



Cabinet

5 MARCH 2012

**CABINET MEMBER
FOR RESIDENTS
SERVICES**

Councillor Greg Smith

**DELIVERY OF THE COUNCIL'S TRADE
WASTE SERVICE FROM 2012/13**

Wards: ALL

The report provides an update on the current Trade Waste Service provided by the borough.

A separate report on the exempt Cabinet agenda provides information relating to the income from and costs of providing the service, which is commercially sensitive.

CONTRIBUTORS

AD for Customer & Commercial Services, and AD Cleaner, Greener and Cultural Services, RSD
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Recommendation:

That LBHF continues to deliver a Trade Waste Sales Operation while a further review is undertaken as part of the wider Bi-Borough transformation review for the new Environment, Leisure and Residents Services Department by March 2013.

<p>HAS AN EIA BEEN COMPLETED? YES</p>

<p>HAS THE REPORT CONTENT BEEN RISK ASSESSED? N/A</p>

1. BACKGROUND

- 1.1 In April 2010, Cabinet endorsed the recommendation that LBHF continue to deliver a Trade Waste business for 2011/12 and through a more proactive approach to income generation, work towards an external income target of £2.4m. The financial summary from that report is reproduced at Appendix A.
- 1.2 However, with the increase in waste disposal charges effective from April 2011 and uncertainty about the future of the Landfill Allowance Trading Scheme, Cabinet asked that a further review of the financial viability of the service be undertaken in March 2011. This review was completed and the continuation of the service endorsed, to be reviewed again in March 2012.
- 1.3 There will be a review of trade waste services as part of the wider Bi-Borough transformation review for the new Environment, Leisure and Residents Services Department. In the meantime, based on the projected outturn and the predicted positive contribution of £466k for 2012/13, it is recommended that LBHF continue to deliver a Trade Waste sales operation.

2. FINANCIAL PERFORMANCE AND SALES PLANNING

2.1. Financial Performance since 2009

- 2.1.1 The latest income and expenditure data and forecasts for the period 2009/10 to 2012/13 are included in the report on the exempt part of the Cabinet agenda, on the grounds of commercial confidentiality.
- 2.1.2 The April 2010 Cabinet paper projected the following external income values.

£000's	Fcst 2009/10	Fcst 2010/11	Fcst 2011/12
External Income	2,013	2,366	3,274

In March 2011, a detailed sales and marketing plan was tabled and Cabinet endorsed an external income target of £2.5m for 2011/12. Cabinet will recall that the reduction in forecast income in year 2011/12 from £3.274m to £2.5m was a result of the detailed analysis that was undertaken by the new commercial team of the market share, competition and opportunities which existed in order to grow the business.

- 2.1.2 The Trade Waste operation continues to improve external sales performance, resulting in a three year improvement in external income of 28% which equates to £400k per annum increase compared to 2009/10.

2.1.3 For 2012/13 there is a targeted 10% increase in external income (compared to actual forecast outturn for 2011/12.) This challenging target is partly due to the need to recover increased waste disposal costs for 2012/13 (shown as an increase in variable costs) and partly based on an expectation of what is achievable in respect of further growing the customer base and increasing the sales value per existing customer.

2.1.4 The Trade Waste service is forecasting external year-end income of £2.401m for 2011/12 which is a 7% increase on 2010/11 which outturned at £2.253m. This is a significant achievement given the current financial climate and demonstrates that the sales team has the capacity and focus to deliver the increased sales target for 2012/13. It is to be noted that while sales have increased by 7%, debt levels have improved significantly (see section 2.2.2)

2.1.5 It is to be noted that the Council has a statutory responsibility to provide a Trade Waste service to its business customer base. However the Environment Protection Act (1990) does not specify how this service is to be provided; for example, LB Wandsworth has exited the market through over inflated pricing points when compared to its competitors.

2. 2 Improving the lifetime value of the Trade Waste Customer Base

2.2.1 In April 2010, Cabinet endorsed the Trade Waste Sales Strategy which was a blended approach of retention, acquisition and win-back. The last three years have seen significant improvement in the lifetime value of the Trade Waste customer base.

2.2.2 Following a lean thinking review of the debt recovery process, the Trade Waste team has focused on recovering current and longstanding customer debt (30+ days overdue) by suspending or withdrawing service provision for non-payment. The result of this has been significant improvement in aged debt levels since June 2011. The table below outlines the improvement that has taken place

Debt > 30 days	June 2011	July 2011	Sept 2011	Jan 2012
£000's	1,352	792	479	485

2.2.3 Within a difficult economic climate for many business, through effective implementation of a 'win-back' strategy at the point of cancellation, net customer churn levels are currently 8%, 3% points improvement compared to 2010/11 when annual churn was running at 11%, and 7% points improvement compared to 2009/10 when annual churn was running at 15%.

2.2.4 Although the product portfolio saw no change from last year, the introduction of annual billing combined with the increased charges for bin collection services required a heightened degree of customer relationship management activity for the field and desk-based sales teams. This change in approach also served to reduce the operating cost base of the Trade Waste activity.

2.2.5 In 2009, the average annual income from our customer base was £1k per annum; in 2011 this has increased by 40% to £1.4k.

2.3 Sales Approach

2.3.1 The Cabinet Paper in March 2011, outlined in detail the income generation strategy for trade waste and the steps being taken to recover sales.

2.3.2 The trade waste sales activity has an established team of three experienced sales officers who are split across the three existing territories with the objective of generating new business, minimising customer loss (i.e. churn) and retaining the existing customer base through effective relationship management. An additional aspect of the role is to support the debt recovery effort, thus supporting the Central Finance debt team.

2.3.3 Performance monitoring and sales target achievement are linked to an improved incentive scheme for performance-related pay (PRP) which linked all four deliverables: acquisition, winback, retention and debt recovery alongside personal appraisal objectives. Monitoring mechanisms were managed through fortnightly sales meetings and 1:1s. These monitoring activities are supported by in house databases managed within BDU sales operations unit.

2.4 Implications of Bi-Borough

2.4.1 Although not yet fully understood, within the context of Bi-Borough there will be the potential opportunity to explore synergies and areas/practices of duplication or waste in back-office operations (for example) to realise economies of scales, standardisation and efficiencies which exist under a single head of service. The potential transformation opportunity will take into account issues around the sovereignty guarantee and demographic service delivery as well as existing contractual arrangements for service collection.

2.4.2 It is expected that all service reviews for this department will be completed by April 2014.

3. WASTE DISPOSAL CHARGES

3.1 On 1 April 2012, the cost of waste disposal will increase due to uncontrollable increases in Landfill Tax and payments to Western Riverside Waste Authority (WRWA.) The increases are

- General Waste 8% (£138.00 per tonne)
- Recycled Waste 9% (£77.50 per tonne)

3.2.1 The Trade Waste operation is moving towards a model of full cost recovery in its pricing approach. The detailed proposals for 2012/13 are included within the Revenue Budget & Council Tax Levies report being tabled to Cabinet 30th January 2012.

4. RISK MANAGEMENT

4.1 The sales performance and profitability of the Trade Waste activity is reviewed and monitored on a monthly basis, with action plans developed for any adverse variance.

5. COMMENTS OF THE EXECUTIVE DIRECTOR OF FINANCE AND CORPORATE GOVERNANCE

5.1 All fees and charges continue to be reviewed to ensure that they achieve full cost recovery whilst remaining competitive compared to other major providers in the area. Proposals for further revisions from 1 April 2012 are currently being finalised as part of the Council's budget setting process which will ensure that they are effectively communicated and implemented in line with this timescale.

5.2 Whilst corporate growth has been secured through the MTFs process to fund the increased waste disposal costs from 2012/13, the service should continue to be reviewed in terms of overall profitability to ensure that it remains a commercially viable business that is not unintentionally subsidised by the Council. A further review of the service is planned as part of the wider Bi-borough transformation review for the new Environment Leisure and Residents Services Department.

5.3 The profitability figures set out in this and the exempt report assume that the service will continue to operate within the existing levels of service as set out in the current waste and street cleansing contract. Customer levels will need to be carefully monitored to ensure that management action is triggered when the current capacity of the vehicle and crew resource is being neared. At this point an assessment should be made as to whether to continue to grow the business, as once capacity is reached the additional incremental costs to be

recovered through fees and charges income will be significant (such as the cost of an extra collection round etc). Customer levels should be monitored and reported through the Business Development Unit.

6. COMMENTS OF THE ASSISTANT DIRECTOR (LEGAL & DEMOCRATIC SERVICES)

- 6.1 Under s.45 (4) of the Environmental Protection Act 1990, a person at whose request waste other than household waste is collected under this section shall be liable to pay a reasonable charge for the collection and disposal of the waste to the authority which arranged for its collection; and it shall be the duty of that authority to recover the charge unless in the case of a charge in respect of commercial waste the authority considers it inappropriate to do so.

7. EQUALITY IMPLICATIONS

- 7.1 An equalities impact assessment has been undertaken and the proposals outlined will not impact any specific group.

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Review of Trade Waste Collection (Cabinet:: April 2010)	Sue Harris, AD CGN, Ext: 4295	RSD / 77 Glenthorne Road
2.	Delivery of the Councils Trade Waste Service for 2011/12 (Cabinet: March 2011)	Sharon Bayliss, AD CCS Ext 1636	RSD/ 77 Glenthorne Rd
3.	Residents Service Changes to fees and charges effective from 1 st Jan 2011	Sharon Bayliss, AD Customer & Commercial Services, Ext: 1636	RSD / 77 Glenthorne Road
CONTACT OFFICER:		NAME: Flora Ekundayo, Head of Business Development, Ext: 2092 Sharon Bayliss, AD Customer & Commercial Services, Ext: 1636	

Extract from Report to Cabinet April 2010

Note the table in this section projects external income only.

5. COMMENTS OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

5.1 Table 2, below, demonstrates the financial impact of the preferred option 3a above, and includes increasing fees and charges, as well as market share. As can be seen within the data, the significant uplift of disposal costs during 2010/11 and 11/12 will lead to a less profitable business, although in future years profitability may increase, depending on landfill availability and costs (Defra decision). Due to the uncertainties surrounding the business it is suggested that a further review should be undertaken in 12 months time, once WRWA and the council are clearer on the long term costs of waste disposal, for both local authorities and commercial businesses. The table also demonstrates that if we stopped the business altogether, Corporate recharges and fixed management costs of £178,888 would still be incurred. The majority of these costs represent elements such as IT systems, the cost of the contact centre handling calls on behalf of trade waste and income processing and debt management costs carried out by corporate finance. These costs would return to the centre where they could be reduced or re-apportioned across other service areas. If the Corporate recharges could not be reduced they would still represent a cost to the Council.

	2009/10	2010/11	2010/11	2011/12
Trade waste modelling scenario options 2 and 3a	<i>Forecast for the year</i>	<i>Assume increase in Business- 18% - in line with the sales plan projection</i>	<i>Stop the Business altogether</i>	<i>Assume no growth in 2011 /12 profit share with Serco and 5% increase in charges</i>
Trade waste income	(2,012,800)	(2,365,800)	0	(3,273,616)
Trade waste service expenditure	1,763,105	2,237,923	28,111	3,183,003
Gross Operating (surplus) deficit	(249,695)	(127,877)	28,111	(90,613)
SLA's and Corporate recharges	150,777	150,777	150,777	150,777
Net (surplus) Deficit	(98,918)	22,900	178,888	60,164

The figures above exclude the costs of the upgrade to the IT system (estimated to be in the region of £70-100K). Specifications are being finalised and once the full costs are known, these will form the basis of an invest to save bid to secure IT funding. Agreement to the preferred option in this report will however require this investment in order to be implemented. It is intended that this will be self financing and repayable over a three year period from 2011/12.

The projections above are based on increased sales of 18%. This is supported by the detailed business and sales plan for 2010/11 a summary of which is attached as Appendix A on the exempt part of the report. The proposed growth of 18% has been tested through a comprehensive sales and marketing plan. There is a risk that the actual income growth will not materialise, for example should there be no income growth, the position for 2010/11 would change to a gross operating deficit of approximately £125k. The income projections will be carefully monitored with a full year review in 12 months time.

Trade waste income targets for 2010/11

The budgeted target for external trade waste for 2010/11 is £3.4m per annum, made up of £2.7m for external customers and £0.7m for internal customers such as schools and housing estates. This includes an additional target for external trade waste of 200k for this year, a figure that was unfortunately agreed at a time of falling sales and without a detailed marketing sales plan explaining how the increased sales would be achieved. The impact on this shortfall against budget will be reviewed as part of the 2010/11 corporate performance monitoring process.