

COMMERCIAL TRADE WASTE REVIEW

Cabinet – 14 November 2024

Report of: Deputy Chief Executive & Chief Officer for Finance & Trading

Status: For Consideration

Also considered by:

- **Cleaner & Greener Advisory Committee – 11 November 2024**

Key Decision: Yes

Executive Summary: This report updates Members on a full business review of our commercial trade waste service. Approval is sort to implement one of the available options outlined in this report.

Portfolio Holder: Cllr. Irene Roy

Contact Officer(s): Trevor Kennett, Head of Direct Services Ext. 7407

Adrian Rowbotham, Deputy Chief Executive and Chief Officer
- Finance & Trading Ext. 7153

Recommendation to Cleaner & Greener Advisory Committee: That the options detailed in this report be considered by the Committee, and its views be submitted for consideration by Cabinet.

Recommendation to Cabinet: That the options detailed in this report for commercial trade waste services along with any proposals submitted by the Cleaner & Greener Advisory Committee be considered and an option is approved.

Introduction and Background

- 1 Sevenoaks District Council have run a commercial waste service for over twenty years, with the intention of providing local businesses with a fairly priced, transparent and flexible service. The original decision was predicated on introducing a new service, whilst utilising existing resources and generating surplus income to help support the budgets within Direct Services.
- 2 The Commercial Waste service is currently being subsidised from other Direct Services budgets, and the spiralling cost of disposal has had a significant negative impact to margins. Recent increases in labour and operating costs have also negatively affected the services ability to generate a surplus.
- 3 Since its inception in circa 2001 the council have been running a commercial waste service which enables them to comply with their legal Duty of Care obligation in business waste disposal.
- 4 In 2024/25, the service has budgeted gross turnover of £693,000 with an expenditure of £639,000, leaving the council with a potential gross profit margin of £54,000 (8%).
- 5 However, the current forecast for 2024/5, based on 6 months performance year-to-date, is an optimistic gross turnover of £555,000, which would leave the council with a potential loss of around £84,000.
- 6 The Council has contracts in place with 362 local businesses, and 128 sack customers (490 in total). The service uses 1 x 26 tonne vehicle and 1 x 12 tonne vehicle. Crews for each vehicle are an HGV Driver and Loader.
- 7 During the last four years there have been a number of challenges for us as a council and local businesses such as Covid, the cost of living crisis with ever rising costs, impacting the service & its customers trading positions.
- 8 The Environmental Protection Act 1990 is the relevant legislation for commercial waste, specifically section 45 (b) for the collection of;
 - a. Section 45 - Collection of controlled waste. (b) if requested by the occupier of premises in its area to collect any commercial waste from the premises, to arrange for the collection of the waste.; and (c) if requested by the occupier of premises in its area to collect from the premises dry recyclable waste or food waste presented for collection in accordance with section 34(2E) or (2F), to arrange for the collection of the waste.
- 9 The Council currently addresses the duty to comply with its statutory obligation to provide a commercial collection service upon request by offering its own Commercial Waste Service for businesses in the Sevenoaks district.
- 10 In setting charges standard Local Authority rules apply, namely the council is not allowed to run a 'for profit' service, but may make reasonable contributions to its financial overheads from the operation of the service.

Business Review Findings

11 The reasons for conducting this business review were to establish the relative merits of three possible options:

- a. Maintaining the service at approximately the same level, and if so endeavour to identify necessary pricing & efficiency steps to ensure market share is maintained at a level that may create a surplus
- b. Disposing of the service e.g. to a commercial operator or cessation
- c. Reinventing the service as a more independent standalone entity to deliver an income surplus

12 A summary of the main critical review findings are:

- a. Future changes may be required by businesses regarding commercial collections and their recycling arrangements.
- b. These new regulatory proposals being discussed would be beyond the capacity of the existing council service.
- c. The Commercial Waste service is currently being subsidised from other Direct Services budgets, and the spiralling cost of disposal has had a significant negative impact to margins. Recent increases in labour and operating costs have also negatively affected the services ability to generate a surplus
- d. Current forecast for 2024/5, based on 6 months performance year-to-date, is an optimistic gross turnover of £555,000, which would leave the council with a potential loss of around £84,000
- e. The most competitive private sector commercial waste companies tend to be established firms with a long trading history. The dominance that these companies have in the market has resulted in some of these becoming household names, for example, Veolia & Biffa. These companies have facilities which cover the whole commercial waste process, i.e. collection, recycling and disposal.

Operational Analysis

- 13 The council operates an in-house commercial waste and recycling service for businesses within the district from the Direct Services depot in Dunbrik. The service is provided using one dedicated crew for five days, and a second crew for approximately four days per week.
- 14 One Commercial Officer performs all back office functions for the service, and pro-actively visits customers and cold calls new business targets. Transport & Depot Operation Supervisor oversees delivering the frontline service, as part of a wider remit, and is costed at 20% of their role. The Business Development Manager oversees the service, and is costed as 40% of the roles remit.
- 15 Finance functions are performed by the councils support service, however debt recovery is undertaken predominantly by the Commercial Officer.
- 16 In recent years the income from commercial waste has recovered from Covid-19 challenges to businesses, but customer loss to private sector commercial operators in the market and the services inability as a waste collection service to offer a full recycling solution has stunted its growth potential.

Financial Year	Turnover
2016/17	£425,393
2017/18	£440,485
2018/19	£429,738
2019/20	£368,095
2020/21	£307,166
2021/22	£431,518
2022/23	£541,475
2023/24	£528,913

- 17 There has been a move in many national & global businesses, driven by economies of scale, where contracts for waste and recycling are centralised and local managers no longer have the discretion as to who collects their waste and recycling.
- 18 Whilst income per annum has trended upwards moderately, costs for delivering the service have increased significantly, particularly in terms of waste disposal, labour and transportation.
- 19 Customer base has risen year on year since Covid-19 lows of 2020/21. In November 2020, there were 273 customers, which has grown to 490 in November 2024, an 80% increase.
- 20 In August 2023, the services then largest customer (Sevenoaks School), moved to an alternative national supplier, as they required services we were unable to perform, specifically recycling of glass, plastic & metal etc. They also advised they had achieved pricing well below cost levels the council could execute the service.
- 21 Significant effort and success in attracting new SME businesses, particular micro (less than 10 employees), has been achieved by the Commercial Officer cold calling businesses in the district. This has also been of great value collecting market and competitor data.
- 22 The Environmental Enforcement teams focus on Commercial Waste legal compliance for duty of care from 2023 has driven a proportion of businesses to divert business waste disguised as domestic at kerbside, to licensed waste carriers including the council.
- 23 Two vehicles perform the service (1 x 5 days, 1 x 4 days), however both are seldom fully utilised through each working day, and substantial loss of time [c.25%] is incurred through shortage of daily customer collections available for both crews. Available working hours per day is 7.25, with the average time performing commercial waste service just 5.4 hours.
- 24 Each crew consists of an HGV driver and a loader. This is not mirrored in the private sector, where commercial waste is predominantly performed by just a solo driver.
- 25 In 2024, there are 4,285 registered businesses in the Sevenoaks district. The council's customer base is currently 490 businesses (bins and sacks), which equates to approximately 8.45% of the total market.
- 26 Customers have a choice of service including bin size and/or sacks, depending on the nature of the business and frequency of collection. The charges for trade waste are reviewed on an annual basis, and take in account the cost of collection, the administrative overheads, competitive price points and the cost of disposal.

- 27 Average number of lifts per week, split by vehicle. – An average 259 for Trade 1 and 323 for Trade 2. This equates to roughly 64 lifts per day per vehicle. Collected general waste is disposed of at the waste transfer site in Dunbrik, operated by the Commercial Services Group (CSG). Recycled paper & board is currently disposed of at Smurfit Kappa in Snodland, with a fluctuating income, currently at a high £45 per tonne. However, the weight delivered twice weekly is very small, typically less than two tonnes, so may cost more than the income received when all factors such as labour & fuel charges are considered.
- 28 Waste Transfer Notes (WTN), a legal requirement for businesses, are completed on behalf of all council customers. This service is charged at £152 per annum.
- 29 Volume of recycling customers for bins is 104, however in terms of tonnage it is very low compared to overall collected waste.

	General Tonnages	Recycling tonnages	Total tonnage	% recycled
2017/18	1,813.44	No data	1,813.44	-
2018/19	1,706.43	99.72	1,806.15	5.84
2019/20	1,790.59	54.94	1,845.53	3.07
2020/21	1,164.69	21.34	1,186.03	1.83
2021/22	1,263.70	5.02	1,268.72	0.40
2022/23	1,382.04	39.00	1,421.04	2.74
2023/24	1,240.00	46.46	1,286.46	3.61

- 30 Whilst eradicating a large amount of loss making business, it has made the service uncompetitive on price in the majority of cases considered by prospective customers. This uncompetitive comparison was confirmed by a large customer quote in July 2024, which showed our prices were about 20% higher.

- 31 2023/2024 actuals table for expenditure and income.

2023/2024	Expenses £	Income £
Salaries - Basic	268,225.35	
Cost Buildings	5,346.00	
Transport Running Costs Fuel & Oil	29,133.62	
Transport - Hire/Leases (Ext)	6,618.33	
Transport Repair Recharges (internal recharge)	21,609.75	
Fixed Transport Charges	18,098.53	
Fixed Lease Transport Charges	58,197.23	
Equipment Purchase	28,876.53	
Equipment-Materials	2,835.61	
Clothing	624.16	
Stationery And Office Supplies	91.17	
Printing - Internal	200.00	
Services	2,800.00	
CS - Agency Staff	6,482.48	
Waste Disposal	262,116.87	
Central Support	1,020.00	
Capital Charges Depreciation	3,268.00	
		-
Fees and Charges Dunbrik (Income)		516,383.40
Internal Recharge - Dunbrik (Income)		-12,529.95
		-
Total	715,543.63	528,913.35

32 Using existing costing percentages, the overall loss for the service in 2023/24 was £186,630.

33 Historically limited marketing of the service has been undertaken by the council. It is recognised that more could be done with regards to the information given to customers. In order to aggressively market the service, significant upfront revenue and capital costs need to be incurred with no guarantee that businesses would switch - and many of the providers have two and three year contracts in place, and could offer discounts in order to keep customers.

Current Trading Position

34 A typical commercial waste business would hope to achieve a profit margin, after overheads, of around 10-15%, and it is unlikely that the Council's service has achieved this for many years. The most optimistic forecast for this financial year would be a trading deficit of around £84,000.

35 Historically, pre-2019 it was found that the majority of customers were enjoying un-coordinated special low rates, without any clear logic to how they had been derived, or whether they were indeed profitable. A more disciplined pricing matrix has been employed since 2020, with standard pricing being adopted for over 90% of customers. The exception has been for a limited time discount applied to secure new customer, or high volume bin customers & historic arrangements.

36 Cost of equipment, such as bins to provide the services has increased significantly since 2020, by around 20% mirroring most industrial supply chains.

37 Costs for disposal at the Dunbrik transfer station have risen alarmingly by 53% in just the last four years.

- a. 2020/21 £139.72 per tonne
- b. 2021/22 £170.00 per tonne
- c. 2022/23 £195.00 per tonne
- d. 2023/24 £203.57 per tonne

38 There remains no facility to allow customers to pay by direct debit, raising risk of bad debtors through the requirement to offer payment terms.

Benchmarking – Kent Councils

- 39 A review of Kent local authorities and their commercial waste service status. 75% of our local districts no longer operate a commercial service.

Kent Local Authorities		
Authority	Yes	No
Ashford		X
Canterbury		X
Dartford		X
Dover		X
Folkestone & Hythe		X
Gravesham	✓	
Maidstone	✓	
Sevenoaks	✓	
Swale		X
Thanet		X
Tonbridge & Malling		X
Tunbridge Wells		X

- 40 In regards to non-council competitors there are seven main competitors identified - locally Midas and nationally Countrystyle, Veolia, Biffa, Suez, Lili & Business Waste.
- 41 The most competitive private sector commercial waste companies tend to be established firms with a long trading history. The dominance that these companies have in the market has resulted in some of these becoming household names, for example, Veolia & Biffa. These companies have facilities which cover the whole commercial waste process, i.e. collection, recycling and disposal. This means that they are able to create regional economies of scale for commercial waste, therefore, creating a significant competitive advantage. Also being in control of the end to end process means that they not exposed to the spiralling disposal costs.
- 42 Additionally there are numerous small brokers now in the marketplace who just tender for contracts and then subcontract this work into the marketplace; generally the broker companies have no facilities or fleets of their own. The broker companies employ low operating costs and mainly have an online presence. They predominantly operate national contracts and secure business by employing aggressive contract pricing.
- 43 Prices are compared on a regular basis, through customer cooperation, and proactive cold call visits. The large national service provides 1100 litre bin prices typically 25-30% less than the councils standard prices without VAT.

Local Market Profile

- 44 The council's residual waste customer base is dominated by small and medium enterprises (SME), with a wide assortment of business segmentation. The higher proportion of food waste outlets have implications on current costs:

- a. 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 (disposal is chargeable by weight).
- 45 With current charging mechanism on our vehicles (fixed prices without flexibility to weigh) 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.
- 46 Local Authority commercial 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 the councils case it is estimated that the proportion of businesses we might potentially count as customers, in the best case scenario, is around 80% 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 the council is significantly lower than the total generated.

Service Options

Option 1 - maintaining the service at approximately the same level, and if so endeavour to identify necessary pricing & efficiency steps to ensure market share is maintained at a level that may create a surplus

- 47 Maximising income and marketing endeavours to attract additional commercial sector work, whilst remaining competitive, but accepting that the service will likely produce a deficit each year on the trading accounts.
- 48 Refresh route optimisation, endeavouring to reduce the service down from 2 vehicles for 9 days, to 2 vehicles for 7 days, with the intention to maximise the 7.25 daily hours available.
- 49 Focus on creating a viable marketing plan for the service in order to create awareness and expand domestic customer base. Update the service description on the website to include details of the expertise available from SDC. Have regular advertisements in trade journals, InShape, community groups and forums.
- 50 Customer pricing review, to optimise most profitable customers, introducing a general 5% increase where possible from April 2025.
- 51 Remove current recycling option (just paper & board). It is loss making, does not compete with competitors offerings, and is a very small part of customer use. Review whether a full recycling option tipped at KCC (currently £60 per tonne) would attract new business and be loss leading.
- 52 Review the number of different bin sizes we offer.
- 53 Introduce functioning stock control system for bin storage.

Option 2 Disposing of the service e.g. to a commercial operator or cessation

- 54 Cease offering the service from 31 December 2024 and provide two months' notice to customers, in excess of the terms and conditions. The service would therefore not operate after April 2025.
- 55 By removing the service there is a risk that illegally disposed commercial waste in local public litter bins, fly-tipping or Household Waste Recycling Centres could increase. There will need to be a focus on this from our environmental enforcement team.
- 56 At least three officer posts made redundant and the current vehicles redeployed to other service areas within the council. Specialist equipment such as bins sold. There are likely to be opportunities to redeploy all staff into the wider Direct Services.

Option 3 - Reinventing the service as a more compact commercial entity to deliver an income surplus

- 57 Re-establish the service as a more competitive independent standalone commercial operation. The current position where the service blurs into the more dominant Refuse and Green Waste collection services should not continue. Staff and crews need to better understand the different service requirements & customer expectations for a commercial waste business.
- 58 Adopt a single crew operational status, reflecting industry norm. HGV Driver would require HIAB training & license, be paid one grade higher than previous, and work in conjunction with bottle bank operators to provide resilience. Customer bin locations would be reviewed to ensure single operator collections are feasible. This action coupled with below co-collecting, should enable a single vehicle service and savings of around £90,000 per annum.
- 59 Co-collections with household waste, utilising spare capacity on Refuse Service 'Flat' rounds. The council requires a vehicle with a bin lift suitable for collecting 1100 litre bins in order to serve its communal bin properties (Flats), and these can be fully utilised if commercial waste is also collected. Disposal management would need to be clarified with KCC Commercial Services Group. Operationally this could save circa £30,000 per annum.
- 60 Customer service cost & pricing review, optimising most profitable customers, introduce a increases where viable from April 2025. This could raise an additional £25,000.
- 61 Introduce functioning stock control system for bin storage.

Officer Recommended Option

- 62 The officer recommendation is Option 3, to reinvent the service as a compact surplus positive entity, and to maintain compliance with its statutory obligation to provide a commercial collection service upon request. [s45 (1) (b) Environmental Protection Act 1990]

Conclusion

63 Option 1 – This would, even with service improvements mean that the commercial waste service would continue to run the risk of operating at a financial loss.

64 Option 2 – This would remove the financial risk to the council, but could have some minimal negative reputational impact on the council. The council could negotiate a one-off income if the customer base was sold on to a partner so that our statutory duty is maintained, but this is unlikely.

65 Option 3 – This entrepreneurial option should positively reduce the operational resourcing costs to reflect actual usage, and could thus return a surplus income. However the financial risk of uncontrollable factors relating to rising disposal costs, operational and labour costs, would of course remain.

Key Implications

Financial

For options 1 & 3 there is a potential financial risk in continuing the service either in its current form or by reorganising. With the current model of operation, this service can no longer run at a surplus, as a result option 2 would remove the ongoing financial pressure.

Legal Implications and Risk Assessment Statement.

No legal implications have been identified, terms and conditions specify that each contract has a one month written termination clause. Risks considerations are detailed within the main report and are many financial.

Equality Assessment.

This report does not specially highlight any equalities implications, however in discharging their responsibilities the Council are required to comply with the public sector equality duty as set out in section 149 of the Equalities Act 2010. <https://www.legislation.gov.uk/ukpga/2010/15/section/149>

Climate Change Implications

The decisions recommended through this paper have a remote or low relevance to the council's ambition to tackle the challenge of climate change. There is no perceived impact regarding either an increase or decrease in carbon emissions in the district, or supporting the resilience of the natural environment.

Appendices - None

Background Papers - None

Adrian Rowbotham

Deputy Chief Executive and Chief Officer - Finance & Trading