



To: Executive Councillor for Environment and Waste – City Council

Cabinet – South Cambridgeshire District Council

Report by: Simon Payne, Director of Environment – City Council

Mike Hill, Director, Health & Environmental Services-
South Cambridgeshire DC

Relevant Committees: Environment Scrutiny Committee 6/10/2015

South Cambridgeshire DC Cabinet 12/11/2015

Wards affected: All

Proposed Single Shared Commercial Waste Service – Business Case Principles

Key Decision

APPENDIX NOT FOR PUBLICATION: The appendix of this report relates to an item during which the public is likely to be excluded from the meeting by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

1. Executive summary

1.1 The report considers the case for creating a Single, Shared Commercial Waste Service between the City Council and South Cambridgeshire District Council.

2. Recommendations

The Executive Councillor and the Cabinet are recommended:

1. **To agree in principle to form a Single, Shared Commercial Waste Service business account and operation by combining the Commercial Waste Services of Cambridge City Council and South Cambridgeshire District Council as part of the Single Shared Waste Service, located at the Waterbeach Depot, with the Shared Waste Board overseeing the delivery and performance of the Single Shared Waste Service, within the budget and policy framework set by both Councils and subject to the provisions set out in the foregoing report and to undertake full consultation with the staff and unions to deliver these changes.**
2. **To delegate the implementation of the proposal set out in 1 above to the Cambridge City Director of Environment and South Cambridgeshire DC Director of Health & Environmental Services, in consultation with the South Cambridgeshire DC Cabinet Member, and the Cambridge City Executive Member, Chair of Environment Scrutiny Committee and Opposition Spokespersons.**
3. **To instruct officers to prepare a detailed implementation plan with financial implications to be agreed with the Shared Waste Board to inform the future budget setting work of the two Councils.**

3. Background and Proposed Vision and Objectives

- 3.1 A report on a proposed Shared Waste Service was considered by both Environment Scrutiny Committee of Cambridge City Council and Cabinet of South Cambridgeshire District Council in October 2014 when it was resolved to create:

‘A Single Waste Service, wholly owned and run by the local authorities, with a single management structure and workforce, located at the Waterbeach Depot using a single pool of vehicles.’
- 3.2 The Shared Waste Service covers the areas of policy and strategy development and the operational delivery of both commercial and domestic waste collections. The objectives of creating a Shared Waste Service are as follows:
 - lower operational costs, particularly in the areas of premises, management, administration, fleet and equipment costs;
 - maintaining and improving service quality that residents/customers can see and appreciate;
 - increased opportunities to market and compete for additional business, for instance in relation to commercial waste;

- new opportunities to reduce net costs in relation to fleet procurement and maintenance;
- achievement of service improvements, greater resilience and better performance, through shared knowledge and experience; and
- enhanced opportunities to work with other Cambridgeshire local authorities via the RECAP Waste Partnership to reduce waste collection and disposal costs, improve income and secure service improvements.

3.3 The commercial waste operations of both Councils (vehicles and staff) are due to co-locate at the Waterbeach Depot from November 2015 as part of the creation of the Single Shred Waste Service. However, on the matter of Commercial Waste business accounts, it was agreed to report back to members before a decision is made about a transfer of those financial budgets, management, and marketing from the two Councils into the Shared Waste Service. This report provides that further consideration.

4 Update on Shared Waste Service

4.1 Work is well advanced on the establishment of the Shared Waste Service. The two senior managers for the operational and policy activities of the Service have been appointed and taken up their roles. The recruitment process for the Head of Service is underway. Building work on site at Waterbeach is nearing completion and City Waste trucks are due to relocate by the second week in November 2015

5 Opportunities for the Commercial Waste Service

5.1 The two authorities operate a broadly similar range of Commercial Waste services in substantially adjacent geography, facing the same market competitors. There is a corresponding potential to increase operating efficiency and secure, then grow, market share over time building upon the infrastructure platform created through the wider waste shared service.

5.2 A comparison of the scale and resources of the two businesses is presented in the confidential appendix attached to this report.

5.3 In terms of efficiency gains, the following would arise in combination as a consequence of including the activity within the shared service:

- improved routing of the combined vehicle fleet (so reducing operating cost and/or releasing capacity to support future growth);
- more efficient use of assets leading to a reduction in fleet size and also lower future capital investment requirement and maintenance costs;
- consistency of commercial approach in relation to such issues as the management of over-weight containers;
- reduced operating costs associated with premises and support services / administration; and
- reduced management costs.

- 5.4 In terms of assuring and improving the service delivered to customers, this is expected as a consequence of:
- greater service resilience arising from increased available resources;
 - consistency in customer management with an enhanced ability to offer the widest possible service offer to all customers; and
 - better performance through shared knowledge and experience.
- 5.5 In terms of growing the business, it is expected that the shared service will be able to compete more effectively in the commercial market through a combination of:
- improved cost efficiency supporting competitive pricing to secure new work;
 - increased sales opportunities arising from broader operating geography and service offer;
 - ability to offer a joined up service across traditional borders to multi-site customers; and (ultimately)
 - enhanced opportunities to work with other Cambridgeshire local authorities via the RECAP Waste Partnership to mutual advantage.
- 5.6 Specific delivery plans to realise the targeted gains identified above would be developed in the detailed business and implementation planning to follow should Members' agree to approve this proposal.
- 5.7 In the meantime, to provide assurance to Members, the two authorities have jointly engaged waste experts from the East of England LGA to act as critical friends in the preparation of this report and to validate the savings potential (building upon a detailed operational and commercial review previously conducted by the East of England LGA of South Cambridgeshire's commercial waste business as well as a prior review of commercial waste collaboration opportunities through the RECAP partnership).
- 5.8 The East of England LGA experts' view is that the shared commercial waste service would, if fully implemented, deliver against the benefits identified above and in so doing increase the surplus derived by the two authorities by a minimum of 15% within a twelve month period at a low level of associated risk (leading on to further substantive gains thereafter).

6 Proposed Principles for creating a Shared Commercial Waste Service

- 6.1 The objectives underlying the creation for a single shared Commercial Waste service are set out in Section 3 and the maximum benefit will be derived by the Councils if that single shared service is fully integrated in both operational and commercial terms. The statutory functions will remain the responsibility of each

Council, for instance exercising any enforcement powers will be carried out by the relevant Council.

- 6.2 Achieving that optimum outcome for both authorities requires that principles are established in such areas as preserving current surpluses for each authority, sharing future efficiencies and growing additional income, managing risk around the loss of contracts, future pricing policy and corporate identity. In turn, Members are duly asked to agree to the following core principles.

Preserved Surpluses

- 6.3 Each Council's existing, stand-alone, Commercial Waste business currently generates a positive contribution to help support the General Fund through the operating surplus that helps to meet wider organisational costs. Inevitably, those surpluses have a different quantum and associated commercial risk profiles as each authority currently operates a different service delivery model and has a different market position.
- 6.4 Over time it is expected that this position will normalise through a combination of natural customer churn (including in the worst case loss of key contracts), new sales gains based on common business development endeavour and efficiency savings from integration of the operating and back office operations.
- 6.5 In reality, after a period of years, the shared service will be fully integrated and because of the change in commercial profile all equity should be treated as being an equal joint venture with surpluses and risks shared on a 50:50 basis in the true spirit of partnership and joint venture. In the interim period, it is proposed that operational surpluses currently generated from the existing customer base ("Preserved Surplus") are preserved before moving over to the full 50:50 arrangement.
- 6.6 In discussion with East of England LGA, it is considered that this state of affairs is likely to be reached after three - five years ("Preserved Period"). At the conclusion of the Preserved Period, it is expected that the overall surplus derived from the shared service will have risen significantly above that at the entry point. Further, for the reasons set out in the report, that overall surplus is expected to be materially greater than could have been achieved should the two operations have remained separate.
- 6.7 Initial business modelling indicates that substantial gains are deliverable over time through efficiency and increased growth as a direct consequence of pursuing the shared trade waste service. The specific quantum of those gains and the apportionment of costs and surpluses will be substantiated in detail in the implementation planning process and then signed off by the Shared Waste Board. At this stage, the minimum expectation is that gains equivalent to 15% of the current Operational Surplus will be secured within the first twelve months

of shared operation, equating to a minimum direct, recurring financial benefit of £70k per annum.

- 6.8 The intention of the two authorities is that this shared service is pursued in a spirit of collaboration to mutual benefit, meaning it is envisaged that the benefits so derived are ultimately shared on an equal basis. At this stage, whilst the 'size of the prize' has been established (so providing a robust commercial rationale for pursuing the shared service), the specific mechanism for sharing those benefits will require more detailed consideration before being submitted to the Shared Waste Board for approval (on the basis that Members accept the basic principle of equitable gain share).
- 6.9 Whilst it is considered appropriate that surpluses should be shared equally at the conclusion of the Preserved Period; it is appropriate, given the current differential in surplus levels, that the process of equalisation does not disadvantage Cambridge City Council or South Cambridgeshire DC compared to their entry position. The precise definition, mechanism and timing of the Preserved Surplus will be agreed through the Shared Waste Board.

Customer Gains and Losses

- 6.10 The benefit of new business gains to be shared by the Councils on an equal profit sharing basis after an initial period of three months to allow for acceptance of quotes in process at the time that the Shared Commercial Waste Service is created.
- 6.11 The profit associated with such quotes accepted by customers in the initial three months period be to the account of the originating Council and so credited to their Preserved Surplus.
- 6.12 Any customer losses in the Preserved Period to be allocated to the account of the originating Council and so debited to their Preserved Surplus. It is recognised that major contract losses may have a material impact on the overall business. In that circumstance, having to that date enjoyed the full financial benefit, the full associated financial impact of that loss will be borne by the originating authority insofar as it cannot be mitigated within the service by fleet re-profiling and other resource re-allocation.
- 6.13 As part of the commercial business planning process in the next stage, an agreed methodology will be developed with expert external input from the East of England LGA to ensure that the arrangements are transparent and equitably risk balanced in commercial terms.

Sharing of future cost efficiencies and productivity gains

- 6.14 As established in the arrangements underpinning the wider Shared Waste service, further cost efficiencies and productivity gains will be shared by the

Councils on an equal basis as they arise from collaboration and the benefits of a single operational service.

Future Pricing Policies

- 6.15 Future pricing policy is a key commercial issue that will have an impact upon both Preserved Surplus levels and the success of the future business development programme.
- 6.16 An initial review of current pricing policies indicates a number of opportunities to rationalise a shared approach over time as the shared service becomes fully integrated.
- 6.17 Whilst working towards this end, in relation to current business underpinning the Preserved Surplus, future pricing policy will remain the responsibility of the relevant Council who will carry any associated risk.
- 6.18 In terms of new business gains the allocation of where the benefit will be shared is a commercially sensitive matter whereby the venture policy will be overseen by the Shared Waste Board in consultation with both of the parent Councils to ensure that the overall market approach is rational and that the benefits are fairly apportioned.

Corporate Identity

- 6.19 The shared service business requires a coherent presentation of identity to existing customers and to the broader marketplace. It is considered important that the business branding is explicitly linked with the participating Councils. It should also be consistent with the associated positive values of public service and trust-worthiness that underpin the current service and market presentation which need to be retained and used as a key defining characteristic of the future business plan.
- 6.20 Mindful of this issue, the corporate branding of the shared Commercial Waste service will need to be determined in consultation with Members as a priority action for consensus within the Implementation Plan

Exit Strategy / Sale of the Business

- 6.21 This shared service arrangement, like the wider Shared Waste service, requires a long term commitment from both Councils and the business planning for the organisation will be based upon that premise. However, consideration will need to be given to the potential scenario that one or both Councils decide in future to leave the single shared service either of their own account or if there is a desire to pursue the sale of the service.
- 6.22 Should one council unilaterally wish to leave the shared service, the same principles of cost compensation to the remaining council that underpin the wider

arrangement will apply. In turn, should both Councils mutually agree to end the shared Commercial Waste service then as a principle any associated costs will be shared equally.

- 6.23 The shared Commercial Waste service will be a strong competitor in the local market and it is foreseeable that a commercial operator may seek to acquire the business. Given the collaborative nature of the shared Commercial Waste service it is recommended that such a sale of the business (either in part as a whole) will require Member agreement from both Councils including seeking impartial advice from an expert third party in valuing the business.

7 Staffing Implications

- 7.1 The proposals in this report may have implications for the small number of staff from both authorities who currently operate in this service area. However, these cannot be quantified at this time.
- 7.2 The absorption of the Commercial Waste activity into the wider shared waste service provides an immediate opportunity to deliver savings and efficiencies and to drive this project forward and further detailed work is yet to be undertaken on the detailed structures for the future.
- 7.3 The combination of the two Commercial Waste businesses is effected to generate substantive efficiency gains over time. Whilst further detailed work is required to quantify the associated impact, it is intended that operational capacity so released would in the first instance be utilised to support future business growth and flexibly support the wider shared waste service. This means that there are no implications for direct labour employees in the short term and a longer term review will identify opportunities and any weaknesses to be addressed.
- 7.4 Aligned to the wider shared service arrangements, it is proposed that all Commercial Waste staff across the two Councils are subject to the same considerations as the other Shared Waste staff. Initially the management team is employed by SCDC, as the employing authority, with other staff remaining with their current Council employer. The situation will be reviewed when the case for creating a local delivery organisation, wholly owned and run by the two Councils will be considered further by both Councils. This consideration is likely to be undertaken early in 2016 .

8 Governance Arrangements

- 8.1 The shared Commercial Waste service would be governed on the same basis as the wider Shared Waste service, In practical terms, the Shared Head of Service for Waste will be responsible for day to day management, service

delivery and development of the business, reporting into the Shared Waste Board.

- 8.2 In turn, the Shared Waste Board will oversee Commercial Waste performance within the budget and policy frameworks set by both Councils, providing advice and recommendations on related matters to both Councils, so as to deliver the Councils' objectives and financial targets.

9 Service Delivery Operational Implications

- 9.1 There will be a range of detailed operational implications arising from the creation and delivery of a single shared Commercial Waste service. Should Councillors agree these proposals, specifically the proposed under-pinning principles (as specified in Section 6), then the Shared Waste Board will be responsible for compiling and monitoring a risk and issues register to ensure changes and the operations are effectively managed.

10 Financial Implications

- 10.1 Whilst further detailed work is required to substantiate the aspiration, a desk top review supported by expert input from the East of England Local Government Association confirms that potential annual savings, efficiencies and an increased income of at least 15% of current surplus generation within the first 12 months years to help meet the Medium Term Financial Strategy commitments of both Councils is achievable.

- 10.2 From the initial financial analysis undertaken, substantial annual gains (i.e. the combination of cost savings and net income growth) are being targeted within the three year period based upon a combination of:

- operational efficiency including collection route optimisation;
- use of on-board weighing to ensure costs are fully recovered on all work and that the services provided by the joint venture are not those of the operator of last choice;
- overhead reduction in the management structure;
- rationalisation of support service activities; and
- optimisation of income opportunities.

- 10.3 It is expected that these gains will amount to £77k p.a. (an increase of around 15% of the current surplus) within the first 12 months and it is anticipated that these savings will be reinvested to support the development of the service. In the longer term savings and additional income that arise from the creation of the Shared Commercial Service will be shared equally between the two Councils as the benefits arise from working together (in line with the principles set out in more detail in Section 6).

10.4 There may be future opportunities associated with other local authorities (specifically other members of the RECAP Waste Partnership) joining the Shared Commercial Waste Service, either as clients or full partners. Such opportunities will be considered on a case-by-case basis as they arise through the Shared Waste Board in the first instance and will be confirmed by both Councils. Finance officers will provide help in preparing the detailed proposals for the Shared service.

11. Implementation Timescales & Costs

11.1 Should Members agree to these proposals then a detailed project delivery plan will be drawn up including transition and implementation milestones and costs for delivery under the oversight of the Shared Waste Board.

11.2 At this stage it is expected that the Shared Commercial Waste service could be fully operational by 31st March 2016. Full consultation will take place with staff and commercial unions as appropriate in the interim period and the key milestones along the path include:

- i. Council approvals to the proposals – early October – November 2015
- ii. Completion of the commercial business and implementation planning including branding identity sign off by Shared Waste Board – end November 2015
- iii. Confirmation of staff roles and preparatory measures to implement – end December 2015
- iv. External communication of business launch (customers, suppliers etc) and commencement of new arrangements - January 2016
- v. Delivery of early savings by 31st March 2016
- vi. Delivery of targeted operational savings based upon optimisation of rounds, weight cost recovery by September 2016
- vii. Full delivery of targeted gains – by end March 2017

11.3 As far as practicable, to mitigate costs, implementation will be led by existing in-house resources available through the wider shared service, meaning implementation costs anticipated at this time will be limited to:

- i. Expert critical friend – support from East of England LGA to support effective commercial business planning and delivery.
- ii. Transitional costs – it is assumed that wherever possible posts will be reduced via the careful management of the vacancies due to natural staff turn-over and retirements. All efforts will be made to minimise compulsory redundancies.

12. Legal Considerations

12.1 Each Council will remain under a statutory duty to provide potential customers with a Commercial Waste service option. Legal officers will provide help in preparing the detailed proposals for the Shared Service. The ongoing legal considerations will include procurement issues. Legal advice is that in principle the proposed arrangements are consistent with the overall Shared Waste Service arrangements concept and do not add any additional complications considerations to the establishment of the Shared Service from a legal procurement point of view.

13. Risks

13.1 Section 6 above recognises that there are a range of commercial risks that will be managed based upon the principles set out therein.

13.2 Section 9 above recognises that there will be a range of operational risks that will be managed.

14. Equality and Poverty Implications

14.1 An Equality Impact Assessment has been completed and at this stage of the proposals no anticipated impact has been identified. If members agree to support the proposal then the EQiA will be updated as work proceeds.

15 Environmental Implications

15.1 Environmental implications will be assessed at the Implementation Plan stage given that detailed round modelling work will inform the assessment work.

16 Consultation

16.1 As part of the process, it will be important to ensure full engagement and consultation with both staff and trade unions moving forward. The lead HR officers from both Councils are currently working together to ensure a co-ordinated approach.

16.2 Regular joint communications have been put in place with staff in the areas directly affected by the proposals and will continue with the aim of keeping staff informed and updated.

16.3 Officers from the recognised trade unions will continue to attend workplace briefings as well as meetings with management to discuss the proposals.

17. Community Safety

There are no community safety implications.

18. Background Papers

There are no background papers.

19. Appendices

There is one appendix. The appendix relates to an item during which the public is likely to be excluded from the meeting by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

20. Inspection of Papers

If you have a query on the report please contact:

Author's name: Simon Payne

Author's Phone Number: 01223 458277

Author's email: simon.payne@cambridge.gov.uk

Author's name: Mike Hill

Author's Phone Number: 01954 713229

Author's email: mike.hill@scambs.gov.uk