

19 DECEMBER 2019

**REPORT OF THE PORTFOLIO HOLDER FOR CULTURE AND OPERATIONAL SERVICES****JOINT WASTE SERVICE REVIEW****EXEMPT INFORMATION**

None

**PURPOSE**

To receive and consider the outcome of the Joint Waste Service Review

**RECOMMENDATIONS**

It is recommended that Cabinet:

1. Approve the approach taken during the fundamental review of the Joint Waste Service and its key findings.
2. Approve the proposal to continue providing the Joint Waste Service using the current in house arrangements and delay any decision on the future provision of the service until the implications of the Government's Resources and Waste Strategy are fully known.
3. Approve the proposals to undertake an appraisal of options for the future disposal of dry recyclate and identify measures to address the issue of over reliance on agency staff.

**EXECUTIVE SUMMARY**

The purpose of the review was to help inform the future approach of the Councils towards delivering better and more cost efficient services. Specifically the Councils wanted to understand the current performance in terms of operational and financial performance compared with councils that operate using a similar or alternative model. In consequence the expectation was that the review would produce a clear and reasoned recommendation as to the most advantageous model for the service in the future.

The review was undertaken against the back drop of the Government's Resources and Waste Strategy which was out for consultation earlier in the year. The Strategy sets out a plan for improving resource productivity and eliminating avoidable waste of all kinds. One particular theme of the consultation was concerned with having consistent collections and recycling in order to improve the quantity and quality of municipal waste recycled in England. There were a number of proposals in the consultation which if adopted will change how Councils deliver waste services to their residents and businesses. The consultations were issued after the review commenced and it is unlikely that DEFRA will make further announcements on any changes until at least the middle of 2020. Therefore a lot of uncertainty exists not only for local authorities but for the whole of the waste industry and this has had an impact on the review and the recommendations that could be made at the current time.

The key elements of the review included Service Delivery Benchmarking, SWOT Analysis, Service Delivery Options Assessment and Service Change Options. An assessment/observation of bin collection operations was also undertaken to assess productivity and compliance with health and safety standards.

The Councils identified four Service Delivery Options to be considered by the review: In-house, Local Authority Trading Company (LATC), Local Authority Trading Company Joint Venture (LATC JV) and Outsourcing. The criteria used to assess the options were flexibility, control and cost.

The Service Change Options that were chosen for assessment reflected the proposals contained in the Government's Strategy to improve the consistency of collections and recycling and included the introduction of food waste collections, reductions in residual bin capacity and twin stream recycling (mixed dry and paper/cardboard).

The consultants appointed to undertake the review have recently finished the work and published their report which is attached as **Appendix A**.

The benchmarking exercise ascertained that the performance of the existing service is rated as good when compared against similar authorities using both similar and alternative delivery models. The cost of the service was also one of the lowest amongst the benchmarked authorities. However the exercise highlighted that the service was over reliant on agency staff particularly because of difficulties in retaining and recruiting HGV drivers.

Analysis of the Service Delivery Options against the criteria ascertained that the LATC option was ranked in first place. The gap in scoring to the second and third ranked options which were the existing In house service and the LATC (JV) respectively was marginal and therefore the exercise didn't produce a clear cut result. In contrast there was a significant gap in the scores to the fourth ranked option which was Outsourcing.

The assessment of the Service Change Options concluded that there will be a considerable cost pressure for the Councils if they have to change the service in response to the proposals contained in the Government's Strategy. Whilst the Government have given a commitment that Councils will not have to fund any new burdens, no detail has been published to date regarding the level of financial support that may be provided.

As the existing service was deemed to be efficient, the review didn't identify any significant savings that could be made in its delivery. In fact the service will face a number of cost pressures over the next few years irrespective of whether the proposals in the Government's Waste Strategy have to be adopted. The pressures will result from new housing developments, higher gate fees for the cost of disposing of dry recyclate when the current contract expires in 2022 and resolving the difficulties in attracting and retaining HGV drivers.

With the uncertainty surrounding the Government's Waste Strategy proposals, plus there being no clear winner from the Service Delivery Options assessment, it is considered prudent to continue delivering the service using the current in house arrangements for the short to medium term. The long term direction of the service can then be determined once the full implications of the Strategy are known.

In the meantime the main priorities for the service are to undertake an options appraisal for the future disposal of dry recycle and to address the over reliance on agency staff.

Lichfield District Council's Cabinet considered this matter in December and accepted the recommendations made.

## OPTIONS CONSIDERED

The Councils identified four Service Delivery Options to be considered by the review: In-house, Local Authority Trading Company (LATC), Local Authority Trading Company Joint Venture (LATC JV) and Outsourcing. The criteria used to assess the options were flexibility, control and cost.

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## RESOURCE IMPLICATIONS

There are no immediate cost implications associated with continuing to provide the Joint Waste Service using the in house arrangements. However there are a number of cost pressures which are likely to affect the Service over the next few years. These cost pressures which are detailed in the table below would apply to all the Service Delivery Options assessed in the review and therefore they would not affect the overall ranking.

Budget Pressures	2020/21 Budgets				
	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Pensions	25	37	50	51	56
Salaries/Wages	(59)	(61)	(62)	(62)	(14)
Fuel	35	36	37	38	52
Replacement Bins	50	50	50	50	50
Recycling Disposal Costs	86	86	86	85	98
Property Growth	(38)	88	132	132	132
Increase in HGV Drivers Pay	233	237	242	247	251
Pressure on End of Recycling Contract March 2022	-	-	620	651	684
Recycling Credits	(158)	(61)	37	37	(28)
Recycling Income-Bring Site	52	52	52	52	52
Additional Green Bin Income	(188)	(188)	(188)	(188)	(188)
Minor Changes	49	53	64	64	96
<b>Total</b>	<b>87</b>	<b>329</b>	<b>1,120</b>	<b>1,157</b>	<b>1,241</b>
Tamworth Share @ 41.17%					
	36	135	461	476	511

It should be noted that the above forecast includes the following assumed cost relating to drivers pay.

Issue	Tamworth Share	Lichfield Share	Total for JWS
Increase in salary for HGV drivers from 2020/21 to improve recruitment and retention and thus reduce the reliance on agency. The figures are based on increasing the salary band from E to F and are net of savings on agency staff.	£97K	£136K	£233K
However, the cost could be reduced as shown if the number of drivers per crew is reduced from two to one.	£57K	£79K	£136K

The Joint Waste Service also has two reserves which will help to mitigate the impact of some of the cost pressures on both Councils in the short term. There is a balance of £510k in the Property Growth Reserve and £282k in the Dry Recycling Reserve. However it is not recommended practice to use reserves to offset ongoing costs such as increased driver pay because this only masks the impact. Therefore the impact of these cost pressures will need to be reflected through policy changes within the next stage of the budget process.

	Tamworth	Lichfield	Total
Property Growth Reserve	(274)	(236)	(510)
Dry Recycling Reserve	(120)	(162)	(282)

There is insufficient information available at this time to predict the likely impact of adopting the proposals contained in the Government's Resources and Waste Strategy. This makes it very difficult to model the medium and long term finances for the Joint Waste Service.

Lichfield has identified £354k of additional overheads that will be incurred in supporting the delivery of the Joint Waste Service in 2020/21. These are currently allocated to Lichfield's MTFS and not the Service's budget. Tamworth are also reviewing the overheads that it incurs in supporting the Service. The two Councils are due to hold further meetings with the aim of reaching agreement on the overheads which should be allocated to the Joint Waste budget.

## LEGAL/RISK IMPLICATIONS BACKGROUND

	Risk Description	Mitigation	Severity
A	Delays in finalising the outcome of the Government's Resources and Waste Strategy. This will make it difficult for the Councils to plan for the future provision of the Joint Waste Service especially as the vehicle and disposal contracts are due to expire in 2022.	<ul style="list-style-type: none"> <li>Keep up to date with developments</li> <li>Lobby DEFRA either individually or through JWMB and LARAC.</li> <li>Continue to delay any decision on how the service is provided until the outcome of the Government's Strategy is known.</li> <li>Negotiate contract extensions</li> </ul>	Yellow/Red

B	The Councils fail to reach agreement on the allocation of overheads to the Joint Waste budget	<ul style="list-style-type: none"> <li>• Sharing of justification for overheads.</li> <li>• Further negotiations</li> <li>• External mediation</li> </ul>	Yellow
C	The review of the disposal outlets for dry recycle does not identify a suitable option.	<ul style="list-style-type: none"> <li>• Consider handing back responsibility for disposal to the County Council.</li> </ul>	Yellow
D	The service fails to reduce its reliance on agency staff	<ul style="list-style-type: none"> <li>• Further review of the measures.</li> </ul>	Yellow

There are no legal implications directly arising from this report.

## **EQUALITIES IMPLICATIONS**

There are no equality, diversity and human right implications associated with the review

## **SUSTAINABILITY IMPLICATIONS**

The provision of the Joint Waste Service directly contributes to ensuring the Council meets its statutory obligation with regard to recycling, and directly contributes to promoting clean and healthy environment.

## **BACKGROUND INFORMATION**

The review and its findings were considered by the Joint Waste Committee on 5th November 2019 and the Infrastructure, Safety & Growth Scrutiny Committee on 22<sup>nd</sup> October 2019 and they both endorsed the recommendations made in this report.

A fundamental review of the Joint Waste Service commenced in April 2019. A brief was prepared and proposals sought from suitably qualified organisations to help inform the future approach of the Councils towards delivering better and more cost efficient waste collection services.

Three tenders were received in response to the brief and following their evaluation a contract was awarded to Frith Resource Management Ltd.

A Project Board with terms of reference was established and has met on a regular basis. There was also representation on the Project Team from Finance and Customer Services who along with the Consultants were able to provide the necessary external challenge during the review.

Key milestones and deadlines were drawn up for the review which is due for completion by December 2019 when both Councils Cabinets will consider the findings.

The project has subsequently been expanded to include a review of Lichfield's trade waste services. The purpose of this review is to ascertain whether there are opportunities for the trade services to expand by competing directly with private operators in order to increase market share and deliver a surplus. The findings of this review together with the business case for expanding the service will be presented in a further report.

In addition to the Service Delivery Benchmarking, SWOT Analysis, Service Delivery Options Assessment and Service Change Options the consultants were asked to undertake an assessment/observation of bin collection operations to assess productivity and compliance with health and safety standards.

A workshop which involved elected members was held in June to review the collection observations and benchmarking, identify and agree service options for modelling and identify and agree the evaluation criteria for options.

The benchmarking part of the review examined a number of factors including recycling rates, collection productivity, missed collections, use of resource and cost. The overall performance was rated as good with the main explanation for any variation between existing performance and benchmarking findings being due to different demographics and service delivery methods.

The cost of waste collection for Lichfield and Tamworth is one of the lowest overall and the lowest in-house benchmarked service at just under £48/household. The cost is approximately £10 less per household than the average across the 11 authorities that provided data. However the financial appraisal identified that some of Lichfield's overheads are not currently being accounted for in the Joint Waste budget. In addition the overheads for Lichfield's trade services need to be reviewed to make sure they are being apportioned correctly to the different services. These matters are subject to discussions between Tamworth and Lichfield and could result in a higher figure being declared as the "true" cost of delivering the service to each household.

The operational staffing arrangements for the benchmarked authorities varies quite significantly. Lichfield and Tamworth use on average, 29 agency staff members a week which makes up approximately 27% of the workforce. In comparison the benchmarked authorities reported that they only fill 0% -5% of their posts using agency staff. The Joint Waste Service requires a lot of agency staff because of a relatively high sickness rate and difficulties in recruiting and retaining staff, particularly LGV Category 2 drivers due to a national shortage of suitable candidates. An over reliance on agency staff is not good practice as such a high turnover can result in service delivery problems such as an increase in the number of missed bins because of a lack of round knowledge. In addition all new agency staff have to be recruited, inducted and trained which puts pressure on the Supervisors and Managers. This impact needs to be minimised because the Service was found to have a lean management structure.

The observations of the collection practices ascertained that the service is well managed with high productivity levels and good compliance with safety standards. In particular bin collection productivity has increased by around 12% since improvements were introduced following the earlier fast review. However operational efficiency is constrained by the unfavourable location of both the depot and some of the disposal outlets plus the high number of long bin pull outs on estates which have restricted vehicular access.

The four Service Delivery Options considered by the review are those most widely used by local authorities to deliver waste services. Traditionally it used to be a straight choice between in house or outsourcing. Nowadays alternative delivery models such as Local Authority Trading Companies and Joint Ventures are becoming more popular as Councils try to find innovative ways to mitigate funding pressures and other risks.

The criteria and weighting used to assess the Service Delivery Options were agreed at the June workshop as follows:

- Flexibility to change (25%)
- Service control (25%)
- Cost (50%)

The flexibility and control criteria were split into sub criteria using the outcome from the SWOT analysis and weighted according to their relative level of importance. A bespoke Excel model was developed to compare the current in-house costs with the same service delivered through the other three options.

The assessment of the Service Delivery Options in accordance with the criteria and weighting produced the following results and ranking:

- 1 LATC – 83.2%
- 2 In House – 81.4%
- 3 LATC JV -79.8%

There was little difference between the first three options scores which could easily change with amendments to the assumptions made on the model input data.

The consultants have concluded from the results that they do not consider it appropriate to recommend the outsourcing of the service in the short to medium term. They were also unable to give a firm recommendation on the other service delivery models because of the proximity of the evaluation scores. They did determine that if the Councils want the lowest cost service with the potential to make a profit then the LATC (JV) should be investigated further. Conversely, should the Councils wish to retain the current level of flexibility and control, they recommended that the service should stay in house or be provided through a Lichfield and Tamworth specific LATC.

Analysis of the Service Change Options ascertained that substantial financial investment would be needed if the Councils are mandated to implement the proposals contained in the Government's Waste Strategy. In particular the introduction of weekly food waste collections would have the greatest financial impact on the Councils.

In addition to the potential challenges contained in the Strategy the service will eventually have to deploy additional collection infrastructure to cope with demand from all the new housing developments that are planned to be built in both districts over the next ten years.

Recommendations were made by the consultants on tackling workforce issues including the over reliance on agency staff due to the shortage of LGV Category 2 drivers. These included paying a competitive wage to drivers and then mitigating the impact on the budget by reducing the number of drivers on each crew from two to one.

The contract that the Service has with Biffa Waste Ltd for the disposal of dry recyclate is due to expire in 2022. The gate fee paid to the company under the terms of the contract is very favourable compared to the current market conditions. Gate fees have continued to rise considerably ever since China imposed a ban on imports of certain materials at the start of 2018. Post 2022 it is inevitable that the Service will have to pay a substantial increase in the gate fee, possibly double the current rate. Difficulties may also be faced in securing a contractor as demand for material has fallen since the ban, especially when it is collected in a single bin which is the methodology adopted by the Service. An options appraisal for the future disposal of dry recyclate needs to be carried out as soon as possible.

## **REPORT AUTHOR**

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## **LIST OF BACKGROUND PAPERS**

## **APPENDICES**

Fit for the Future Review, Frith Resourcing Report

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