

Waste Management Business Planning Process – Trade Waste and Recycling Service-SUMMARY

Newport City Council

2015/2016

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1.0 NCC OPERATIONS

The characteristics of the current trade service are as follows:-

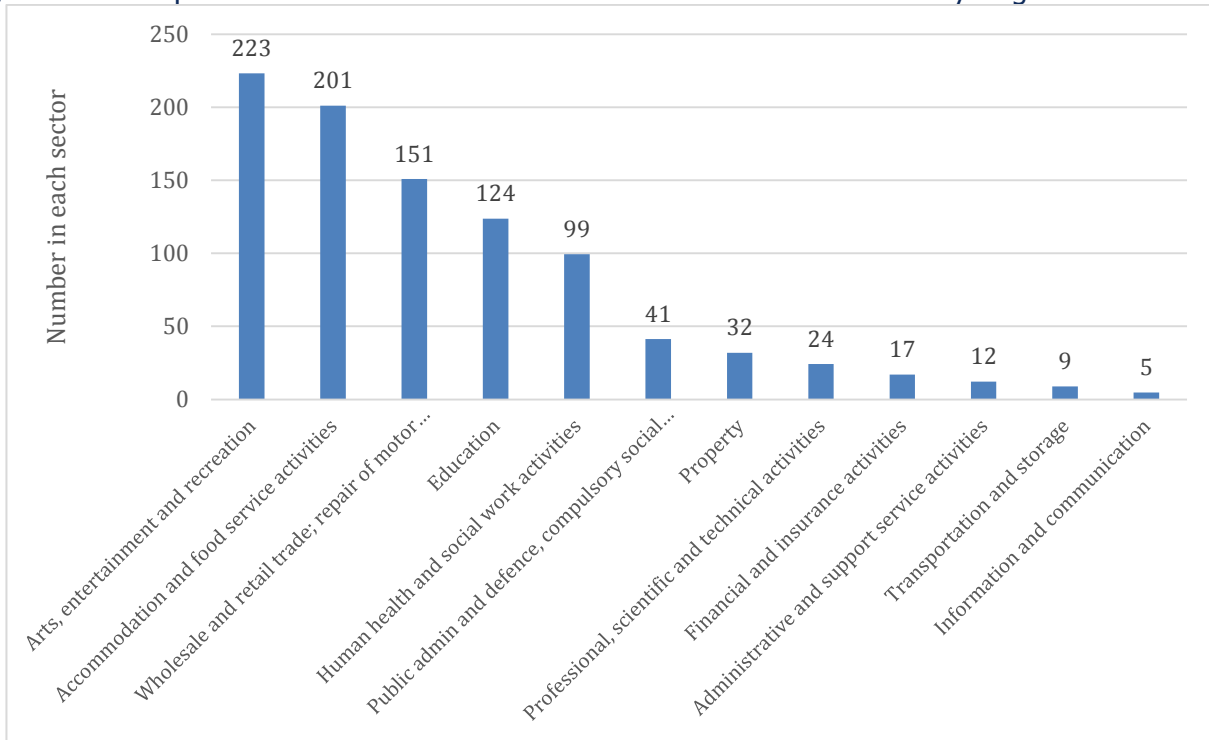
- 4,500 tonnes collected a year, only 25 of those are dry mixed material, plus approximately 200 tonnes of cardboard,
- An average of 950 clients,
- Residual waste is co-collected with household waste, with 1,850 lifts a week using 2.2 vehicles (including coverage)-one is a dedicated vehicle, the rest is co-collected with residual household waste. With household numbers growing annually by around 500 properties there is pressure on the household collection service's ability to accommodate co-collected trade waste, and
- Containment options – stickers, sacks, 240 and 360 litre two-wheeled bins and 660 and 1,100 litre four-wheeled bins. Recycling customers can have recycling collected in single use sacks or with stickers applied.

2.0 MARKET PROFILE

Amec Foster Wheeler, a company providing research on the trade waste market, as part of the CCP review, identified:

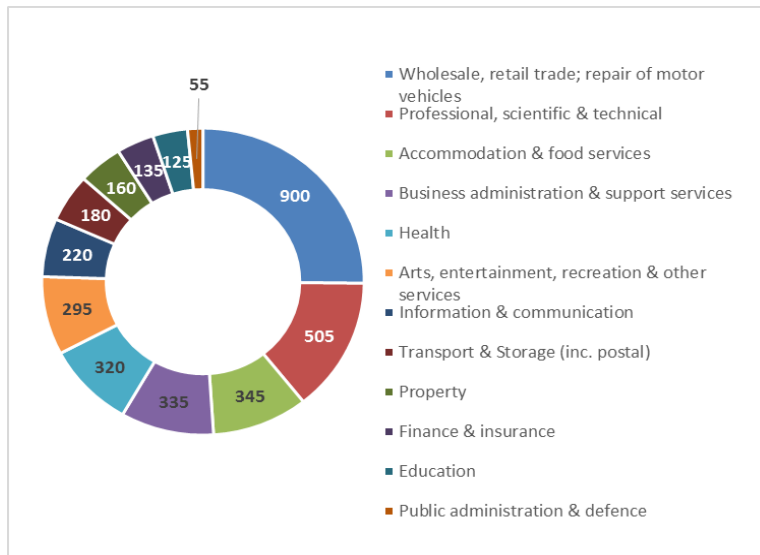
- NCC's residual waste customer base is dominated by entertainment and recreation, with accommodation and food services close behind. This aligns with the City-wide business segmentation but has implications for both future opportunities and current costs:
 - Food waste outlets tend to produce the heavier containers because of the dense organic content so therefore have the highest disposal costs associated with them.
 - With current charging mechanism (fixed prices without flexibility) these customers pay the same for the collection of a residual waste container as a different type of business with much lighter waste using up the same volume.

Figure 2.2 Comparison of customer sectors for trade residual waste and recycling collection



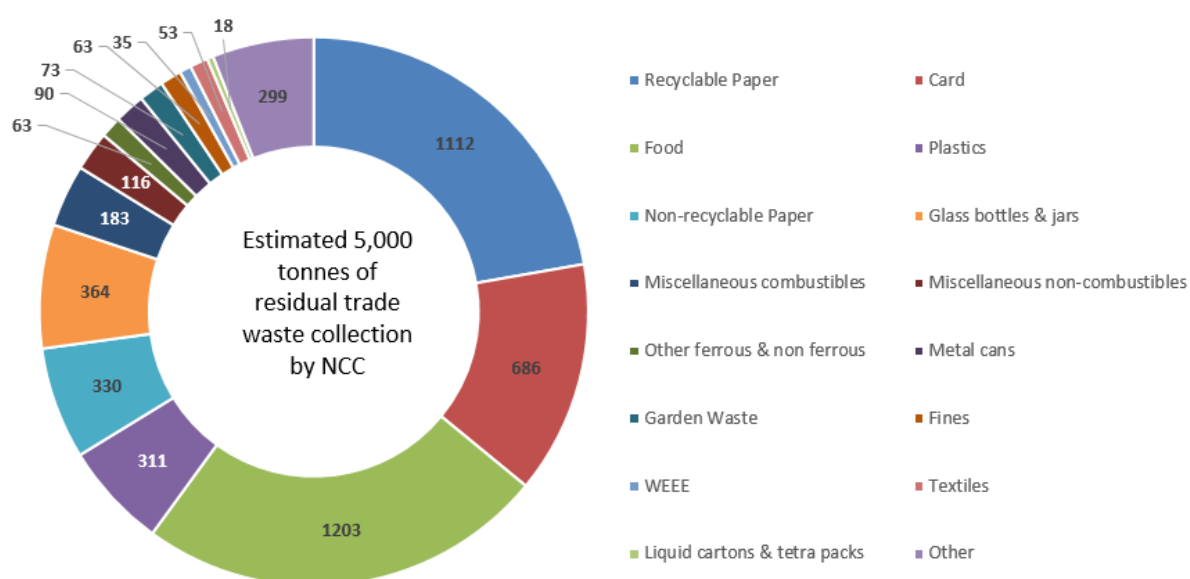
A review of the wider market was completed which included an investigation of potential customers within the City’s boundaries (by sector and size) and an estimation of the composition of the trade waste:

Figure 3.1 Newport City’s enterprise segmentation



- In 2014 there were 3,575 PAYE and VAT registered enterprises operating in the area and generating standard waste
- Of the wholesale, retail trade; repair of motor vehicles sector, retail comprises 535 enterprises representing 15% of the City's total number of enterprises. Professional, scientific & technical represent 14% and accommodation and food services 10% of the City's enterprises.
- Local authority trade waste collection services do not have access to a large proportion of the potential market place as Councils, in general, are unlikely to directly win collection contracts from larger waste producers and national chains. In Newport's case it is estimated that the proportion of businesses the Council might potentially count as customers, in the best case scenario, is around 92% of the total market place, but considering these are the enterprises with 35 or fewer employees and produce significantly less waste than larger businesses, the amount of waste 'accessible' to NCC is significantly lower than the estimated total generated.
- It has been estimated that the total amount of trade waste generated in the City is 160,740 tonnes. However, once the quantities of waste generated by larger organisations (with 35+ employees) and national chains are deducted the amount of trade waste 'accessible' to the Council is estimated to be just under 35,000 tonnes.
- NCC's 5 main competitors were identified (local firms being Amber Waste, Smiths and GD Environmental and the nationals being Veolia and Biffa). Although only small in number, NCC's recycling customers put them in direct competition with the Newport Wastesavers Trade Waste Service.
- Prices were also compared and potential pricing strategies have been identified that would still ensure the Council would be competitive.
- An estimation of the composition of the residual waste that NCC collects has been made, suggesting that up to 50% of the material currently collected could be recycled (paper, glass, cardboard, cans and plastics) and up to an additional 25% is food waste that could also be collected separately and recycled.

Figure 3.4 The estimated composition of the residual waste (tonnes) collected by NCC¹



3.0 FINANCE

The service shows strong financial performance, with customer charges producing a surplus of 40% over the direct costs of operating the service:

- Estimated current costs of running the service 16/17: 683k
- Forecasted income- 16/17 budget: 951k (*)
- Surplus: 268k

(*) Service financial forecast, not modelled income

Note that the costs do not include notional rent costs for the depot space that the service utilises, or recharges for central overheads (human resources, finance, IT, legal etc.), and it is important that the commercial waste service bears its share of these.

However, a typical commercial waste business would hope to achieve a profit margin, after overheads, of around 10-15%, and it is likely that the Council’s service will exceed this.

4.0 RECYCLING PERFORMANCE

It is estimated that the Council collects 4,500 tonnes of trade residual waste a year, which is sent to landfill. Were the Council to stop the trade waste collections, the recycling figure would go up, using 15/16 data, from 57.15% to 60.80%, so carrying on with the current non-recycling trade waste service would continue to negatively impact the Council’s recycling performance.

¹ The category “Other” is a consolidation of non-recyclable glass, foil, other ferrous and non-ferrous metals, other organics (e.g. soil), plastic film, liquids and hazardous waste.

5.0 SELL OR KEEP THE CURRENT CUSTOMER LIST

If the Council decided to sell its current customer list this would likely generate a one-off capital receipt. However, the following would need to be considered:

- A sale could generate a capital receipt however the value of this could be relatively low compared to the turnover of the business, as the contracts are relatively easy to terminate by the customer.
- Any buyer could be buying a customer book with a relatively low value and this would be reflected in the offer.
- Selling the service does not absolve the Council of its' legal responsibilities as regards the collection of trade waste.
- The market may not want to purchase the service or offer a price the Council was expecting and would simply target the customers.
- Selling the service may be negatively viewed by business enterprises in the City, some who have been long standing and loyal customers of the Council.

6.0 GROW CURRENT SERVICE

If the Council decides to grow and maximise this service without a proper strategy that takes into account introducing recycling collections, the negative impact will be even bigger and increases the risk of missing the recycling targets.

A growth of just 15% in the number of customers per year has been estimated to bring an increase of about 675 tonnes of residual waste a year. Assuming all the other factors (in terms of HWRC, household recycling collections etc.) remain the same, as in 15/16 for comparison purposes, this would mean a decrease of approximately 0.60% in the recycling performance on a yearly basis; that percentage would equate to more than £80,000 in fines should the Council fail to meet the recycling targets.

Findings show:

- Stopping the trade service is not an option as the income it brings to the council is significant; but NCC needs to include a recycling service that reduces the impact the current service has on the recycling rate and the potential for fines, and
- Other changes need to be implemented in other areas such as the household collection services and HWRC provision, as only acting on trade will not be enough to meet the recycling target.

7.0 DEVELOP A RECYCLING SERVICE AND GROW RESIDUAL SERVICE

NCC's trade service has been analysed and modelled by Eunomia. This model helps to inform the decision regarding whether insourced or outsourced collections are likely to be the most effective choice for the delivery of (a) trade recycling collections and (b) trade waste collections. However, modelling alone cannot determine which approach will yield the best results, as much will depend on:

- How successful the council is at selling the new service; and
- The price that the market offers for the services the council requires.

Outsourcing the whole of the service has been modelled. However, since there remains a significant prospect of deriving a surplus from an in house collection service, the case for full outsourcing is less compelling unless a very good price can be obtained from the collector:

- The council does not require any specialised vehicles in order to undertake residual waste collections as NCC already have the resources to deliver this service, therefore no additional investment is currently needed.
- The council requires a vehicle with a bin lift suitable for collecting 1100 litre bins in order to serve its communal bin properties, and this will not be fully utilised unless commercial waste is also collected. Therefore savings in operational costs if trade residual waste services were to be removed may actually be lower than recognised within this analysis.
- The issue of outsourcing could be revisited at a later date, once the impact of the changes to the recycling system are better understood.
- The council's household recycling collections are carried out on its behalf by Newport Waste Savers. As a result, the council does not have the vehicles, depot infrastructure or materials sales experience necessary to undertake a successful commercial recycling service itself.

So it is recommended that the refuse service can continue as it is, with the option for a future review if the business is expanded

The proposal to outsource the recycling part of the service will enable the council to achieve the following principal objectives:

- Increase its recycling rate by substantially increasing the proportion of commercial waste that is recycled.
- Procure a service provider that can deliver this service on their behalf, while integrating the client-facing, sales and administration side of the service so that the overall service is seamless.
- Ensure that collections are provided on a source separated basis in order enable compliance with expected Welsh Government regulations mandating this approach.
- Secure the services at a low price, so as to enable the council's margin to be maintained, and to maximise the opportunity to derive future income from commercial waste services.
- It was recognised that, since recycling services are generally cheaper for clients than residual waste services, even if the council's margin remains constant, the commercial waste business would need to grow if overall income is to be maintained.
- Achieve wider social benefits so far as possible through the tender.

In essence, the main conclusions from the findings report are:

- NCC would benefit from outsourcing their trade recycling service as that limits NCC's risks if the recycling service is not grown in line with expectations, as no capital investment is needed. This service model allows NCC to charge a simple admin fee on top of a provider's operational costs to cover internal costs and meet budget expectations.
- NCC should keep the trade residual waste service in house and try to grow the service at the same time. There is still investment in the residual service required to be funded by NCC – it should be noted however that this could be further reduced if we retain current front-line fleet and keep it running longer for the trade service
- If the council is to persuade customers to adopt recycling, and if it is to grow the service in an ambitious way, this will require a concerted effort and it is recommended the sales team is expanded.

- Offering fully source-separated recycling services will ensure NCC is compliant with future Welsh Government legislative requirements (new regulations that require recyclable materials from business are collected segregated will likely come into place by 2019).

Financially, a summary of the modelled option of outsourced recycling collection could result in the following scenario:

Table: Whole Service Costs and Income – Outsourced Recycling Option

	2016/17	2017/18	2018/19	2019/20	2028/29	2029/30
Expenditures						
<i>Vehicles (incl. fuel and maint)</i>	72,655	79,920	108,982	138,044	268,823	276,089
<i>Wages (incl. on costs)</i>	170,030	187,033	255,044	323,056	629,110	646,112
<i>Containers</i>	3,898	7,055	10,353	13,651	25,317	26,008
<i>Supplies</i>	3,445	3,790	5,168	6,546	12,747	13,091
<i>Disposal</i>	265,001	233,700	210,662	205,477	276,633	288,495
<i>Admin & BD</i>	76,436	110,019	110,019	110,019	110,019	110,019
Total Expenditure	591,464	621,516	700,228	796,793	1,322,649	1,359,814
Income						
<i>Client Charges</i>	1,186,084	1,167,533	1,180,125	1,197,601	1,773,725	1,850,089
<i>Material Income</i>	-	-	-	-	-	-
Total Income	1,186,084	1,167,533	1,180,125	1,197,601	1,773,725	1,850,089
SURPLUS/ DEFICIT	594,621	546,017	479,896	400,809	451,076	490,274

In summary, when all service costs and income are considered for an outsourced recycling and in house trade waste service, the modelling has shown that NCC could still generate a surplus for the service, whilst minimising operational delivery risk, removing the need for capital investment in the recycling service, and increasing overall trade recycling performance to 63% and add between 1.5% and 2% to NCC's recycling rate.

Forecast of NCC's recycling rate with changes in household collections and trade:

Year	2017/18	2019/20	2024/25
Target	58%	64%	70%
Forecast	62%	68%	71%

8.0 LOCAL AUTHORITY BENCHMARKING INFORMATION

Some information has been included for comparative purposes; the available data shows that amongst the LAs that run a trade service, the market take up on average is 10%; NCC comes in third place with a take up of 17%, so much higher than the average.

Local Authority Estimated Market Share (tonnes per year)

Authority	Available	Collected	% Market
Anglesey	14,757		0%
Blaenau Gwent			
Bridgend			
Caerphilly	35,100	3,560	10%
Cardiff			
Carmarthenshire			
Ceredigion			
Conwy	28,019	3,490	12%
Denbighshire	21,155	730	3%
Flintshire	26,889	892	3%
Gwynedd	33,063	7,173	22%
Merthyr Tydfil	16,500	2,017	12%
Monmouthshire			
NPT			
Newport	34,998	5,800	17%
Pembrokeshire			
Powys	43,220	6,015	14%
RCT			
Swansea			
Torfaen			
VoG	38,040	1,184	3%
Wrexham	21,891	3,564	16%

