



Executive
18 July 2011

**Report from the Director of
Environment and Neighbourhood
Services**

Wards Affected: ALL

Additional Street Cleansing Savings

Appendices 1 and 3 are not for publication

1.0 Summary

- 1.1 The 2011-12 budget making process made some explicit decisions about reduction in service levels in street cleaning. There were also further savings built into the budget which required negotiation with Veolia as to how they could be achieved.
- 1.2 This report recommends the approval of further variations in the council's waste services contract in order to meet agreed budget reductions

2.0 Recommendations

- 2.1 That Members note the requirement to achieve further reductions in the cost of the Council's Waste Services Contract and the progress of negotiations relating to those reductions set out in paragraphs 3.3 to 3.7.
- 2.2 That Members agree the package of changes to street cleaning services set out in paragraph 3.10.
- 2.3 That Members note the intention to seek further cost reductions from the waste services contractor in relation to the agreed changes and delegate authority to conclude those negotiations to the Director of Environment and Neighbourhood Services and the Director of Finance and Corporate Services.

3.0 Detail

3.1 On 15 November 2011 the Executive agreed a new Waste Collection Strategy which would:

- ◆ give radical improvements in the waste collection and recycling services provided to all Brent residents
- ◆ deliver a step change in the recycling rate towards the goal of 60%
- ◆ deliver long term efficiency savings (largely arising from savings in disposal costs) in excess of £1 million each year

3.2 The financial implications of adopting the strategy were based on modelling undertaken jointly with Veolia, who is the council's contractor both for waste collection and street cleansing, under one combined contract. There remained significant negotiation to be undertaken to conclude the variation to the contract necessary to implement the changes.

3.3 In the 2011-12 budget setting process, a number of savings relating to the Veolia contract were agreed. Together these reduced the cash limit for the contract services by £1,595k for 2011-12 and subsequent years. They were made up of four elements set out in Table 1 below..

Item	£000
Move from 3 to 2 sweeps per week in residential Zone 5 plus integration of cleansing and special collections and rebalance of afternoon shift (price agreed from the schedule of rates and implemented from 1 April 2011)	545
Move from 2 to 1 sweep per week in residential Zone 5 (this saving was an estimate based on schedule of rates)	350
Avoidance of redundancy costs through shift to 5 day working – a one off saving but included in the baseline	100
Savings to be negotiated based on a range of areas of concern totalling over £1m in the Veolia waste collection proposal	600
TOTAL	1,595

Table 1

3.4 The Council has been negotiating with Veolia since February 2011 to seek to agree means of reducing the cost of the contract to match the budget now available. The negotiations with Veolia have been detailed and protracted because of the range of service variables and the need to remodel the whole service within budgetary targets. The Council's negotiating team has been led throughout by Corporate Procurement, supported by senior officers from E&NS and from Finance.

3.5 Negotiations continue, and details are included in confidential Appendix 1. However, it is clear that it will not be possible to achieve the reductions sought

in the cost of the waste collection and recycling elements of the contract, and that cost reductions to meet the cash limit will need to come from additional street cleansing savings.

- 3.6 In outline, it has not been possible to agree the reductions sought by the Council in respect of the waste collection arrangements partly because Veolia are seeking, through this significant change to the contract, the opportunity to try and improve profitability for the remainder of the contract which has, in their view, been eroded by a number of factors since the original start of the contract. Similarly, they are seeking to ensure through the negotiation of the changes to the street cleaning element of the contract, that they have a higher level of profitability for the remainder of the contract than they have recently been enjoying. In consequence, the reductions to the street cleaning regime recommended below to meet the 2011-12 and 2012-13 budget requirements, are larger than might have been expected.
- 3.7 At the present point in negotiation, the changes recommended, together with the budget treatment of related elements discussed in Section 4 will meet the budget requirement for 2012-13 and subsequent years. For 2011-12 there will be a £410k shortfall which is broadly in line with the shortfall anticipated from part year introduction of the waste collection strategy when it was agreed by Executive in November 2010.
- 3.8 It is imperative that the changes to implement the waste collection strategy through changed recycling and refuse collection arrangements are implemented from 1 October 2011. Any delay to the implementation will worsen the position for 2011-12 and delay the substantial financial and performance benefits anticipated to follow the changes through reduction in the tonnes of waste going to landfill and the related waste disposal costs.
- 3.9 It is highly desirable that changes to the street cleaning regime are introduced at the same time as the new waste collection service. Later implementation of these changes will further reduce the savings which can be achieved in 2011-12 and will lead to the need to identify further offsetting cost reductions in the department's budget.
- 3.10 The changes recommended are set out in Table 2 below. These are in addition to the reduction to one sweep per week in Zone 5 set out in Table 1.

Item	£000
Decrease Sweeping Frequency in Zone 3 (Industrial Areas) (from 7 per week to 2)	83
Cease Afternoon service at Weekends	420
Reduce Mechanical Sweeping on Weekday Mornings	254
Reduce Weekend Day Service – move to a skeleton service with mobile teams	402
Reduction of frequency in Zone 2 (secondary shopping), down to twice per day	74

Item	£000
Cease seasonal leaf fall Service	76
TOTAL	1,309

Table 2

- 3.11 In total, the itemised reductions in cost from Table 1 (the first two rows) and Table 2 total £2,204k, but deliver savings of only £1,652k (see Appendix 2), a shortfall of £552k.
- 3.12 It is recommended that the negotiations with Veolia continue and be escalated to a more senior level to ensure that the eventual price agreed for these changes delivers better value for money for the Council. However, in view of the time imperatives discussed earlier, Members are recommended to agree this set of reductions to the street cleaning element of the waste services contract (as set out in Table 2) and to delegate the authority to conclude negotiations to the Director of Environment & Neighbourhood Services and the Director of Finance and Corporate Services.
- 3.13 Such significant reductions in the street cleaning regime will clearly require careful and consistent monitoring to ensure that the contract delivers what is now expected of it. Officers are developing a new performance framework for the revised contract and are reviewing the use of available monitoring resources to ensure that contract delivery meets expectations.

4.0 Financial Implications

- 4.1 In the 2011-12 budget setting process, a number of savings relating to the Veolia contract were agreed. Together these reduced the cash limit for the contract services by £1,595k for 2011-12 and subsequent years.
- 4.2 The package of changes set out in paragraph 3.10 gives rise to a projected budget position which has been calculated separately for 2011-12 (part year) and 2012-13 (full year).
- 4.3 For 2011-12, the part-year implementation of changes to the service (other than the move from 3 to 2 sweeps in Zone 5 and minor changes to shift arrangements) means that a shortfall against savings which were assumed to be full year is inevitable. This was anticipated in the November Executive report which agreed the Waste Collection Strategy which identified the shortfall as £495k for a 1 October 2011 start date.
- 4.4 For 2012-13, both contract changes and budget savings are aligned to each other (i.e. both are for a full year). Review of the 2012/13 position gives the true underlying position
- 4.5 Appendix 2 summarises the budget savings model. It shows a full-year saving of £1.086m in 2012/13 which is £509k short of the £1.595m saving required in

2012/13. The part year saving in 2011/12 is £676k so is £919k short of the savings needed to achieve the savings in the ENS cash limit.

- 4.6 The full year budget shortfall (i.e. 2012/13) results from the modelled street sweeping savings being £552k less than the sum of the individual elements of specification reduction. There are three factors that have contributed to this (but they have not been quantified):
- a. The Brent budget does not include the full indexation to which Veolia would have been entitled under the contract;
 - b. Veolia have added in inflation to which they would not have been entitled under the contract (e.g. 1% pay award for staff where the contracts specifies indexing of staff cost in line with national local authority awards which would be zero in 2011/12);
 - c. As discussed earlier Veolia have added back other costs that they have been bearing in previous years to restore their profit/overhead margins to those in the original contract.
- 4.7 In addition the overall cost of the refuse collection service, including both Veolia and Brent costs, are £566k above current costs (see Appendix C); in Veolia's model produced last November these combined costs £204k above current costs. This has therefore added **£362k** to the gap. Reasons for this movement are as follows:
- a. Inflation effects as above;
 - b. Hiring of vehicles rather than purchase of vehicles;
 - c. Any other refinement by Veolia of figures.
- 4.8 A number of issues and options have been identified which it is anticipated will help close these budget gaps. They are set out in Table 3 below.

Item	2011-12 £000	2012-13 £000
Waste collection savings		
£197k of the full year shortfall is attributable to the increased annual cost of vehicle hire. The approach to vehicle acquisition has been agreed corporately and the cost will be met corporately. The effect in 2011-12 is £98k	98	197
The communication plan proposed costs only £241k in 2011-12 against the £318k assumed in the model. This delivers £77k of saving and further scrutiny of the communication plan and its costs is recommended	77	0
The Veolia redundancy costs built into the model assume £107k will be incurred. Veolia have said this is a worst case. It is considered that we could prudently budget for £80k saving £27k in 2011-12.	27	0

Item	2011-12 £000	2012-13 £000
Similarly, the costs incurred on disposal of redundant vehicles are worst case and Veolia have indicated that they expect them to be half of the £200k in the budget. A prudent assumption will reduce costs in 2011-12 by £100k.	100	0
Disposal costs		
The November decision by Executive assumed that £222k of reductions in disposal costs were built into the cost model. Although the view has been taken that further reductions in disposal costs should not be built into this savings plan, this element could be prudently allowed for.	111	222
Veolia have offered a gate fee of £22 per tonne for dry recyclables compared to the £30 per tonne presently built into the model. This is not contingent on achieving significant increases in recycling volume but does require less than 5% contamination. This saving would be worth £96k in 2011-12 and £192k in 2012-13. It may be possible to agree with Veolia some non-contingent intermediate position.	96	192
Total	509	611

- 4.9 Without any further progress on negotiation this will leave a shortfall of £410k in 2011-12 whilst the items identified above will cover the 2012-13 savings requirement before indexation. The contract price adjustment formula for this contract is likely to deliver a similar change for 2012-13 as the 2.56% for 2011-12. This would add a further £362k to the contract costs. If inflation provision of 2% is made available through the budget process the shortfall would be around £79k which would also be covered by the savings identified.
- 4.10 If the proposed negotiations are unsuccessful in reducing 2011-12 contract costs to within the agreed budget provision officers from Environment and Neighbourhood Services will seek other ways to bring the budget back into balance as a priority. Options for reducing the costs of replacement and subsidised bins and waste containers are being examined as are potential savings in waste disposal costs arising from the continuation of existing trends in waste arisings. Should these prove unsuccessful in closing the budget gap, savings will be found in other areas of Environment and Neighbourhood Services.

5.0 Legal Implications

5.1 Under the Equality Act 2010 (“the 2010 Act”) the council is required to have due regard to its Public Sector Equality Duty, these new duties arise at the time decisions are made. Officers have undertaken an analysis to see whether the proposed changes to waste collection and street cleansing complies with the new duties under the 2010 Act and the outcome of the analysis is reported below..

5.2 Members are advised to see Appendix 3 (Not for Publication) for further legal implications.

6.0 Diversity Implications

6.1 An Equalities Impact Assessment has been undertaken and its conclusions are that there are no adverse impacts arising from the changes in respect of any of the protected characteristics under the 2010 Act and that the proposed changes comply with the Council’s new duties under the Act.

7.0 Staffing/Accommodation Implications (if appropriate)

7.1 There are no implications for Council staff or accommodation although the changes in street cleaning are likely to lead to up to fifty redundancies amongst Veolia’s staff.

Background Papers

Equalities Impact Assessment

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APPENDIX 2

Waste Services Review - Budgetary Impact

Item	2011/12			2012/13	
	Current Budget 2011/12	Latest Estimate	Growth/ (Saving)	Latest Estimate	Growth/ Saving
	£	£	£	£	£
- <u>Veolia Contract Costs</u>					
Refuse	5,966,838	5,786,601	-180,237	6,282,482	315,644
Street Cleansing	8,640,900	7,598,489	-1,042,411	6,988,585	1,652,315
Other Services	945,097	901,442	-43,655	845,899	-99,198
Container Maintenance	57,862	39,512	-18,350	21,163	-36,699
Sub Total Veolia Contract Costs	15,610,697	14,326,044	-1,284,653	14,138,129	1,472,568
<u>Other Annual Costs</u>					
Containers - Capital Charges	0	54,050	54,050	326,832	326,832
Container storage	60,000	60,000	0	60,000	0
Organic Support (May - September)	0	70,000	70,000	0	0
Dustbins (Including wheeled Bins)	89,600	35,550	-54,050	89,600	0
Communications	86,300	318,000	231,700	146,000	59,700
Total Annual Costs	15,846,597	14,863,644	-982,953	14,760,561	1,086,036
<u>One Off Costs</u>					
Redundancy	0	107,000	107,000		
Containers - distribution	0	0	0		
Obsolete vehicles (loss on disposal)	0	200,000	200,000		
Total Waste Services	15,846,597	15,170,644	-675,953	14,760,561	1,086,036