



# Cabinet

26 APRIL 2009

**CABINET MEMBER  
FOR CRIME AND  
STREET SCENE**  
*Councillor Greg Smith*

## REVIEW OF TRADE WASTE COLLECTION

**Wards  
All**

This report considers options for the trade waste portfolio going forward.

A separate report and appendix on the exempt part of the agenda provides confidential information about the sales plan.

## CONTRIBUTORS

ADCGN  
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## Recommendations:

1. The report and business case attached as Appendix A, on the exempt part of the report, be noted and option 3a outlined in section 3.4 be agreed as the way forward for the next 12 months.
2. To note the projected growth in customers required, timescales and subsequent impact on budgets for 2010/11 and 2011/12 as outlined in section 5.
3. To agree in principle to expenditure of up to £100k for an enhancement to the IT system- Waste Manager - on an invest to save basis, in order to implement the preferred option 3a.

HAS A PEIA BEEN  
COMPLETED?  
YES

SCRUTINY  
COMMITTEE:  
CLEANER,  
GREENER

## 1. BACKGROUND

A trade waste collection service provided by the Council has operated in Hammersmith and Fulham for over 25 years. The contract for Waste Collection, Recycling and Street Cleansing Services was let to Serco Ltd on 16 June 2008. Within the contract arrangements, Serco provides the trade waste and recycling collections, although management of the service, including customer support, invoicing and face-to-face contact, continues to be provided directly by the Council. Performance of the trade waste service declined during contract handover, with over 300 customers cancelling their agreements. The main reasons were due to initial unsettlement of the operational staff as part of this transfer, changes in major collection routes as part of the introduction of single pass in February 2009, and latterly the introduction of new IT Confirm communication and reporting systems that led to invoicing errors for over 1,000 customers.

A trade waste audit was undertaken in November 2008, providing a snapshot of performance at that time, with suggestions on how improvements could be made. This led to a reconciliation process between the information held on Serco 'beat sheets' and Council held data. Following transfer to Residents' Services Department in April of this year, a more fundamental review of the service commenced. The objective was to ascertain whether it is financially beneficial to invest and grow the portfolio, or to consider alternative mechanisms to service provision where a customer request is made, operating within the current legislative framework.

## 2. REVIEW FINDINGS

### 2.1 Benchmarking

Visits were undertaken to other local authorities over the past 5 months and the findings are detailed below:

LOCAL AUTHORITY	TYPE OF SERVICE	No of customers	INCOME *	Income per customer
Kensington and Chelsea	Service offered for waste and recycling bin and bag collections. Collections contracted to Sita.	3,500	4.5m	£1285
Wandsworth	Service was incorporated into a tendering process in the late 1990's consequently no direct service provision is available, and the council's duty is discharged via its contractor.	0	£0	0
Richmond	Service offered for waste bin and bag collections and a pilot scheme for recycling. Collections contracted to Veolia.	1,600	1.5m	£937
Westminster	Extensive service offered for waste and recycling bin and bag collections, and hire of compactors. Collections contracted to Veolia.	10,000	10.5m	£1050
Hammersmith and Fulham	Service offered for waste and recycling bin and bag collections. Collections contracted to Serco.	1,975	2.0m	£1012

\* current projections for 2009/10, excluding operating costs of the service

Four of the five boroughs contacted provide a service with differing levels of income, depending on number of customers. Although LB Westminster generate the greatest income overall, Kensington and Chelsea, who reviewed and improved their service in 2004, generate the greatest income per customer. They employ a sales team of 3 and a dedicated finance team of 4 and also operate a bonus scheme aimed at incentivising staff to grow the business and provide an excellent service to customers. Hammersmith and Fulham employ one commercial waste officer, two administrative staff and the financial function is undertaken by three staff employed within the Finance and Resources Division, who also undertake other duties and only devote 20% of their time to the trade waste portfolio.

## **2.2 Enforcement and “Clear all” policy**

**Monitoring Night Time Collections** - As part of this review, night time monitoring of the trade waste service was undertaken in September 2009 and covered the main routes between 9pm and 4am. Serco’s night crews were followed along their normal collection routes and the monitoring highlighted the following issues;

- Over production of trade waste; customers revising down contracts but still putting out the same, or increased amounts of waste in white (paid for) and black (non paid for) sacks
- The clear-all policy, originally introduced to improve the appearance of streets, has led to unreported fly tipping of black bags (containing both trade and domestic waste and cardboard) that is being collected by the night-time crew free of charge to trade customers
- Trade Recycling is not always presented in the correct (trade specific) orange bags; and flattened or un-flattened loose cardboard has been collected all together in one vehicle, as waste for landfill and so on occasions is not being recycled
- Serco green bags were found to be present out on the streets overnight on several routes. These should not have been there at those specific times as they are scheduled, under the terms of the contract, for collection by 5.30pm each day
- Domestic waste from households and flats above shops (both refuse and recycling) were collected under the ‘clear all’ policy rather than the following day under domestic collections, potentially leading to valuable recycling being lost to landfill
- Recycling left out by residents on “clear all” streets, on the night before collection has the potential to be collected as part of the general waste.
- Where fly tip trade and domestic household waste is cleared under clear all there is a general poor litter grading on some streets, below B. This was worse on heavier days than light nights.
- Crews were quiet and there was no noise pollution to residents.

**Night Time Enforcement Operation** - Following the night time monitoring exercise, a night time enforcement project commenced, specifically aimed at tackling the problem of trade waste over-production and fly tipping by traders. Early indications are that on particularly problematic roads, up to 50% of

businesses receiving night time collections were found to have placed waste out for the “clear all” crews to remove without having correct trade waste agreements in place. This could account for up to 20% of our existing customers and potentially results in the cost of clearance falling incorrectly on the domestic waste operation. On several occasions, premises were found to have placed waste out after they had already been issued with a fixed penalty notice for waste related offences during the day. Generally, once evidence had been presented, most business owners accepted notices issued for further action to be taken. The cost and time taken to secure a prosecution and fine is lengthy, with more cost effective short term successes being found in issuing FPN’s for fly tip occurrences. Whilst enforcement does provide some form of deterrent, fines imposed from prosecutions are usually smaller than the cost of paying for the collection service and so public awareness of prosecutions is also key to encouraging behavioural change by trade waste producers. This approach has recently been achieved working with colleagues in Communications.

**Background to “Clear all” policy** - The “Clear All” policy has clearly defined aims and objectives based on ensuring that streets are not blighted with sacks of waste dumped illegally either by traders or local residents, especially in the mornings when residents are on their way to work. This policy has led to reduced fly tipping and associated antisocial behaviour and due to its success, will remain as a key service for the future. In order to ensure individual accountability for waste, a strict enforcement regime is therefore planned, in collaboration with waste contractors, Serco.

### **2.3 IT system**

As part of the new waste contract implementation, an integrated IT system was planned for launch in 2008, utilising the existing Confirm contract management software historically used within Highways operations. The intention was that the system would be extended for waste contract management and interface with the OLAS financing system for invoicing trade waste customers. After a number of significant delays due to suppliers, Pitney Bowes, not providing a “fit for purpose” system, a new version of the trade waste module was finally released in September (over one year late). Whilst Confirm does provide a method of contract management (albeit not ideal), major problems were encountered when utilising the system to interface with OLAS and provide trade waste invoices. Nearly 50% of the third quarter invoices for 2009/10 had to be cancelled owing to inaccuracies, and a time-consuming manual process has been implemented to ensure accurate billing. The impact on lost business is currently being quantified. An additional £38K of costs were incurred relating to additional officer time and agency costs required in order to rebuild the data sets and send out correct invoices. Discussions have commenced with The Bridge and their sub contractors, Pitney Bowes, regarding these costs. If a decision is taken to grow the business, an urgent upgrade to the current 15 year old Waste Manager IT system is essential. The most cost effective option is to procure an upgraded package. The current system is obsolete and the licence expires on 31 May 2010 with no further opportunities to extend this without confirming purchase

of an upgrade. Work is currently being undertaken with The Bridge to confirm the final costs for a basic system to ensure the service can operate for a further 12 months, with the option to upgrade if after that time a decision is taken to grow the service further.

## **2.4 Waste disposal – cost implications**

In 2009/10 the Western Riverside Waste Authority (WRWA) agreed unanimously to switch to a tonnage based levy for payments related to waste disposal. This ensures that each tonne of waste created by a particular authority is paid for by that authority. As previously agreed by WRWA, civic amenity waste and WRWA overheads continue to be apportioned amongst the boroughs based on council tax base. At the WRWA meeting held on 2 February 2010, future waste disposal costs per tonne rates for were reported, highlighting an increase by £17.26 per tonne for 2010/11 and a projected further increase of £21.00 the following year (an uplift of approximately 17% for two consecutive years). The rates for processing co-mingled recyclables are also due to increase but by a far lesser degree, at £2 per tonne. These rates represent an increase in disposal costs of £1.1m for 2010/11 and a further £1.3m for 2011/12. This will have a significant impact on the financial viability of the trade waste service from 2011/12 onwards, as outlined within table 2 of this report.

A further potential impact was announced by the Department for Environment, Food and Rural Affairs (DEFRA) on 3 December 2009. Changes are being considered to the way waste going to landfill in the UK is classified and calculated. The existing approach focuses on “Municipal” waste collected by local authorities from households and businesses holding council operated trade waste agreements. The new classification would include more commercial waste collected exclusively by the private sector outside of the local authority regime, to help “bring greater convergence between the management of household and commercial waste”. The change is expected to bring the UK approach into line with that of a number of other European member states. As a consultation on these proposals will not commence until the New Year, the potential implications are unclear at this stage, but could affect how the Landfill Allowance Trading Scheme operates in the future.

## **2.5 Feedback from customer**

There are approximately 1,975 trade recycling and waste customers in the Council’s portfolio. A customer satisfaction survey was launched on the website in October 2009 and a cross section of our customers were directly mailed in November. Individual feedback has helped to highlight instances where customers have been dissatisfied with particular elements of the service. In general and from the results based on 113 customer responses, the majority are satisfied with the service offered by the Council and believe that it does offer good value for money.

- We have a high number of long standing customers; approximately half have existed for longer than 5 years with our service

- Just under half of our business customers would describe themselves as small, less than a third medium and only 11% as large This compares with the borough statistics where 78% of companies describe themselves as SME's
- 83 % were happy with the service and their agreements; however 11 % were not happy with the service, due in the main to inconsistent collections, with 6 % wanting to change their agreements in some way (usually a change to collection time).
- Over half the respondees had been contacted by the trade team in the last 6 months and over 80% in the last year about the service.
- There is a broadly equal division in numbers between those preferring morning, afternoon or evening collections and slightly less than 20% preferring night –time collections.
- Approximately 70% are aware of the telephone service for the Cleaner Greener Hotline and may have used this service.
- Most customers agree with the 25% price discount for recycling, although 20% were unaware of the service.
- It appears that generally there is some fluctuation in the normal weekly collection times and in some cases days as well.
- More than half the customers responding report their collections are on time and on schedule.
- Over 20% of respondees are not aware of the Cleaner, Greener Neighbourhoods Division.
- Customers that have the minimum service i.e. small businesses, would like to recycle but the current pricing tariff does not allow them to combine their waste and recycling collections within the same 5 sack minimum agreement. They therefore either have to enter into 2 separate 5 sacks agreements (one for waste and one for recycling) which is expensive, or decide not recycle at all.

Individual issues highlighted showed that:

- customers paying for their service support the Councils enforcement efforts,
- alterations to collection days are unpopular,
- an economical/cost-effective service is important,
- good customer service is appreciated,
- information provided by the Council on request must be accurate and up to date.

Feedback from trade administration staff who speak to customers on a daily basis indicates that the recession has had a significant impact on local business, resulting in late payments and many small businesses revising down or cancelling their contract agreement during the last 3 quarters.

Recent conversations with one of our large commercial customers (who has since left) is that they would like an end-to-end product offering (eg, waste, security, planning, licensing), with one point of contact (eg, a key account management model.) which is the service they can currently acquire from other providers in the marketplace.

### **3. OPTIONS FOR THE FUTURE**

- 3.1** Table 1 within section two of this report illustrates that the H&F trade waste service is not as efficient as those operated by some other boroughs and therefore should not continue in its current format.

#### **Changes to staffing**

A restructure of the Cleaner and Greener Neighbourhoods Division includes the introduction of a Head of Business Development and development of a sales team to introduce a more entrepreneurial/commercial approach to both the trade waste and street trading services in line with the approach taken by Kensington and Chelsea. This new structure commenced on 1 February 2010. In addition, RSD has appointed a new AD for Customer and Commercial Services who is providing support to the newly formed sales team, with a target to increase income as outlined in Appendix A. This will ensure that whatever decision is taken on how the service is developed, it will have the potential to provide an improved income stream in future years.

A decision is required on the optimal way forward in the short to medium term. As demonstrated by table 2 in section 4, it is suggested that a further review of the service will be required once there is more certainty around the long term waste disposal costs based on any Defra decision and any potential income generation that may offset the higher gates fees currently being projected from 2011/12.

#### **3.2 Option 1 - Grow the business and keep it in-house short term**

Visits to LB Kensington and Chelsea Trade Waste Team have provided some useful best practice advice. A focus on debt recovery and incentivising staff to grow the business should lead to increased income and reduced debts, although some investment in an adequate IT system and additional staff resources would be essential if we want to increase income by £1 – 2 million over the next few years.

Advantages to this approach

- All income stays with H&F

Disadvantages

- Taking in to account current customer “churn” levels and the fact that H&F now provide the service indirectly via Serco, this “go it alone” approach is unlikely to achieve the acceleration that is required in the first 12 months to make the service a more attractive business proposition. It is the front line deliverers, Serco, who experience customer interface and collect intelligence on a daily basis that can have the greatest impact on the service .

#### **3.3 Option 2 – Cease direct provision**

An alternative approach would be to follow the route LB Wandsworth took in the late 1990’s, where they ceased provision of the service whilst retaining the statutory duty to offer a service if requested to do so. Having costed this approach for H&F, whilst savings in staffing, waste disposal and contractor costs of over £2 million would be realised, the loss of income would equate to

a deficit of £178,000 per annum. It is also likely that there would be a negative impact on the street scene, which whilst difficult to quantify, would take a number of months to bring under control, as traders got used to a new contractor and any fly tipped waste that would have previously been picked up as part of the “clear all” service would be left on street side. It is also possible that any such attempt to “sell off” the trade waste portfolio, might be met with a legal challenge by DEFRA, who in Guidance issued since the Wandsworth “sell-off” have reaffirmed that Councils cannot divest themselves of their responsibilities for “Municipal Waste” simply by selling off their trade waste portfolios to the private sector. According to DEFRA, the waste concerned would still be defined as Municipal Waste even though the contracts to collect it were no longer held by the local authorities concerned and so any ongoing LATS liabilities would remain (as long as this particular framework is in place).

Advantages to this approach

- Removes a service that could be provided equally well by the commercial sector and passes risks in achievement of income to a third party

Disadvantages

- A £178k loss which would need to be covered from other efficiencies in the council
- Does not provide an opportunity to grow the business and share in additional income
- Could be open to legal challenge

### **3.4 Option 3 - Develop a commercial approach with others to grow the business and share income**

A further option would be to utilise expertise from either current contractors, Serco, or neighbouring borough RB Kensington and Chelsea, incentivising either organisation by sharing any additional income over and above the amounts already projected within the Medium Term Financial Strategy.

#### **Option 3a – Collaborative arrangement with Serco**

This approach would incentivise current contractors, Serco, to increase the customer base and improve the service, by offering a financial incentive once income reaches a certain level, as outlined in table 2. It should be noted that the acquisition of additional resources would be necessary to facilitate continued growth and the cost of a new vehicle, when required, would fall to Serco.

Advantages to this approach

- plays to the strengths of both organisations; H&F’s customer database and marketing approach with Serco’s service capability.
- provides a stake to the service deliverers to jointly enforce trade waste policies and grow the business, providing on-the-ground intelligence to the Council, both from an enforcement perspective and to provide up to date intelligence on the activities of our competitors.
- no other organisation has this depth of knowledge on the ground about customers and with suitable incentives, could be harnessed more beneficially



- Serco has offered additional support with sales staff for the initial drive to increase customers
- long-term contract with LBHF allows more constructive and collaborative approaches to build the business
- multi local authority and London borough client relationships provides Serco with broader knowledge around the country than LBHF could achieve with an internal approach only or singular partnership with another London Borough

#### Disadvantages

- Once the £2.7 m target is reached, further income generation would be shared with a third party with a suggested profit share of 10% for any income over and above 2.7m

### **Option 3b – Shared Service arrangement with Royal Borough of Kensington and Chelsea**

Similar to option 3a, this approach would incentivise Kensington and Chelsea, although exact terms would need to be further explored.

#### Advantages to this approach

- Utilises expertise from another LA that has been successful in the increasing income in this area

#### Disadvantages

- Lack of detailed knowledge of the borough
- Officer support would be similar to that already available within H&F
- Difficult to quantify the financial benefits

### **Recommended option - Collaborative arrangement with Serco**

Taking account all of the above, the preferred approach that provides the highest opportunity to reach income targets in the shortest space of time is setting up a collaborative arrangement with Serco for a period of one year. Once aligned with the knowledge of the customer base this places Serco in a unique position to provide excellent service to the benefit of both parties. This would play to the strengths of each organisation; H&F's customer database and marketing approach with Serco's service capability. It would also have the benefit of providing a stake to the service deliverers to jointly enforce trade waste policies, providing on-the-ground intelligence to the Council.

## **4. BUILDING OUR SALES PLAN: ASSUMPTIONS AND METHODOLOGY**

- 4.1** The method of acquiring, retaining and winning back business is outlined in the exempt part of this report.

## **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.

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

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.

## **6. COMMENTS OF THE ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)**

Regarding following option 3a, it is permissible to agree variations to the Serco contract though these must be viewed on a case by case basis.

Variations should not make substantial changes to the original contract (unless this was contemplated in the original tender documents), which may be viewed as anti-competitive, unfair or discriminate against interested parties. Variations which appear to be the introduction of a new service, result in a different type of arrangement from that originally tendered etc may be questioned or legally challenged by interested parties.

On the issue of whether it is legally permissible to enter into a profit sharing arrangement with Serco under the Public Contract Regulations 2006 (the "Regulations") the legal view is Regulation 14(1) (iii) of the Regulations states that a Contracting Authority may use the negotiated procedure without prior publication of a contract notice in a number of limited grounds. The relevant ground in the circumstances may be as follows: "where for technical or artistic reasons, or for reasons connected with the protection of exclusive rights, the public contract may be awarded only to a particular economic operator".

Domestic and trade waste is currently being collected within the same vehicle by Serco under the Waste Contract and the desire is to increase revenue from the trade waste with the assistance of Serco. The benefit to the parties is a proposed profit sharing arrangement, the mechanics of which have not been developed fully. From a technical and operational perspective it would be a source of economic and environmental inconvenience to separate the domestic and trade waste collections by allowing another company to deal with trade waste. Assuming that these matters can be evidenced, as the collection of trade waste formed part of the original Specification so it may be reasonable to make variations to the trade waste element of the service.

**LOCAL GOVERNMENT ACT 2000**  
**LIST OF BACKGROUND PAPERS**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext of holder of file/copy</b>	<b>Department/ Location</b>
1.	Contract documentation for Waste Collection, Recycling And Street Cleansing Services	Dave Newman	Cleaner and Greener Neighbourhoods
2.	Commercial Waste Audit, Dec 2008 White, Young Green report	Dave Newman	Cleaner and Greener Neighbourhoods

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