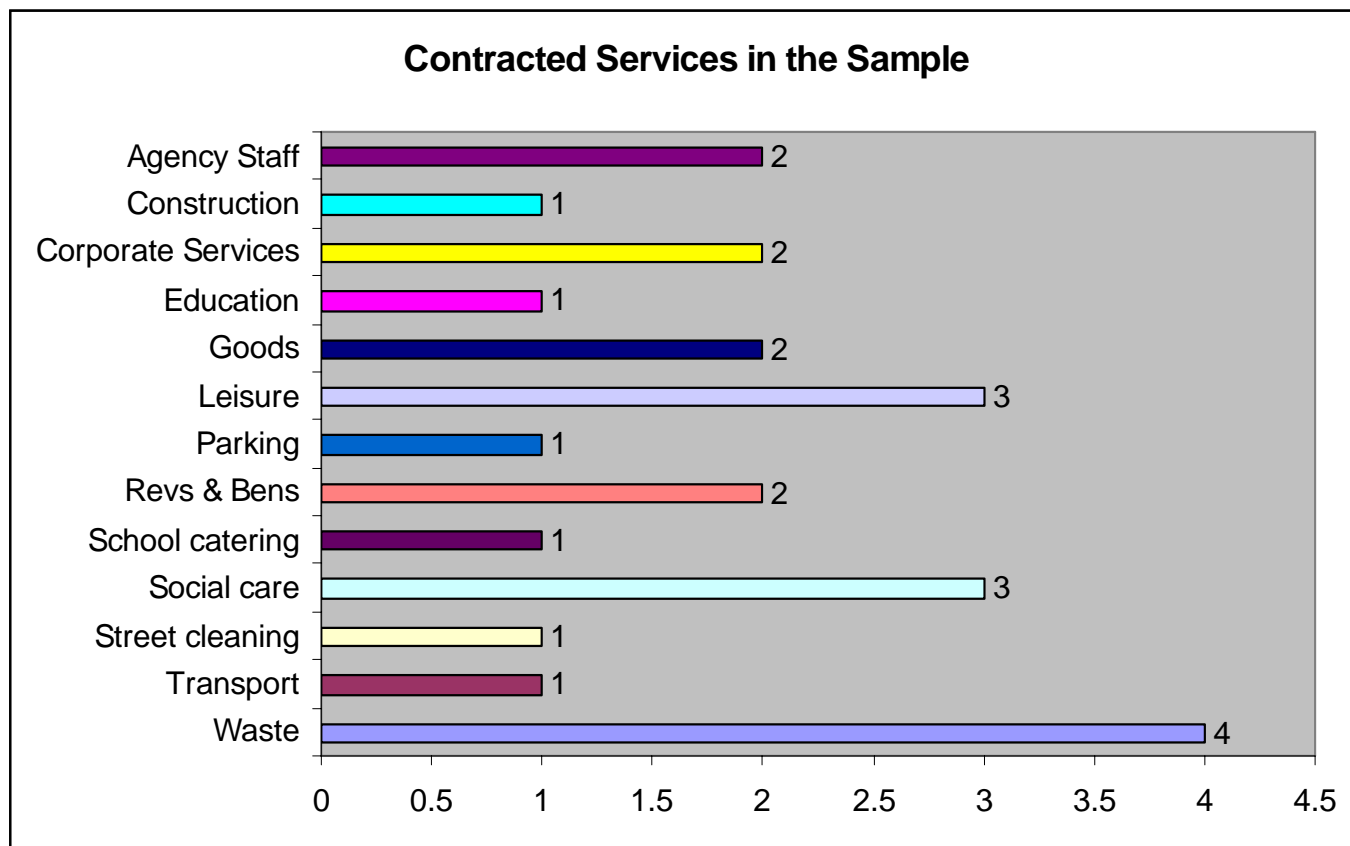
To identify:

- to what extent contractual relationships are managed after award stage;
- what resources are allocated to the task, including skills, knowledge, experience and qualifications of staff involved;
- what skills and competency gaps exist and what best practice guidance is available; and
- the quality and professionalism of CRMGT activities and their effectiveness in delivering best value, continuous improvement and value for money.

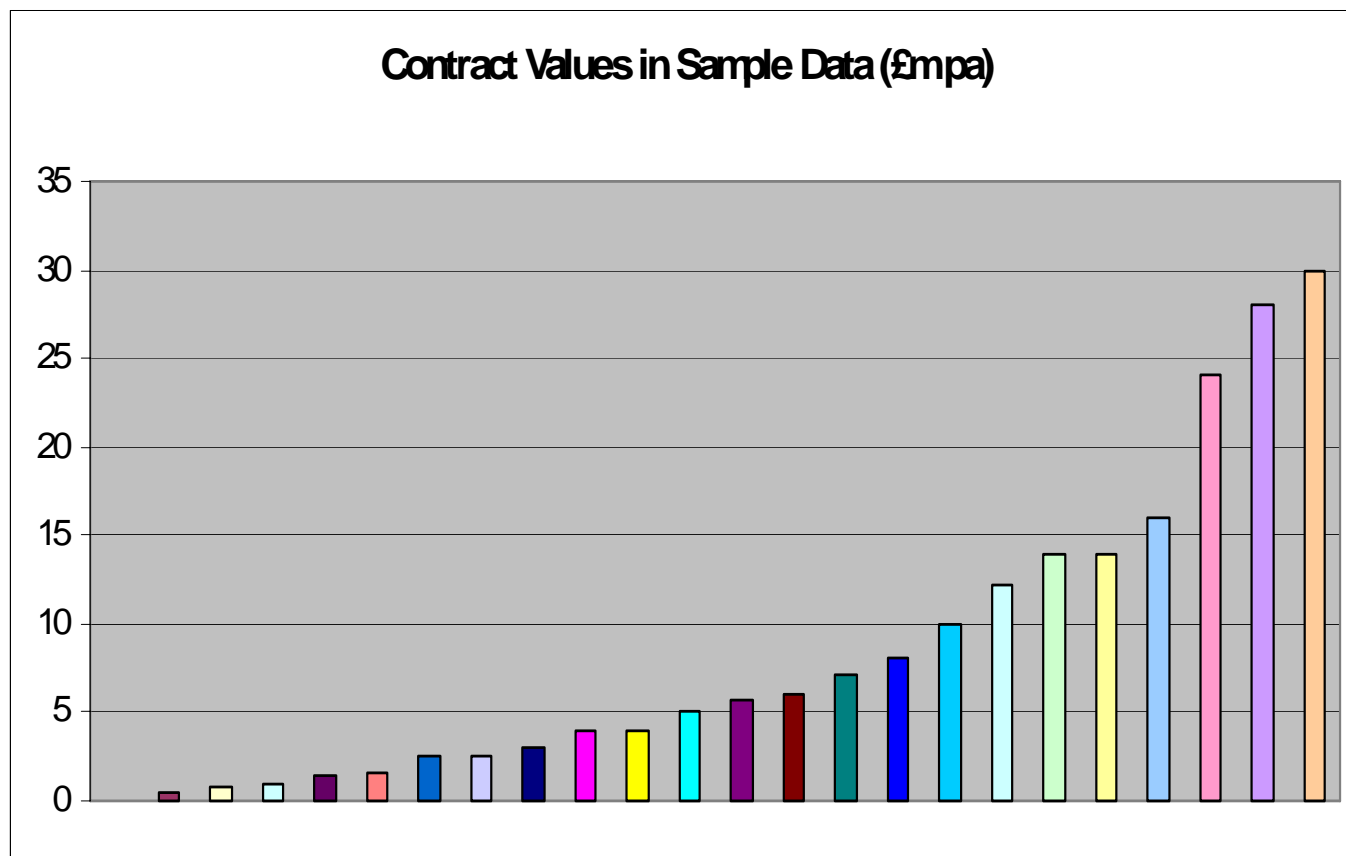
# Constraints of the Review

- Semi-structured or in-depth interviews do not enable generalisations to be made
- The sample is too small for conclusions to be described as statistically significant or representative
- Only a snapshot: no opportunity for longitudinal study
- Only client-side contract managers interviewed
- ‘Keeping Up Appearances’ and ‘interviewer bias’.

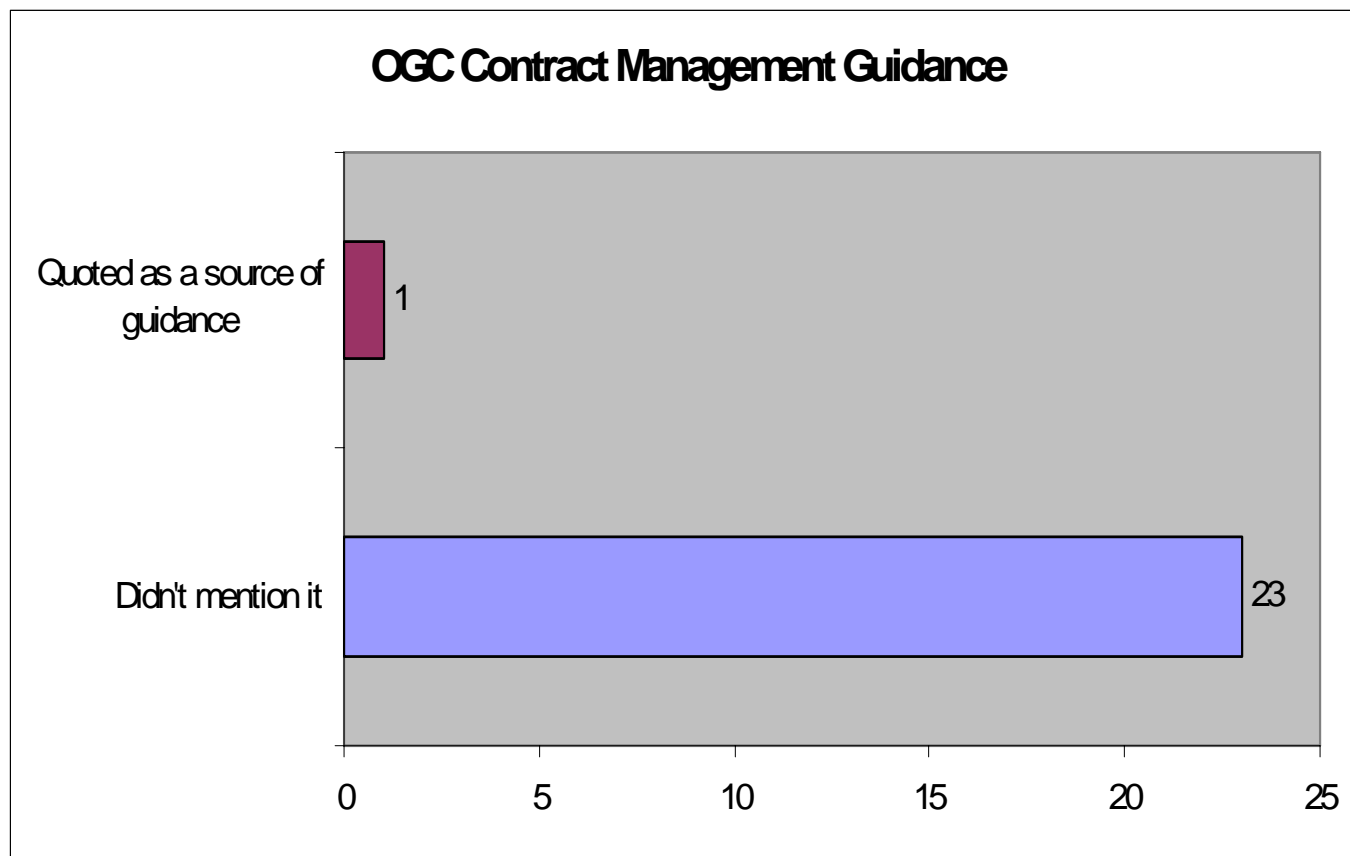
## 24 contracts in 15 London authorities covering a range of services were examined in the review



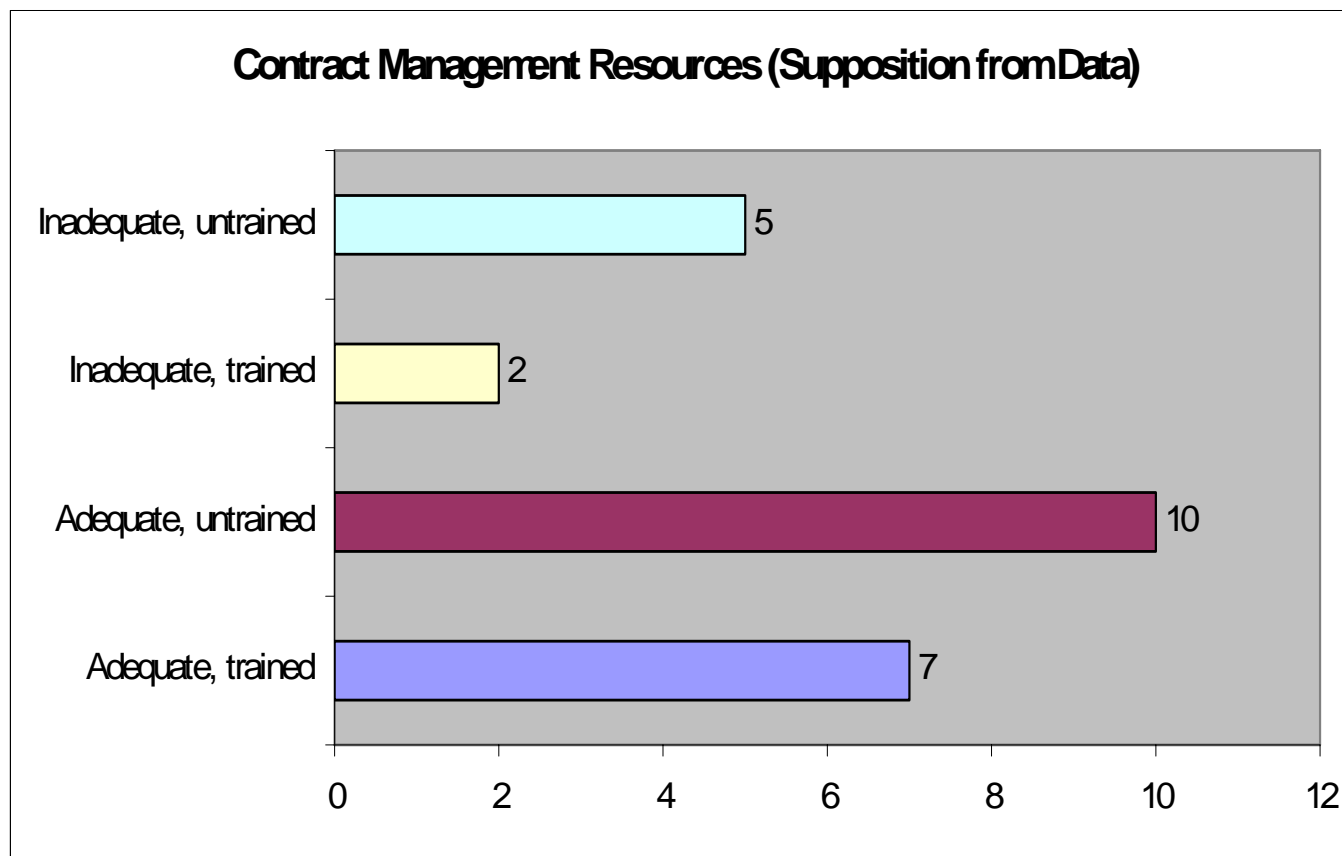
# These contracts account for over £200m of expenditure every year



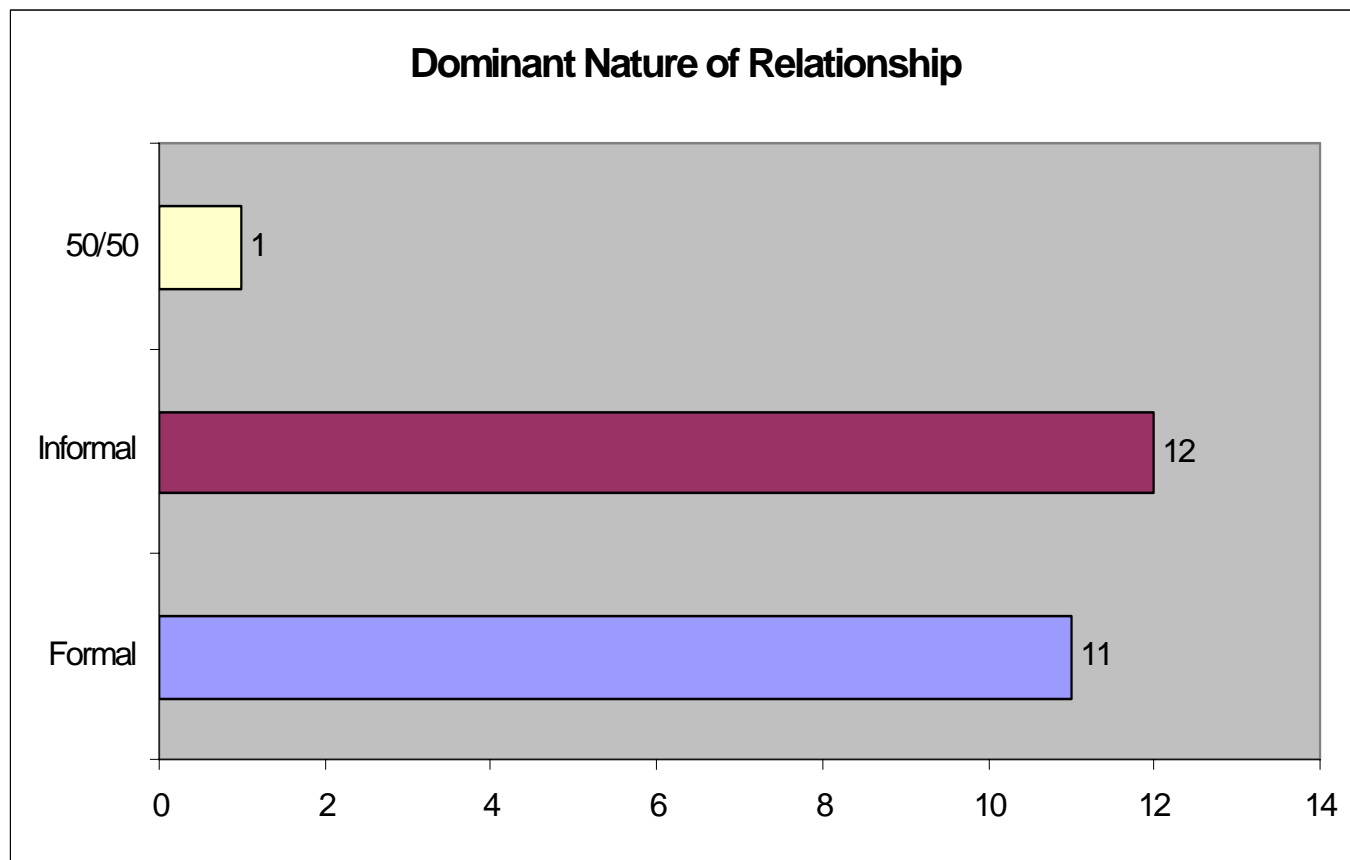
# Only 1 manager mentioned that he had used contract management guidance from OGC



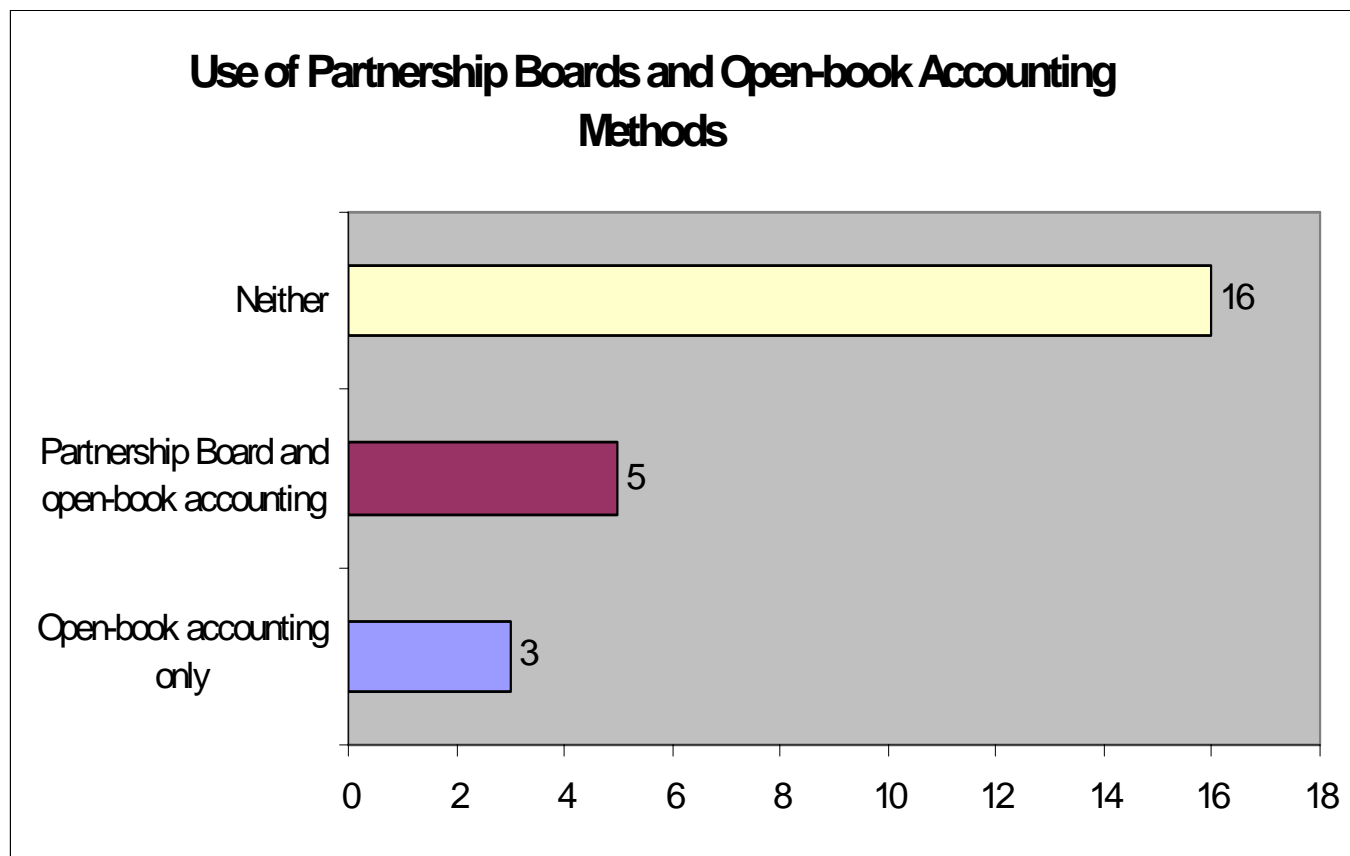
# Only 7 of the contracts are managed with adequate and trained resources, the data suggests



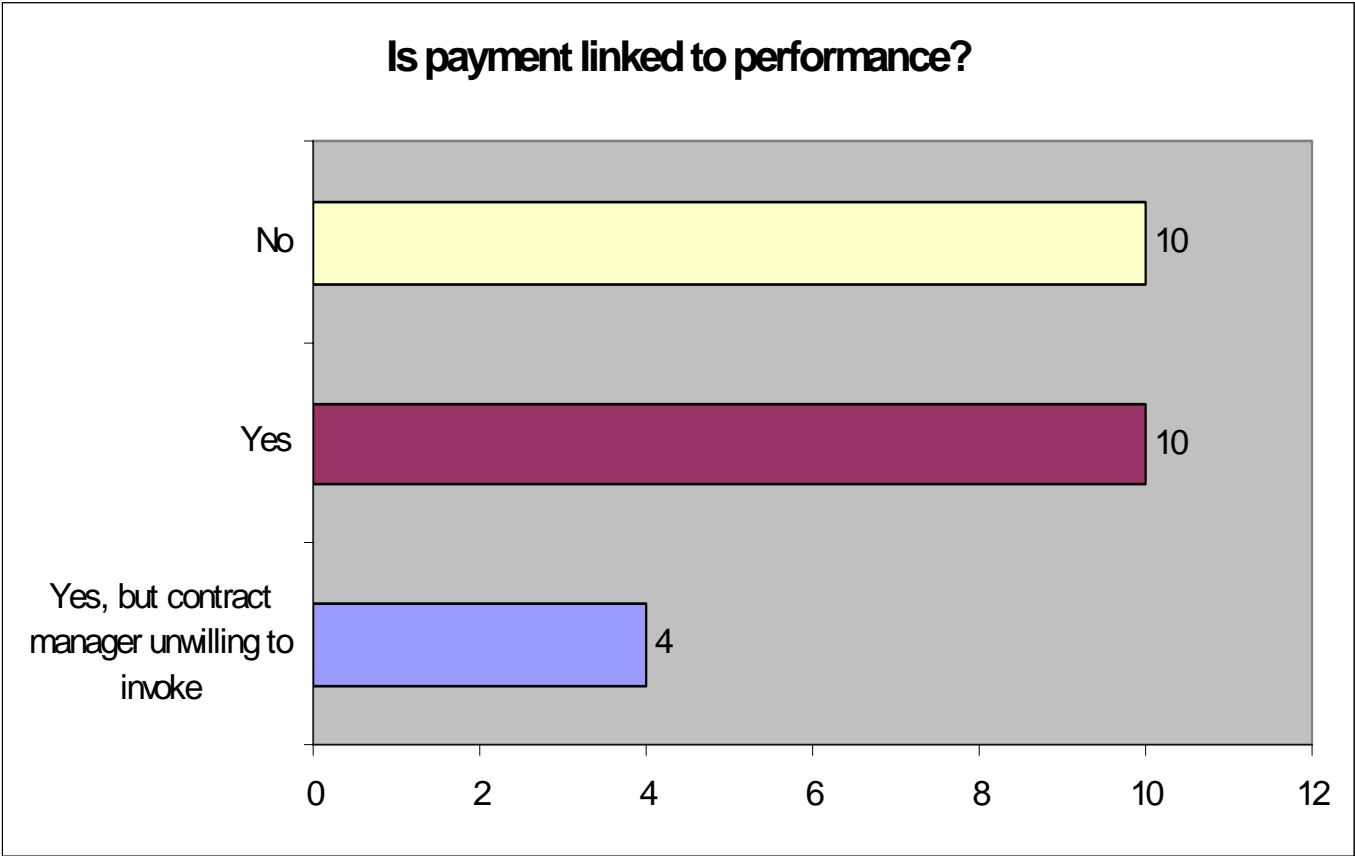
# Contract Managers are split as to whether they feel their relationships are more formal or more informal



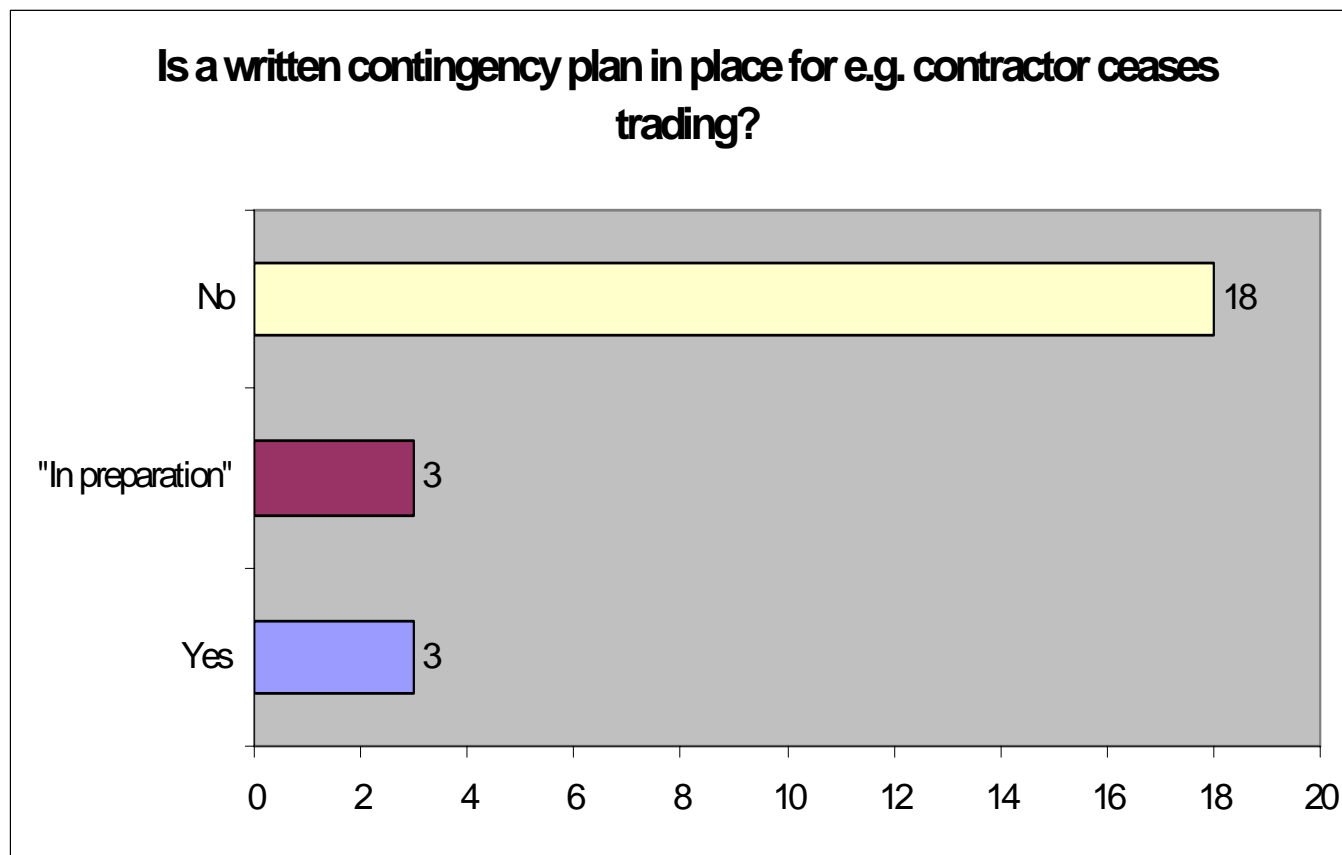
# Only a third of contracts use Partnership Boards or open-book accounting to manage their relationships



# Payment is linked to performance in 14 contracts, but 4 managers are unwilling to invoke deductions



# Very few have contingency plans in place in case their contractor should suddenly go out of business



# Other Shortcomings

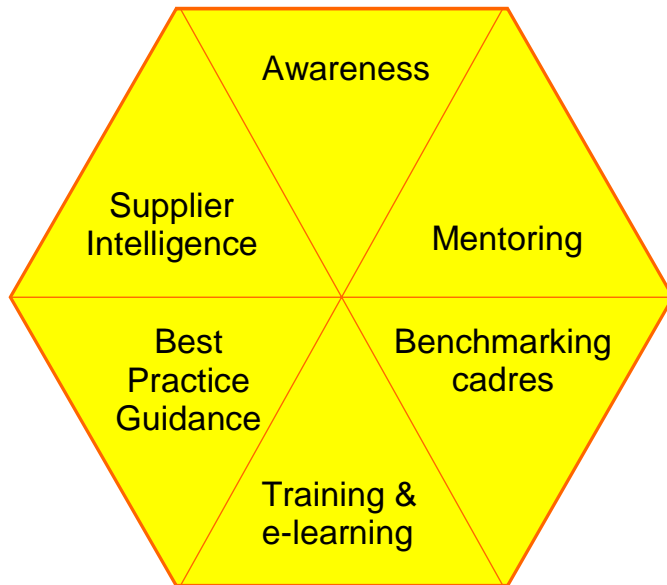
- Authorities need to make better use of commercial or procurement expertise in managing contracts.
- Benchmarking is undertaken at best only in broad terms.
- No contract manager revisits the business case or operates a clear process for reporting whether the benefits are being delivered.
- Authorities are failing to manage risks associated with these contracts effectively.
- Changes are made to agreements without any formal record.
- Few stakeholders get involved in the relationship during the operational phase.



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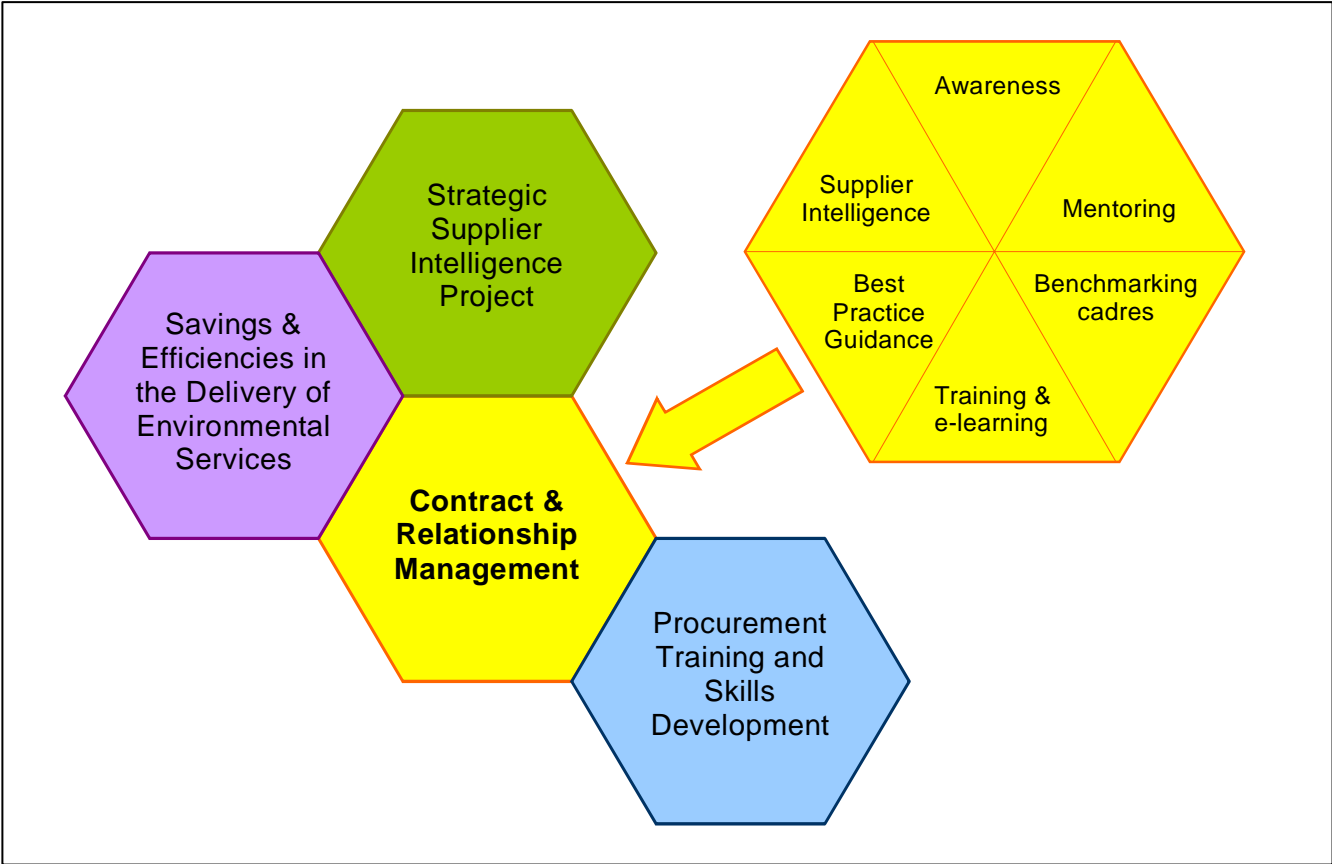
# The Way Forward



Opportunities for improvement will stem from:

- Generating awareness by creating a commercial environment through top-level management sponsorship
- Using this review to inform local authority specific Best Practice Guidance
- Begin disseminating best practice through benchmarking and mentoring programmes using existing officer interest groups
- Training and e-learning programmes

# For best results, work going forward should be integrated with other LCE Projects

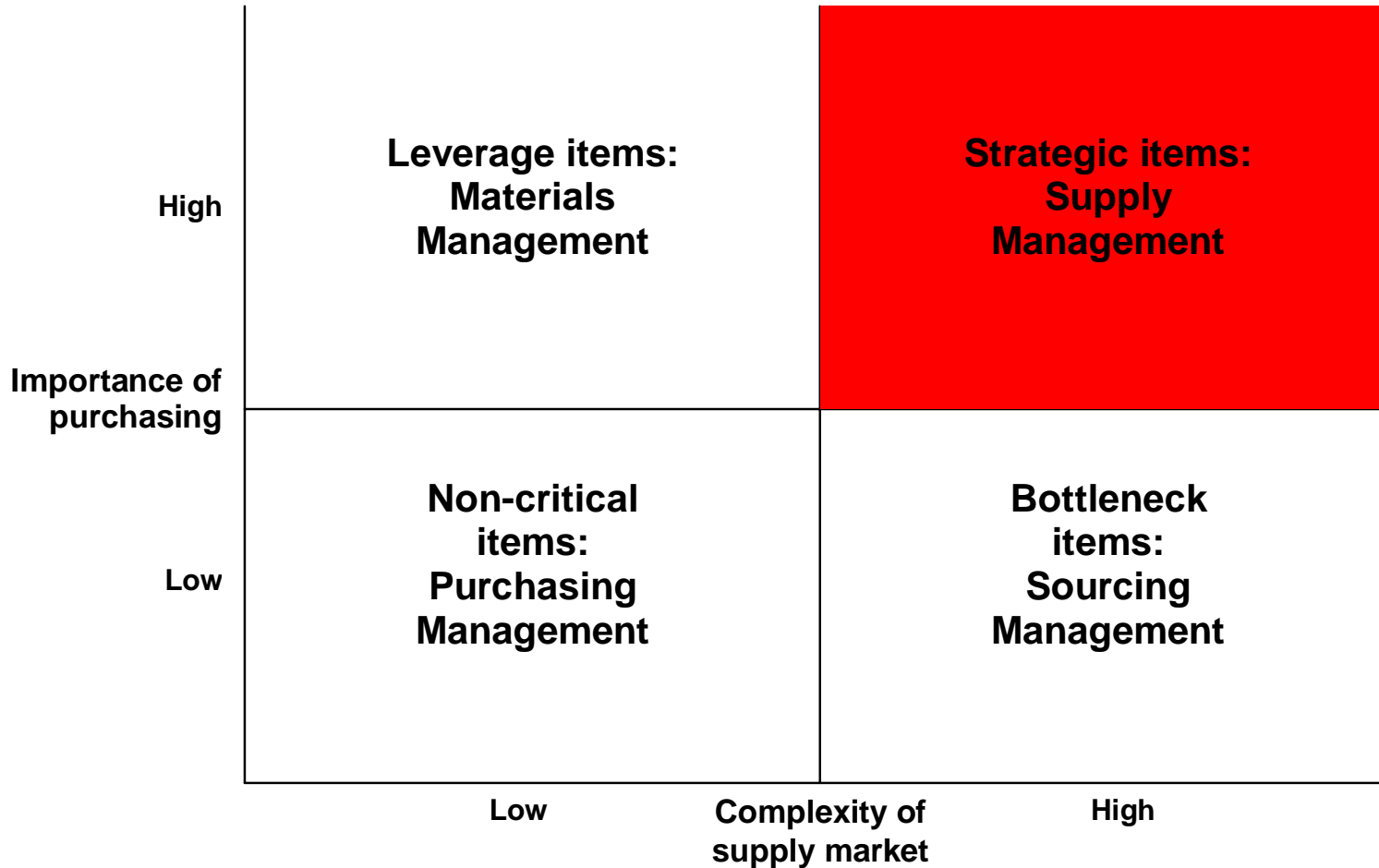


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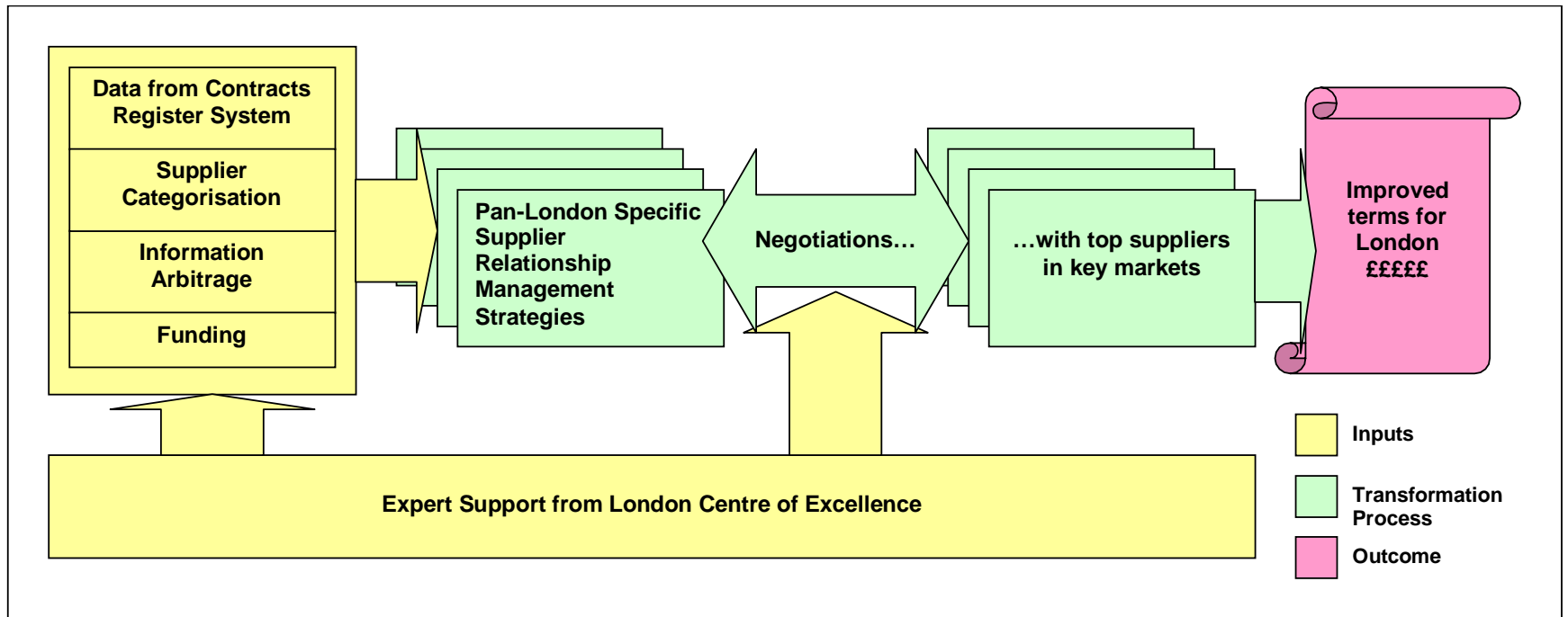
## Strategic Supplier Intelligence (SSI) Project



# Supplier Categorisation



# The SSI Transformation Process



# SSI Project Components



Benefit from Strategic Supplier Intelligence will arise from:

- Providing leadership to the Project and awareness of its objectives
- Management of key operational and commercial risk for London Boroughs
- Management information provided by the CRS
- Categorisation of suppliers by spend and risk/criticality
- Development of specific SRM strategies for key suppliers
- Collaboration and a move toward shared services

# Supplier Relationship Management: An example

- Ten London Boroughs have separate contracts with the same waste collection contractor
- Total estimated annual value is £125m, representing 13% of the contractor's UK turnover
- By acting in concert, these become a powerful negotiating partner
- Just 1% improvement in value for money would bring benefit of £1.25m per annum to those authorities and a payback period of around 1 month.

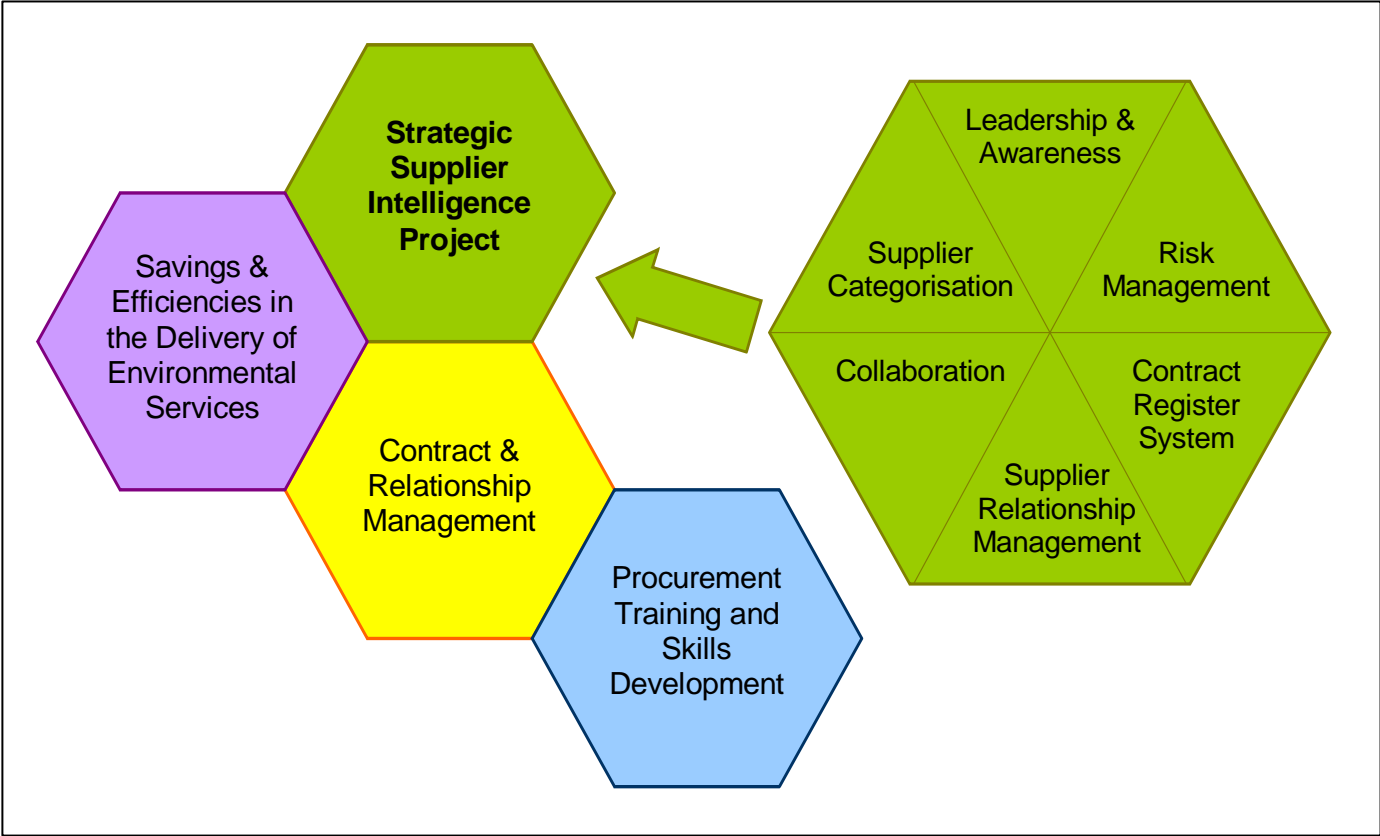
# The first candidates...

Apollo London Limited	Construction and refurbishment	J Crowley Ltd	Highway/ building services
Badenoch & Clark	Staffing/recruitment	Lifestylecare plc	Social care
BT	Corporate services	Makers UK Ltd	Construction and refurbishment
Capita	Corporate services	Ringway	Highway/ building services
Care UK	Social care	Scolarest	Catering
East Thames Care	Social care	TMP Worldwide	Recruitment/Advertising
Fujitsu UK	Business Transformation	Veolia/Onyx/Cleanaway	Environmental/Waste Management
Higgins Construction	Construction and refurbishment	Vinci Park Services	Car park management

# What could we achieve in Phase 1?

- Categorise Top 20 suppliers by value and risk/criticality
- Focus initially on up to 10 top suppliers drawn from waste, leisure, IT and social care markets
- Prepare collaborative SRM strategies for each of these key suppliers
- Use 'Information Arbitration' to inform these strategies
- Gain authority to negotiate benefits and develop detailed plans to execute.

# For best results, work going forward should be integrated with other LCE Projects





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