

Costs of a Single Waste Authority for London Compared with Current Disposal Arrangements

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1 Executive Summary

1.1 Background

The Mayor of London believes that the most effective way to deliver the sustainable management of municipal waste in London is for waste disposal to be under the control of a single authority. The Mayor is committed to developing the environmental and business case for a single waste authority in the light of progress of London's waste authorities towards the 2005/06 statutory recycling and composting standards. These views are stated in Proposal 86 of the Mayor's Municipal Waste Management Strategy "Rethinking Rubbish".

This report on potential costs for a single waste authority is prepared by Mouchel Parkman/PriceWaterhouseCoopers (MP/PWC) and has been commissioned by the Greater London Authority (GLA) as one of three complementary studies to inform in outline and scope the environment and business case for a single London authority for waste disposal. This initial work will prepare the background to consultation with Government, Local Authorities, and other stakeholders. The two other studies are in relation to the governance and administration of a single waste authority, carried out in parallel with this study by the same study team, with a further report on policy drivers carried out by others.

1.2 Current Waste Management Arrangements in London

London currently produces 4.3m tonnes of municipal waste and this is growing as the capital's population increases. Some 70% of this waste goes to landfill and is mostly exported to sites outside London.

Waste management arrangements in London are a legacy from the abolition of the Greater London Council in 1986. The 32 London boroughs and Corporation of London each have a statutory duty for the collection of municipal waste, however the responsibilities with regard to waste disposal are not uniform or consistent across the capital.

The Corporation of London and 11 London boroughs also have responsibility for the disposal of their own municipal waste (a single tier system). The remaining 21 London boroughs are arranged into four statutory joint waste disposal authorities (a two tier system). The statutory joint authorities are led by a committee of councillors from their constituent boroughs and are responsible for making arrangements for disposal on behalf of the constituent councils. These arrangements are summarised below:

- Four Waste Disposal Authorities (WDAs)
- 21 Waste Collection Authorities (WCAs)
- 12 Combined Collection and Disposal Authorities (Unitary Authorities)

1.3 Current Costs and Resources

Total municipal waste management costs for London for 2002/3 are estimated to be of the order of £497 million, of which approximately 21% are overhead costs in

relation to service development, management, support and capital charges, with 79% going to contracted out or in-house direct costs of service provision.

Approximately 40% of waste management costs were spent on disposal activities however, it is estimated that only 9% of total management and supervisory staffing is directed to waste disposal. This is approximately 70 waste disposal staff over all of London.

Current capital investment expenditure is very low, however whatever the administrative structure of waste management in future this will rise significantly over the next decade in order to deliver the requirements of European, national and regional policy.

1.4 Impacts on Costs of a Single Waste Authority

This analysis suggests that the investment required to achieve change in the administrative structures, and future administrative running costs may broadly balance, or increase only to a marginal extent. Note there are potentially significant transitional risks which have not been considered in this assessment, which could alter this conclusion. This is a matter for further investigation and analysis.

However what is clear is that due to the level of investment over the next decades, the costs of not having the correct structure to deliver an optimum waste management solution for London is extremely high; in the order of hundreds of millions of pounds of tax-payers money.

It may be that an optimum solution can be delivered through the existing structures, although analysis in a parallel work stream report on governance and administration highlights the shortcomings of relying on voluntary groupings to deliver. However due to the levels of co-ordination and expertise required to provide the necessary facilities for the future it is suggested that a single authority for waste disposal for London has the potential to deliver lower overall costs over the long-term.

This is due to enhanced capability of a single waste disposal authority to plan and coordinate the location and procurement of the necessary contracts and infrastructure, and to attract and develop specialist resources to support delivery and manage risk effectively on a London-wide basis.

Remaining with the current structures implies that the existing 16 WDAs can act to deliver the Mayors strategy. If London does not rise to the challenge of delivering this strategy, then London will potentially lose up to £2.5 billion (based on a worst case scenario, e.g. penalty payment as opposed to purchase, and net WDA aggregated annual fines) in LATS fines or allowance purchases, and will not contribute to a sustainable solution for the long term management of solid waste for the Capital.

A fundamental question is to understand the impact of change on ongoing delivery of waste management in London, and this requires further consideration. **This report**

represents only preliminary work and has been put forward as a basis for discussion and to inform priorities for further investigation.

2 Introduction

2.1 Purpose of Report

Proposal 86 of the Mayor's Municipal Waste Management Strategy "Rethinking Rubbish in London"¹ states:

'The Mayor believes the best way to achieve sustainable waste management in London is for waste disposal to be under the control of a single authority. The Mayor will develop an environmental and business case and consider the views of London waste authorities. In the light of London's progress towards the 2005/06 [statutory recycling and composting] targets, the Mayor's position will be presented to Government, to consider appropriate changes to existing legislation.'

This report has been commissioned by the Greater London Authority (GLA) as one of three complementary studies to inform in outline and scope the environment and business case for a single London waste authority. This initial work will prepare the background to consultation with Government, Local Authorities, and other stakeholders. The three studies are as follows:

1. **Governance and Administration** of a Single Waste Disposal Authority for London – Ref: PN122 (Mouchel Parkman/PWC)
2. **Costs** of a Single Waste Disposal Authority for London – Ref: PN123 (Mouchel Parkman/PWC)
3. **Policy Drivers** for a Single Waste Disposal Authority – Ref: PN124 (Mott McDonald)

This report is the second of these three assignments, and has been undertaken by Mouchel Parkman, supported by Price Waterhouse Coopers (PWC), in conjunction with the first assignment.

2.2 Methodology and Approach

This report provides initial scoping to the implications on costs for a single waste authority for London. As such the overall approach taken was limited to look at the following three aspects at a high level:

1. **Baseline Costs:** Identify the current (status quo) cost structure of waste management in London in terms of both operational (service delivery, e.g. disposal activities) and overhead (management and administrative) components, as a baseline. This is covered in Section 3 of this report.

¹ "Rethinking Rubbish in London" The Mayor's Municipal Waste Strategy, GLA Sept 2003

2. Future Costs: Identify the potential future cost structure elements of waste management in London, based on an assumed single waste disposal authority in comparison to the potential cost elements if the current disposal arrangements were maintained. This is covered in Section 4 of this report.
3. Transition Costs: Identify key elements of cost in relation to the transition from the current arrangement to a single London waste disposal authority. This is covered in Section 5 of this report.

The assessment of current waste management expenditure and in particular total overhead and administration costs is based primarily on the Chartered Institution of Public Finance Accountants (CIPFA) waste management published surveys. This has been augmented by information of existing structure and resource costs contained in Authorities' annual reports and other publicly available data, as well as a limited number of telephone interviews conducted in March 2005 with a sample of waste authorities. Where appropriate, analogies from previous public sector reorganisation have been taken in estimating potential future cost impacts.

Mouchel Parkman has developed a comprehensive operational waste flow and cost model called "Purgamentum" which has been used in a project funded through Shanks First to create a model for the whole of London, based on an aggregate of London's 33 constituent boroughs. This model has been used in the assessment of the potential cost impacts on service delivery resulting from the adoption of a single waste disposal authority. In carrying out the above, we have sought to look at the impacts on waste management as a whole system, rather than disposal in isolation.

During the development of the project emerging ideas were presented to and vetted by a review panel made up of experts involved with public sector organisation and change to challenge and augment the analysis of the core project team.

3 Current Waste Disposal Costs in London

Summary of section's key points:

- London currently has a combination of two-tier (separate collection and disposal authorities) and single-tier (unitary) administrative arrangements. CIPFA collect data on waste management quantities costs of each type of authority, but there is little systematic information collected on staffing and management resources.
- Total municipal waste management costs for London for 2002/3 are estimated to be of the order of £497 million, of which approximately 21% are overhead costs in relation to service development, management, support and capital charges, with 79% going to contracted out or in-house direct costs of service provision.
- Approximately 40% of waste management costs were spent on disposal activities however, it is estimated that only 9% of total management and supervisory staffing is directed to waste disposal. This is estimated at approximately 70 waste disposal management staff over all of London.
- Current capital investment expenditure is very low, however whatever the administrative structure of waste management in future this is expected to rise significantly over the next decade in order to deliver the requirements of the Mayors municipal waste management strategy.

3.1 Existing Administrative Structures and Responsibilities

London currently produces 4.3m tonnes of municipal waste and this is growing as the capital's population increases. Some 70% of this waste goes to landfill and is mostly exported to sites outside London.

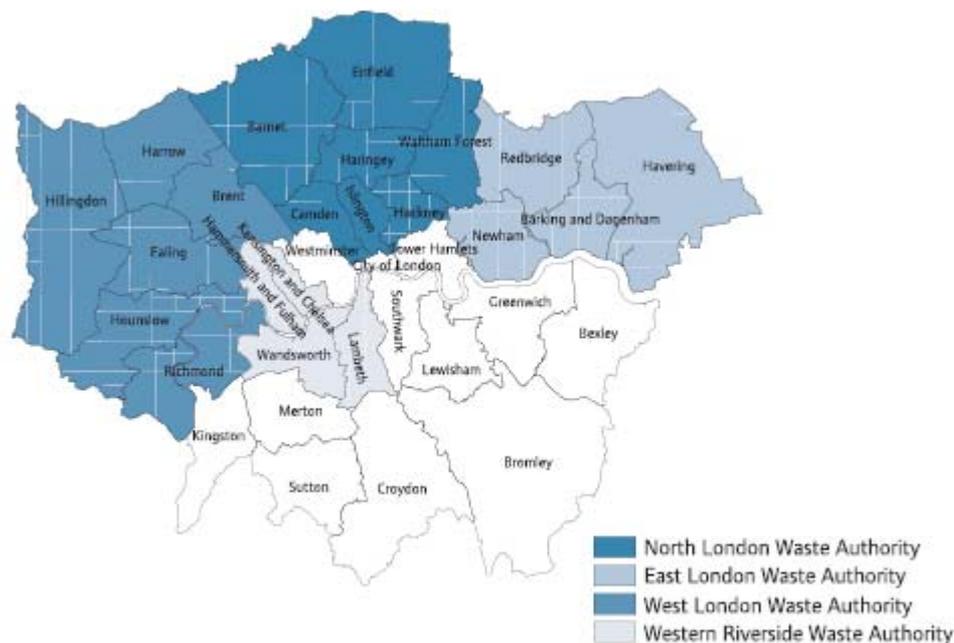
Waste management arrangements in London are a legacy from the abolition of the Greater London Council in 1986. The 32 London boroughs and Corporation of London each have a statutory duty for the collection of municipal waste.

The Corporation of London and 11 London boroughs also have responsibility for the disposal of their own municipal waste (a single tier system). The remaining 21 London boroughs are arranged into four statutory joint waste disposal authorities. The statutory joint authorities are led by a committee of councillors from their constituent boroughs and are responsible for making arrangements for a disposal on behalf of the constituent councils. These arrangements are summarised below, and in Figure 1.

- Four Joint Waste Disposal Authorities (JWDAs)
- 21 Waste Collection Authorities (WCAs)

- 12 Combined Collection and Disposal Authorities (Unitary Authorities)

Figure 1 Waste disposal authority groupings in London



source: GLA 2003

3.1.1 Joint Waste Disposal Authorities

As can be seen from the above the joint waste disposal authorities are made up of a number of waste collection authorities, which are the London Boroughs.

In terms of administration, the four joint waste disposal authorities are fairly lean almost “virtual” organisations, drawing significantly on technical and support resources of the constituent boroughs with each borough contributing two (or for West London Waste Authority, one) councillors to form the authorities’ governing board. Operations are contracted out to the private sector (with the exception of West London, where some operations are carried out by a Direct Service Organisation (DSO)), with the authority mainly carrying out contract management and monitoring of the service contracts, again mainly through the resources of constituent boroughs. The joint waste disposal authorities also have a responsibility for developing and implementing their own strategies. See Appendix 2 for more detail of each WDA’s organisational structure.

Full-time management personnel dedicated to the work of each joint Waste Disposal Authority are of the order of 7 to 13 staff.

Both West London Waste Authority and Western Riverside Waste Authority have offices based at Waste Management sites, East London Waste Authority and North

London Waste Authority have small administrative premises but draw on other facilities of the constituent boroughs.

This generally means that JWDAs are carrying very little direct overhead, and are benefiting from existing support structures in the boroughs which are recharged to the authorities. This avoids the need for investment in its stand-alone support functions. These support functions include:

- Clerk/Committee Services
- Finance/Treasury
- Legal
- Valuation

3.1.2 *Waste Collection Authorities*

London's 21 waste collection authorities are responsible for development of policy and strategy, waste collection operations, either directly or more often through private sector contracts, and street cleaning. Typically a waste management group in a collection authority will comprise between 10-40² officers depending on the size of the authority and the approach taken to waste management, be responsible for policy and service development as well as management and monitoring of the private sector operations contract or in a limited number of cases a DSO. Although disposal operations are carried out by the WDA, the collection authorities generally consider disposal within the planning and policy development of collection and recycling strategies.

The waste collection group is typically one part within the Environmental Services Directorate of each Borough, and has access to the support services and functions provided to the Authority as a whole.

3.1.3 *Unitary Authorities*

Unitary Authorities are responsible for both collection and disposal operations. They often formally or informally contract with the other waste disposal authorities for disposal of some waste streams. Three Unitary Authorities, Lewisham, Southwark, Greenwich have formed a partnership which has led to the SELCHP energy from waste facility delivered in partnership with the private sector. Other authorities e.g. Westminster also send waste to this facility.

The Waste Disposal aspects of running of the authorities services may be generalised as forming part of the overall work load of the waste officers within the

² Based on telephone survey of a sample of waste authorities March 2005

authorities. A key benefit of this is that waste can be looked at in a system-wide way from minimisation /collection through to disposal. Typically, of a waste team of say 12 FTE staff from service manager to Clerical worker, 1.25 FTE may be in relation to waste disposal activities.³

3.1.4 *Greater London Authority*

The waste management group within the GLA, with a staff of 6.25 FTE, is currently responsible for the preparation of London-wide waste management strategies and co-ordination of its delivery. The group also has a role in relation to planning, including the preparation of the London Plan waste policies and the review of strategic planning applications. The GLA also assesses waste management contracts to ensure that they are not detrimental to the Mayor's Municipal Waste Management Strategy.

3.2 **Current Waste Management Costs and Resources**

In order to assess any new proposal for waste management administration in London the current baseline needs to be understood.

3.2.1 *Source Information*

The Chartered Institute of Public Finance Accountants (CIPFA) collect data on municipal waste management on an annual basis. This dataset covers both collection and disposal actual costs, as well as information on waste quantities and methods of operation. The most recent set of published data is for 2002/3 with 2003/4 figures due in April 2005. The data set is not entirely complete for all authorities, but is the best aggregate data known to be available.

There is however no known set of data on staffing levels or grading/responsibility structures on which to draw. The study timescales did not permit the gathering of complete and exhaustive data at this stage. This information would be useful to be included on the CIPFA returns in future, or other statistics gathered by the GLA or other bodies. For the purposes of informing the current study, a limited telephone interview was held with a sample of seven waste authorities (two JWDAs, two WCAs and three unitaries) to gain a view of typical staffing levels, as well as some initial perspectives on the nature and implications of a potential single authority for waste disposal. A summary of the staffing structures findings are included in Appendix A.

3.2.2 *Total revenue costs 2002/3 and split between overhead and operating costs*

Based on the CIPFA annual returns for 2002/3 the overall municipal waste management revenue cost for London is estimated at £497 million, including street cleaning, abandoned vehicles etc. As we are considering potential organisational changes to waste management we have looked at the split in expenditure between **operating** (service delivery) costs, i.e. the costs of having waste collected, transported and disposed of through private sector contracts or through DSOs and

³ Based on telephone survey of a sample of waste authorities March 2005

overhead costs, i.e. the costs of management and administration support of the services, including management and monitoring staff, facilities, capital charging, and borough central services recharging.

This analysis shows a split of total waste management expenditure including street cleaning and abandoned vehicles:

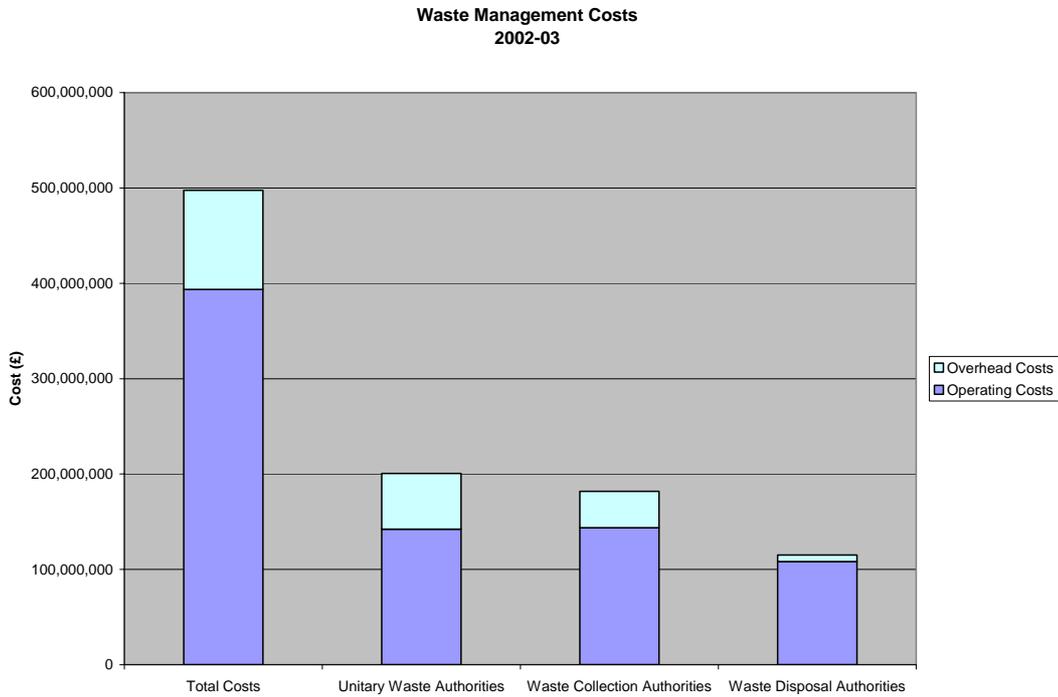
- 21% (c. £104 million) of on overhead costs; and
- 79% (c. £393 million) on operating costs

This is further demonstrated in Figure 2 below.

Note that private sector revenue costs may include some element of capital investment by the private sector. This is not explicit in the data, but is not expected to be significant.

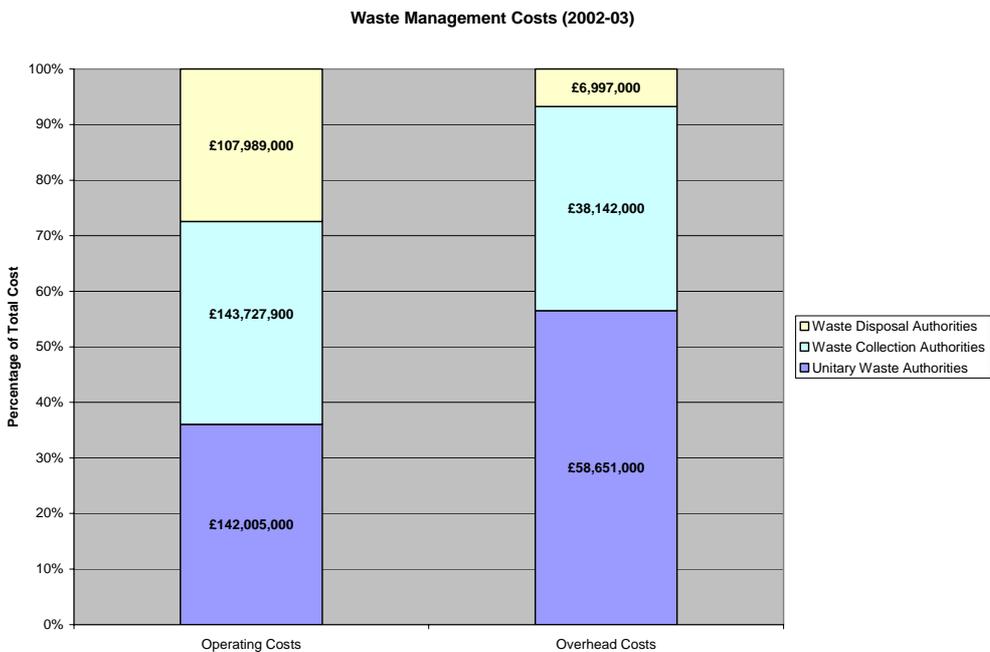
The data suggest that unitary authorities spend proportionately higher on management and support costs rather than on operational costs (See Figure 3 below). This could indicate that investment in management and support does help to control operational expenditure, although there could be other factors, which on its own these data cannot reveal. The remit of this study does not permit the further exploration of this aspect, but there may be benefits in understanding the factors influencing this relationship to better target future allocation of resources.

Figure 2 Municipal waste management overhead and operating costs for London 2002/3



Source: Mouchel Parkman based on CIPFA 2002/3 data

Figure 3 Proportion of total operating and overhead cost by authority type



Source: Mouchel Parkman based on CIPFA 2002/3 data

3.2.3 *Capital Expenditure*

It is worth noting that the total capital expenditure in the same period was approximately £1 million, i.e. less than 0.2% of the revenue expenditure based on the CIPFA data. As noted above this does not include any private sector financed investment that may be recouped through revenue charges, although this is not expected to be substantial when taken on a London-wide level.

This situation is changing, and whatever future format of administration in London, in order to meet recycling targets and landfill diversion targets in accordance with the Mayor's Municipal Waste Strategy, significant investment in recycling and treatment infrastructure is required, of the order of up to £1 billion⁴ over 2004-2020 years, or very simplistically £62 million a year, so significantly greater than the current rate. Note however that most of the capital will be re-paid through gate fees (i.e. revenue costs) (assuming mainly private sector financing), but this demonstrates the scale of the change. This will have a significant impact on the required financial and human resources and skills and capabilities required in the upcoming years. Thus the status-quo will need to change dramatically even if there is no change in governance arrangements.

3.2.4 *Resource and cost split between Waste Disposal and Collection activities*

A current estimate of the number of authority based management staff involved with waste management in London is presented in Table 2 below. Note that this does not include personnel involved in actual operations such as private sector contractors or DSOs.

⁴ London Modelling Project

Table 1 Estimated waste management staffing overhead in London

| Estimate of Authority Policy, Service Management and Contract Monitoring Resources for London's Waste Management ⁵ | | | | | | |
|---|-----------------------|---------------------------------|------|----------------------------------|-----------------------------|---|
| Type of Authority | Number of Authorities | Range in Number of Officers FTE | | Estimated % Involved in Disposal | Total Disposal Officers FTE | Total Collection & Recycling Officers FTE |
| | | Min | Max | | | |
| GLA | 1 | 6.25 | 6.25 | 50% | 3.1 | 3.1 |
| Joint Waste Disposal Authorities | 4 | 7 | 13 | 100% | 40 | 0 |
| Waste Collection Authorities | 21 | 10 | 35 | 0% | 0 | 472.5 |
| Unitary Authorities | 12 | 10 | 35 | 10% | 27 | 243 |
| Total | | | | | 70.1 | 718.6 |

Source: Mouchel Parkman - telephone survey of 7 sample authorities March 05,

Thus overall management and monitoring staffing in relation to waste disposal represents some 9% of the total London authorities' waste management personnel. This does not include elements of central/corporate support.

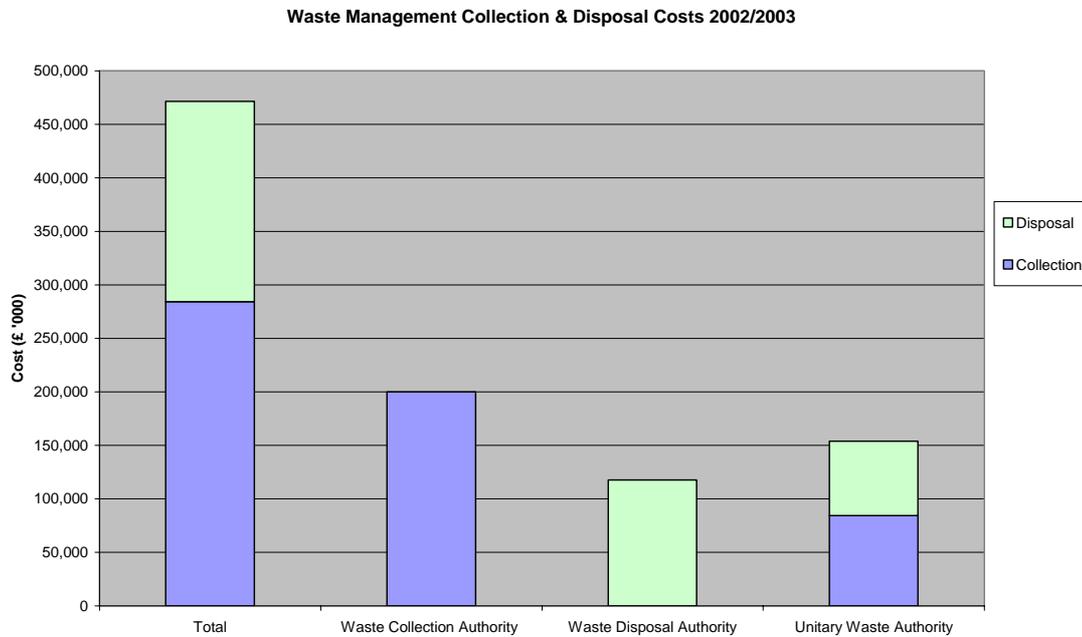
In contrast disposal costs represent some 40% of the overall waste management spend in London, based on the CIPFA 2002/2003 data⁶. This is shown in the graph in Figure 4 below. This reflects the more capital intensive nature of disposal process, and current relative simplicity of processes employed. Collection operations due to their greater geographic dispersion, and investment in developing recycling by contrast requires a higher management and supervisory involvement. New investment in disposal facilities and operation, by its capital intensive nature takes longer to develop and is still in early stages, but will need to change dramatically in

⁵ Based on telephone survey of a sample of London Waste Authorities March 2005

⁶ Disposal includes Civic Amenity Site Costs, as well as Landfilling and Transfer Station/ Bulk Transport costs as well as Incineration. NB the total of this analysis is not identical to the previous Administration & Service Delivery analysis due to the differences in presentation of the base data.

forthcoming years. The proportion of disposal costs of the total waste management cost is likely to rise over the forthcoming years to reflect this greater investment.

Figure 4 Municipal waste management collection and disposal costs 2002/3



Source: Mouchel Parkman based on CIPFA 2002/3 data

4 Assessment of Waste Disposal Costs under a Single London Authority

Summary of this section's key points:

- The Mayor's municipal waste strategy has outlined the framework for delivery of future waste management needs in London. However, further work is ongoing to determine the spatial distribution of facilities, technologies and sites to deliver this.
- Delivering this strategy is likely to cost London billions of pounds over the next 15-20 years, and will require significant coordination across London to deliver, which would be facilitated by a single waste disposal authority. Not delivering this strategy optimally has a potential impact in terms of unnecessary additional capacity and number of sites, LATS payments and contract prices. The potential cost impact of this is of the order of hundreds of millions of pounds over the next 15-20 years.
- A preliminary assessment of a single waste disposal authority of the order of 90-140 staff shows would have potentially increased overhead costs mainly through additional office facilities. If a single waste authority is able to enhance financing terms either directly or through reduced project risk for the private sector, this would outweigh these additional costs.

4.1 Overview

As identified in Section 3 there are two key components to Waste Management costs structures.

- One is the cost of the actual services delivered, i.e. doorstep collections, recycling facilities and operations, bulk waste transfer and disposal costs including landfill tax. These costs are through private sector contracts or DSOs. These are called for the purposes of this assessment, operational costs.
- The other element of costs is in relation to service management and development, policy and contract monitoring staff, facilities, and administrative support functions. These are termed overhead costs for the purposes of this study.

As also identified in Section 3, waste management in the UK and particularly London which currently accounts for 15% of waste in England is in a period of significant change. New ways of working are being developed and new infrastructure needs to be put in place in order to achieve the recycling targets and meet requirements to divert biodegradable municipal waste (BMW) from landfill.

These changes mean that the structural *status quo* will be experiencing significant increases in investment and management activity even if there is no overall change in administrative structure for waste management in London. This means that a comparison with what is being done right now is not sufficient, it is important to consider the impact of the required changes on the current administrative structure as well as under a single waste authority model.

One important consideration is that this will require a significant increase in capital investment as well as operational revenue costs. Given the significance of the capital investment required, the overriding necessity is that this is spent efficiently and effectively, to minimise the investment requirements, and to provide robust and cost effective operations in the future.

In order to consider the implications of costs under a single waste disposal authority as put forward by the Mayor, it is necessary to make certain assumptions regarding the nature of this organisation. The parallel ongoing work on the Administration and Governance of a single waste authority will put greater clarity on the options for such an organisation, and future work may bring these parallel streams together in more detail.

Key functional requirements for the organisation will be dictated by the requirements to fulfil the Mayor's strategy for municipal waste in London and meet other requirements. Key requirements identified in the parallel work are as follows:

- Ability to identify and secure suitable sites for waste handling, treatment and disposal through the planning system
- Ability to procure the necessary contracts to deliver for the step change in infrastructure and operations
- Ability to monitor operational contracts and manage the continuous development of waste management, particularly ensuring close integration of collection, recycling and disposal for local communities throughout London

The conceptual model adopted for this analysis is a single functional body overseeing waste disposal over London, with a regional substructure to maintain local operational interfaces. The assumption has been made for the purposes of this study that collection operations would remain under the administration of the London Boroughs.

This model is put forward not as a final solution, but only as an outline hypothesis to enable some level of early analysis of potential impacts of a single waste authority. In any case, much further work would be required to identify the exact scope and interface of collection and disposal operations, as well as funding and other arrangements.

We look first at the potential future operational cost impact of a single waste authority and then the implications for the management overhead.

4.2 Service Delivery Costs

4.2.1 *Overview and Considerations Influencing London –Wide Service Delivery and Costs*

The Mayor's municipal waste strategy "Rethinking Rubbish in London" is based on meeting London's waste management challenges using a mix of technologies for the treatment of the waste stream, such as Mechanical & Biological Treatment (MBT), pyrolysis, anaerobic digestion, existing incineration capacity, along with improved recycling and measures to minimise the production of waste.

The London Plan outlines the spatial policies for waste management⁷ with the purpose of identifying the land use requirements waste management and disposal in the future. It also identifies the criteria for the selection of sites for the inclusion in unitary development plans (UDPs)⁸. These criteria include:

- proximity to source of waste
- the nature of activity proposed and its scale
- the environmental impact on surrounding areas, particularly noise, emissions, odour and visual impact
- the transport impact, particularly the use of rail and water transport
- primarily using sites that are located on Preferred Industrial Locations or existing waste management locations.

Further work is currently on-going to estimate the future requirements for sites as well as their spatial distribution. This exercise is not yet completed. However the optimum arrangement depends on the complex interactions of the above criteria, but in terms of economic costs, it is fundamentally a balance between the costs of transporting waste (tending to support a higher number of smaller sites) and the costs of waste treatment (tending to be more capital intensive, and tending to support fewer higher capacity facilities). Where multiple (sequential) processes can be co-located there are potentially economic benefits due to elimination of inter-stage transport and handling facilities, as well as economies through sharing of basic site acquisition, preparation and infrastructure (e.g access roads and accommodation) costs.

⁷ London Plan, Policy 4A.2

⁸ London Plan, Policy 4A.3

A technical challenge that waste management in London also needs to meet is matching the profile of the production of waste with the necessary capacity of waste treatment facilities. Treatment capacity generally comes as lumps of capacity, e.g. 60,000, or 120,000 tpa for some MBT processes, and any capacity is fixed certainly over the short to medium term due to the time it takes to put in place a change in the infrastructure. Having partially used capacity is not ideal in terms of use of capital. In general, pooling production across a wider area irons out ups and downs in mismatches between waste generation and treatment capacity, and leads to more efficient capacity utilisation.

An optimised waste management solution for London looks to make best use of treatment capacity across London. A single waste authority for London would be in a position to coordinate the location and timing of these facilities, to optimise these efficiencies in terms of scale, integration and capacity utilisation.

The current administrative arrangement however is constrained by the fragmented nature of the existing 16 Waste Disposal Authorities. Although it may be possible for unitary authorities to collaborate on shared disposal facilities, (for example as was done for the SELCHP facility), decision making is protracted and all authorities must be satisfied despite affordability and other constraints which vary substantially between authorities.

There is therefore substantial risk that as a result authorities are delayed in meeting their objectives (in which case they will incur liabilities due to the Landfill Allowance Trading Scheme (LATS)), or in order to be certain to meet the objectives, procure facilities for their own purposes only (reducing their liability exposure) but which provides capacity above the optimum for London, or scale below the optimum or both.

These issues are looked at in the following sections, namely

- Capacity
- LATS Liability
- Project Development and Procurement
- Site Availability

4.2.2 *Capacity*

As part of the London Waste Modelling project, Mouchel Parkman has developed an integrated cost model based on waste management flows and collection, transfer and processing and disposal costs for municipal waste in London. This is based on input data on waste flows and current costs provided by each borough in London. This model was developed from June 2004 to January 2005. This model simulates a number of scenarios to deliver the “Mayor’s Strategy” arrangements.

Based on this modelling we have assessed the potential for meeting the treatment capacity requirements to minimise LATS liability under a London wide approach compared to an approach where each WDA meets its own requirements independently.

Table 2 Assessment of cost Implication for non-optimum waste management facilities

| Parameter/Year | 2009/10 | 2019/20 | 2031/32 |
|---|-----------|-----------|-----------|
| Estimated Mechanical Biological Treatment Capacity required to Deliver Mayors Strategy (throughput tpa) | 1,611,964 | 1,833,000 | 1,928,151 |
| Estimated number of treatment facility units (of standard 60,000 tpa throughput) to meet this required capacity, over all of London | 27 | 31 | 33 |
| Estimated number of treatment facility units (of standard 60,000 tpa throughput) to meet requirements of each existing WDA on a stand-alone basis | 35 | 40 | 41 |
| Potential limit of facilities (of standard 60,000 tpa throughput) overprovided through existing structure | 8 | 9 | 8 |
| Potential total capital cost implication of surplus capacity at an assumed marginal cost of £20 M per 60 ktpa unit | £160 M | £180 M | £160 M |

Source: Mouchel Parkman "Purgamentum" model for London

Note that if this arrangement lead to the development of a higher than optimum number of site locations there would be also be implied additional costs due to lower than optimum economies of scale, in terms of both capital costs and operational (running costs). Each additional site beyond the optimum may increase capital costs by £ 5-10 million or potentially more than would otherwise be required⁹.

⁹ Based on Mouchel Parkman outline costing exercise on a typical BioMRF Facility MBT process stream of capacities from 60,000 tpa to 180 tpa April 2005.

4.2.3 *Landfill Allowance Trading Scheme (LATS)*

On the current model each one of the existing 16 WDAs is an independent entity in relation to the LATS. Authorities with access to the existing incineration facilities at Edmonton and SELCHP are more likely to avoid being penalised under LATS, whereas those without access may well need to purchase LATS allowances. Also (and somewhat perversely) those authorities with access to incineration are contractually obliged to submit capacity, to the detriment of recycling rates.

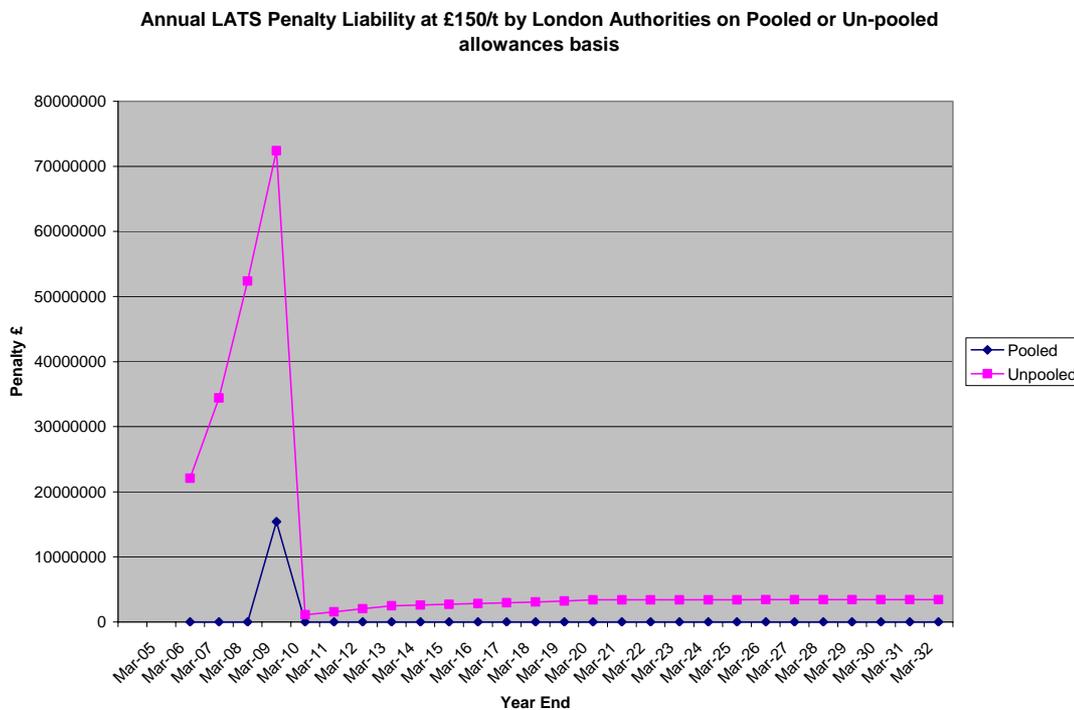
This may produce a situation where one London authority is gaining and the other is losing at the same time, a form of financial fraction, which is not efficient in terms of provision overall better investment and performance. A single waste authority would facilitate the sharing of capacity more equitably, and thus alleviate the financial penalties which would make service delivery in authorities about the landfill thresholds, allowing funding to be better directed to supporting a London wide capacity.

It may be possible to act collectively in London on LATS charges within London without a single waste authority, but achieving agreement with each authority may be difficult.

The chart below (Figure 5) compares LATS Liabilities for London Authorities based on pooling the allowances across London (as in a single waste authority) compared with if each authority is independent. Note this only includes liabilities- other boroughs would be experiencing some considerable LATS income. This shows that under a pooled system there would be significantly less outflows from waste authorities - particularly in the period prior to 2009. This means that resources are not leaving authorities when they are most needed to implement the required projects. The diagram shows a marked reduction in potential liabilities after 2010, and this is due to the assumption that additional capacity to treat waste and so divert waste from landfill (thus avoiding to a great extent LATS penalties) will come on stream at this time.

The benefits of pooling above the un-pooled example in terms of total reduced cash outflows from every individual authority in London is approximately £22 million to £57 million prior to 2009, and thereafter to 2032 is £1.1 million rising to £3.4 million.

Figure 5 Impact of LATS penalties in London for delivery of Mayor's treatment strategy on based on either pooling or not pooling LATS allowances



Source: Mouchel Parkman "Purgamentum" model for London

However this is assuming that the existing 16 WDAs can act to deliver the Mayor's strategy. If London does not rise to the challenge of delivering this strategy, then London will potentially lose up to £2.5 billion (based on a worst case scenario, e.g. penalty payment as opposed to permit purchase, and net WDA aggregated annual fines) in LATS fine or allowance purchases¹⁰, and will not contribute to a sustainable solution for the long term management of solid waste for the Capital.

4.2.4 Procurement and Project Development

A risk of a multi-authority system is that each authority will have to procure additional facilities (recycling sites, treatments e.g. Pyrolysis/Digestion Facilities) on an individual basis. There is potential for authorities to be competing for market attention to provide similar types of systems or projects in similar timescale. The implications of this are potentially:

- Buyer competition potentially driving supplier prices higher

¹⁰ London Waste Modelling Project

- Oversupply of capacity overall as each authority provides for the long term need, but needs some capacity online earlier to meet the Recycling/Landfill diversion targets (as identified earlier)
- Inefficient use of resources (i.e. opportunity cost of the capital used to provide capacity- see graph in Figure 6 below)
- Duplication of effort in terms of design and procurement administration.

A single waste authority may have better buying power, and would ensure more consistent standards of facility design and operating systems, and could be more easily phased to optimise market supply and the profile of capacity required. This would also allow opportunities for ongoing learning and improvement in the development of the facilities, as well as having the project volume to sustain a critical mass the necessary project development professionals.

Whilst not directly comparable, recent work in relation to schools has estimated that such a programme approach could deliver benefits in the range of 10-15% in capital costs and potentially 5% in terms of Lifecycle costs¹¹.

There are opportunities for unitary authorities under the existing system to work together to procure new infrastructure (such as the SELCHP scheme), to potentially greater efficiencies in the procurement of projects.

However, execution of this procurement programme will represent a significant challenge for the WDAs in London as:

- the services to be procured will require major investment in capital assets and hence finance. The contracts are therefore likely to be highly complex regardless of whether the project finance is provided by the private sector (e.g. through bank financing of PFI/PPP projects) or by the public sector (through prudential borrowing powers)
- the long life of the assets to be constructed imply the contracts will be relatively long (up to 30 years) and hence the contracts will need to address a very wide range of uncertainties;
- the integration of waste management responsibilities in one contract renders the service specification and the payment provisions highly complex resulting in very long and detailed contracts

¹¹ "New Procurement and Delivery Arrangements for the Schools' Estate" March 2005 PWC Report for Department of Education Northern Ireland.

- there are only a limited number of potential providers of such services active in the UK and no guarantee that any one tender will attract sufficient market interest to generate competition tension in the tender process
- there is only limited guidance available from government on the way WDAs should address this procurement challenge

Ensuring that this programme of procurement is well managed is therefore the key to ensuring cost effective value for money waste management in London over the next 10 to 20 years. Quantifying the impact of this factor is not straightforward as historic data is limited and not always available in the most relevant format. After reviewing the sources of data available we approached the East London Waste Authority (ELWA) for assistance in quantifying the impact that the efficiency of the procurement process could have on the eventual cost of waste management services to the WDAs in London. ELWA was selected as:

- It has already undertaken the procurement of a major integrated waste management project
- The project required substantial finance raising (over £100m)
- It was an award winning procurement.

ELWA agreed to provide information for this report on the basis that no confidential information could be disclosed. Accordingly the text of this part of this report¹² has been reviewed and cleared for release by ELWA.

The ELWA experience cannot in itself provide definitive proof that well a run procurement saves money. However it can provide some clear evidence to support the contention that the difference between a well run and a poorly run procurement process could affect the price paid by the procuring authority by a significant percentage. The following data from the project supports this conclusion:

1. The Authority initially invited bids on the basis of its preferred contractual risk allocation but at the same time gave the Bidders the opportunity to bid lower prices on the basis of a lower level of risk transfer. The reduction in the price bid resulting from this change to the risk allocation varied from bidder to bidder but was up to nearly 50% equating to over £400m in net present value terms.
2. The prices quoted by the four bidders in response to the Invitation to Negotiate (ITN) varied substantially, notwithstanding the fact they were also responding to the same specification. The lowest variation was for bids

¹² This information was compiled by PWC

reflecting the bidders' preferred risk allocation. However even for these bids the range between the lowest and the highest price was 30%.

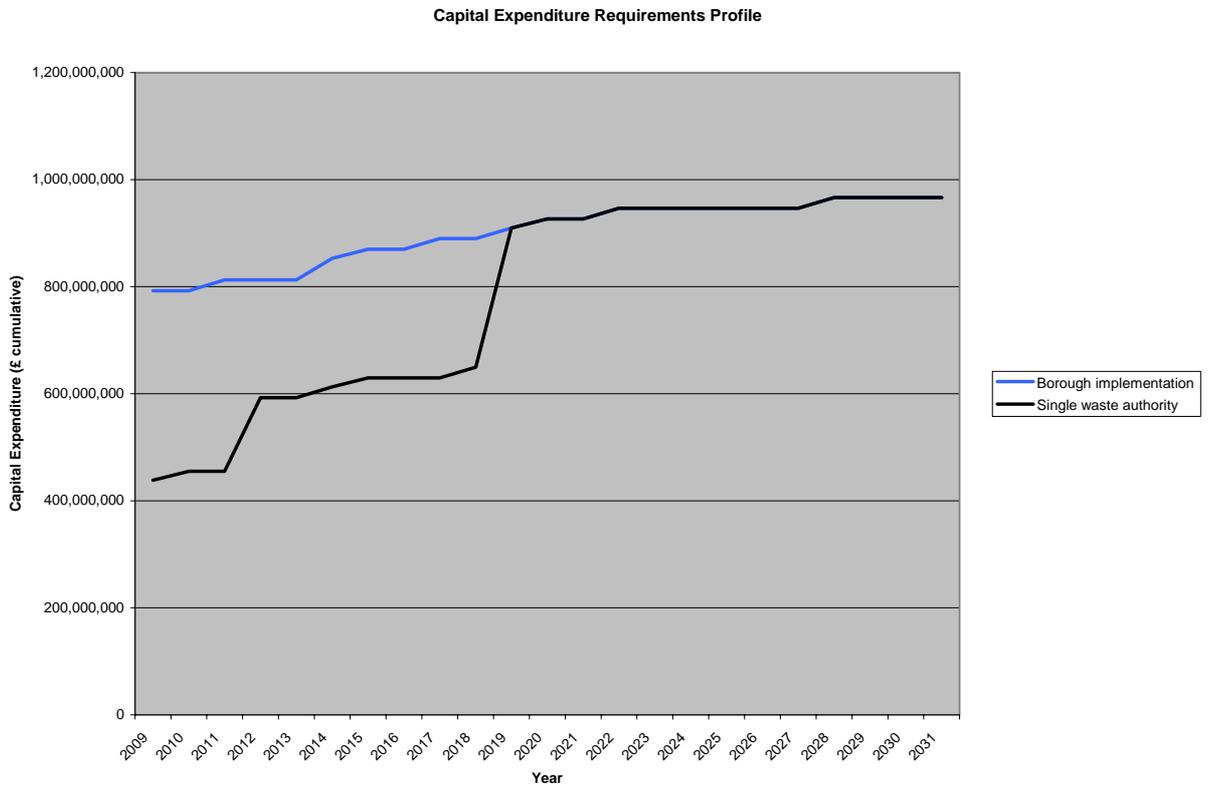
3. The winning bid was between 5% and 15% less costly than a range of cost benchmarks prepared by the Authority to estimate the cost of not tendering an integrated waste contract.
4. Progress from Best and Final Offer stage to Contract completion was achieved within nine months and the price and the service specification did not change in that period (other than to reflect a decrease in interest rates).

If individual authorities pursue their own procurements, each will be a one-off project, and the opportunities for incorporating learning and standard best practice may be less. A single waste authority would become a centre of excellence in waste procurement, helping to drive down costs and minimise risk. This is also highlighted later in Sections 4.3.1 and 4.3.4.

The London waste modelling project gives outline predictions of total waste management costs of approximately £5 bn NPV or approx £6.9 bn over first 20 years from 2004 to deliver the Mayors strategy. Of this approximately £1bn is capital investment required, which is primarily waste disposal related. This leaves £5.9 bn over 20 years in terms of revenue costs. Based on the *status quo* outlined previously in section 3.2.4 it is assumed that 40% of this cost is disposal related revenue costs. Based on these assumptions, we estimate that for a range of 0% to 5% saving on total disposal contract costs potentially available through a single procuring authority may be of the range £ 0 to £ 50 million overall in capital costs and £0 to £ 5.9 m per annum on revenue costs. In practice the capital costs may also be repaid through revenue assuming the private sector finance the major capital projects.

The graph below (Figure 6) shows the potential benefit in terms of Capital cost profile of procuring infrastructure in a consolidated and phased implementation under one authority, rather than as independent parallel projects. This level of coordination required to achieve the optimal profile would be difficult to realise without some overall strong coordination across London afforded by a single waste disposal authority.

Figure 6 Capital costs in relation to project development profile



Source: Mouchel Parkman "Purgamentum" model for London

Based on the above and assuming 6% simple interest on maximum differentials in spend profiles of approx £390m over 10 years gives a potential saving of £234m in total financing charges.

A single authority may also be able to provide savings for standard equipment used throughout London, even if not directly in relation to disposal: examples are recycling boxes or collection vehicles. This bulk purchasing power has been used to great effect in the past by the GLC Supplies department and also the London Recycling Fund (LRF). The GLC Supplies department in any one year is reported to have saved rate-payers in the order of £15 million¹³.

4.2.5 Site Availability - Planning and Acquisition

A single authority with responsibility for the land use planning for waste management sites as well as for delivering such infrastructure should reduce the risks to projects in terms of both site availability and planning permission. The London Plan and

¹³ GLC - The Inside Story, Wes Whitehouse

PPS10 offer improvements in terms of planning for waste management sites, but this would be further strengthened by a single waste authority. A single waste authority would potentially be better placed to use Compulsory Purchase Order powers for the attainment of the necessary sites. A single waste authority would be likely to have access to greater resources to identify, assess the feasibility and acquire sites of strategic importance to waste management. Site availability is probably the single most important constraint on the delivery of waste management infrastructure.

Delays due to planning issues on sites can potentially add the order of £500k - £1million¹⁴, and potentially higher in procurement costs, in terms of all parties' advisory and design costs.

If repercussion in terms of LATS payments needed due to delay could make any such delays or non-delivery more significant.

4.2.6 *Innovation, Risk and Market Development*

The Mayor's strategy through policy 18 aims to use new and emerging technologies in the treatment of waste and also identifies through policy 33 the objective to help develop more sustainable waste reprocessing facilities and markets.¹⁵

There is level of risk involved with use of new technologies, and often the real or perceived risk, or lack of understanding/familiarity with technologies can be a barrier to innovation and successful implementation of such technologies. For these technologies to be employed a rational approach is needed across London. A key element of risk management, along with having appropriate skills and knowledge is the ability to diversify risk across a wider portfolio. This approach is reflected for example in investment vehicles used in the financial services industries and also in the public sector e.g. specialist commissioning of rare, high cost healthcare which is pooled at a London wide or wider regional basis.

If a new technology treatment solution is adopted by a single unitary authority of say 100,000-150,000 tonnes per annum, a low to reasonable scale process of 20,000-60,000, represents a relatively significant portion of the treatment stream - 20-40% i.e. the "eggs are all in one basket". Furthermore, this may affect the economies of scale of this or other processes used. However if this risk and technology is managed across all of London via a single waste disposal authority, the risk of each facility becomes a much lower proportion of the overall total. Management of technology risk can then be managed more effectively across London, and due to the higher volume of projects, more specialised resources to managing this aspect can be afforded.

¹⁴ Mouchel Parkman estimate based on typical planning, advisory, and bidding costs

¹⁵ "Rethinking Rubbish in London"; The Mayor's Municipal Waste Strategy, GLA, Sept 2003

4.3 Management and Support, and Service Development Overheads

4.3.1 Staffing Structure

As outlined previously, there are currently approximately 70 officers directed to waste disposal activities in London, spread throughout London. These resources are mainly involved in ongoing management and monitoring of waste disposal contracts, and would need to be augmented in any case to deliver the necessary infrastructure developments across London. For example North London Waste Authority (NLWA) has sought to expand its strategy and contracts team from 7 to 13 personnel, to meet its ongoing workload.¹⁶ East London Waste Authority (ELWA) had a dedicated team of 3-4 people with over 40 personnel involved for 2 years to procure its waste management PFI Contract, with enhanced facilities at Frog Island and Jenkins Lane.¹⁷

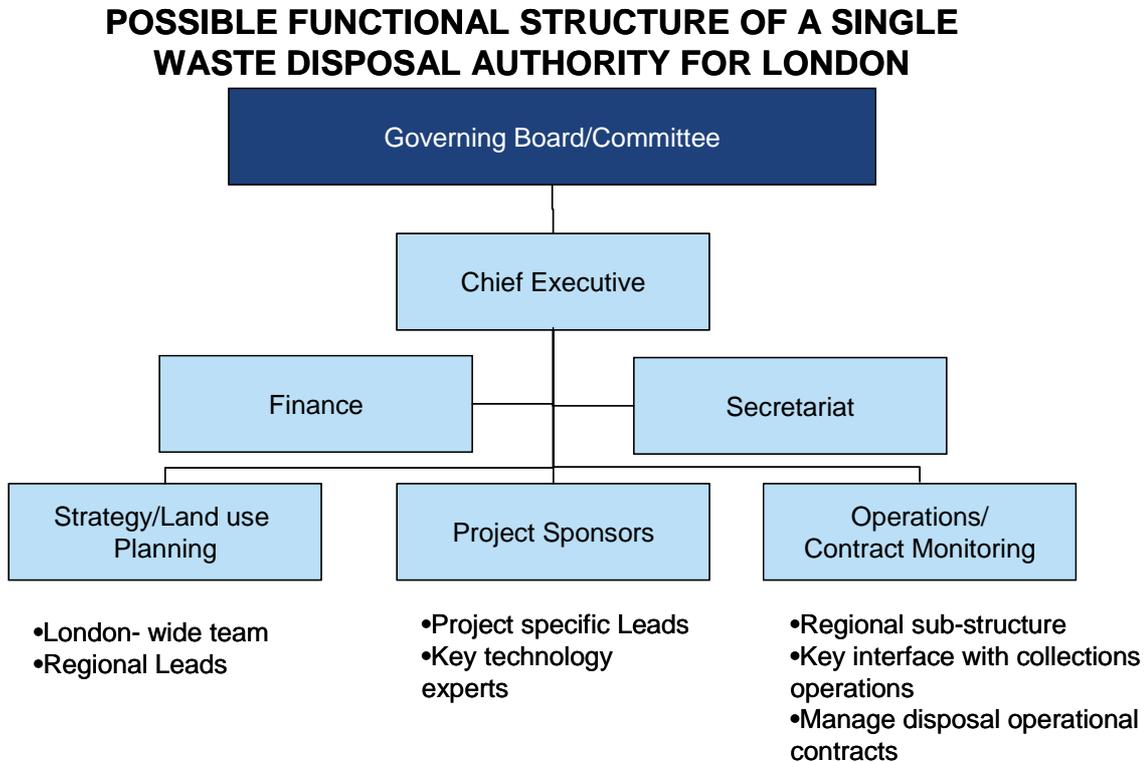
On the assumption that a single waste authority was to focus on disposal activities, where the arguments for scale and strategic direction in relation to facility location, an outline future organisation may take the form as outlined in Figure 7.

It is likely that a strong regional sub-structure would be required, to ensure continued local integration between collection and disposal operations and contracts management. This would need to ensure that there was sufficient flexibility to provide responsive adaptation to the development of operations at a local level.

¹⁶ NLWA Meeting report July 2004

¹⁷ "Capital Solutions" Appendix 3, Deloitte & Enviro report for GLA, July 2004

Figure 7 Conceptual organisational model of single waste disposal authority



Source: Mouchel Parkman

A specialist project development or project sponsors group would potentially project manage and provide a consistent technical overview on new developments. This would include technical specialists, overseeing the consistency and development of technical standards, supporting managers with responsibility for individual projects and collections of projects. This type of group is common in the public and utilities sectors- examples exist in network rail and water companies Transport for London and central government department estates functions. Based on knowledge of the volume and type of work we estimate that some 15-20 professional staff would be needed if working in a London-wide capacity in any event to deliver the required increase in infrastructure. Clearly this assessment is subject to the scope of responsibilities and size and phasing of projects. Having a specialist resource pool would potentially enhance delivery capability.

If the 12 WDAs still to commence the active procurement of new facilities¹⁸ increased resources to support delivery of their infrastructure by a minimum project manager,

¹⁸ Western Riverside Waste Authority, Tower Hamlets and Southwark are currently pursuing their procurements and East London Waste Authority is now operational

up to say a core team of four (as in ELWA) then some 12 to 48 additional staff could be estimated across London.

Including a potentially increased planning and strategy function, expanding the existing capability of GLA, a single waste disposal authority could be of the order of 90-140 professionals, depending on the potential to use existing support function services of existing authorities. Based on an assumed average employed cost of say £50k per staff member this would lead to an employee cost of £4.5 – 7 million per annum of a single waste disposal authority.

It is likely that local authorities would need to increase staffing to support delivery of the Mayors strategy if a single waste authority was not created. It is likely that a similar level of total resources would be required. Costs per employee may be higher through recruitment to a new body. Overall costs of a single authority could be neutral compared to the current structures or potentially marginally increased say by £1 million per annum.

4.3.2 *Offices*

A single waste authority would potentially consolidate the four two-tier Waste Disposal Authorities offices as well as space within the 12 unitary authorities into a centralised location. However some local/sub-regional representation may well be desirable under the new structure, so it may not be possible to eliminate this space.

To accommodate an organisation of the size identified above would depend on location ranging from about £8.4k total costs per space in Croydon to £17k total costs per space of office space in the city, ie £0.75 to £2.4 million p.a¹⁹. This is potentially an increase over the *status quo*.

4.3.3 *Advisory*

Most advisory services including Accounting, Audit, Insurance, and Legal, are currently provided through the existing arrangements with local authorities. Waste management projects do require liaison with these functions of the order of 50% and 10% FTE of Legal and Finance resources during procurement periods²⁰. There is likely to be no significant saving on a centralised authority, indeed this may increase if a new support structure is required for a new organisation, however this may be balanced by reduction in the number of individuals having to become familiar with the specifics of waste management.

4.3.4 *Contracts and Procurement*

A single waste authority would potentially allow for greater bundling of schemes in procurement, or at least allow multiple procurements by one overall team of authority

¹⁹ Total Office Cost Survey, July 2002, www.investincroydon.com

²⁰ Telephone survey of a sample of London Authorities Mar 2005

staff and advisors. Although much of the work will be project specific, the ability to share reporting formats, decision making process and meetings gives the potential for savings.

A base cost for Client Procurement costs for a waste PFI is in the range of £0.5 to £3m²¹, say £0.8 million to £1.5 million if this was a project for a unitary authority. If a number of projects are procured together under a common entity savings on each additional project could be of the order of 25% or more, due to the elimination of duplication of processes, documentation, and decision making. If it is assumed a total of 10 projects are procured under a single team as opposed to independently then savings on client costs could potentially be £1.8 million to £3.4 million.

The current structure tends to result in protracted decision making processes, A single waste authority, particularly with streamlined governance arrangements could reduce procurement timescales. For example the ELWA procurement timetable was almost 90 months start to finish: Initial Departmental approvals required in the order of 55 months from decision to consider a long term strategy (September 1995) to receipt of DETR approval to proceed to Outline Business Case (OBC) (December 1999) and issuance of OBC (April 2000). The procurement process lasted roughly 32 months from issuing OJEC Notice in April 2000 to reaching financial close in December 2002.²²

Any reduction in procurement timescale will have direct savings in terms of client internal and external costs as well as bidders' costs.

4.3.5 *Finance for Projects*

A single waste authority could have greater ability to support better financing arrangements for the required new infrastructure need over the next 15 years.

Whatever form of procurement is used it is likely that private sector debt will be used as at least part of any funding arrangements. The cost of borrowing will generally reflect the specific project's risk profile. If the project is procured within a sound strategic context, for example within the overall control of a single body responsible for a programme of projects (a single waste disposal authority), then there is potential to reduce the overall project risk, and thus the cost of borrowing.

A single waste authority may also be better placed to support other forms of financing (e.g. prudential borrowing or bond financing) due to its greater size and economies of scale in arranging financing and perceived risk profile with the capital markets).

²¹ Capital Solutions, Deloitte & Enviro for GLA, July 2004; Table 4

²² Capital Solutions, Deloitte & Enviro for GLA, July 2004; Case Study 4

The details of any single waste authority's powers and abilities in relation to the funding and financing of projects will need to be given much further consideration. However, given the level of investment required in new infrastructure over the next 15 years, even small reductions in the applicable rate of interest can result in overall savings. For example a saving in just 10 basis points in the effective borrowing rate for every £1 billion will save £1 million p.a. minimum in interest, with the effect over the whole life of the loan significantly greater due to the effects of compounding. If we assume a range of 10 to 25 basis points reduction on a capital requirement of £0.5 billion to £1 billion, the saving in terms of simple interest would be in the range of £ 0.5 million to £2.5 million.

5 Impacts and Costs of Transition

Summary of this section's key points

- The issues, costs and risks of transition are an important consideration, but will need further work based on greater understanding of any preferred structural and governance model and potential the timescales.
- Further stakeholder input is required to identify the extent and impact of transition issues, but these are likely to include issues of asset ownership, likely funding, diversion of attention from the current focus on targets and necessary project development, and the interface between collection and disposal issues.
- In order to establish a single waste disposal authority, based an organisation of 90-140 staff, a preliminary assessment of HR, office IT communication and transition planning costs, indicate establishment costs of some £1.8 million to £3.4million.

5.1 Overview

Any change from the existing administrative structure for waste management in London to a single waste disposal authority will require some investment to implement. Some initial considerations of the key areas are reviewed below.

5.2 Transition Issues and Risks

A preliminary assessment of key transition risks and issues are identified below. Further assessment for the scale and scope of transition risk is needed for these issues to be quantified. Input from stakeholders during consultation would be helpful on this aspect.

5.2.1 Ownership

The legal processes for the change of responsibilities and transfer of ownership and property from one public administrative structure to another are fairly well developed in the UK, and these should be manageable, although are never entirely straightforward. A key issue will be the protection of assets in the interim (i.e during the run up to transfer), so that plant and equipment is not transferred from current disposal sites to other locations.

5.2.2 Funding

Any new funding arrangements under a new authority or disposal fees should be aligned to ensure adequate payback, in particular to those authorities, who have for example invested in recycling and other initiative to minimise BMW. If any changing arrangement was to be for example based on disposal tonnage rather than per capita precept, then it is more likely that the right incentives will be preserved for continued investment in the interim period. Minimising the period of uncertainty in the future funding arrangements would be vital to ensure a smooth transition.

5.2.3 *Diversion of Attention*

Waste authorities have a considerable task to deliver significant improvements in waste management over the next few years. It is vital that this work continues to be progressed and aligned with any transition to a new authority. The consequences of not meeting the required targets will have a significant negative financial impact that a new authority may be faced with.

5.2.4 *Interface between Disposal and Collection*

LB Southwark is in the process of procuring an integrated waste management contract for its waste collection and disposal. Consideration would have to be given to how any similar contract would be allocated between any future disposal authority and the collection authority.

5.3 **Organisation Transition Costs**

5.3.1 *Human Resources*

As described in Section 3, most local authorities appear to run fairly lean operations now, so these costs should be less than might ordinarily be the case merging multiple service delivery organisations. That said, even though the process is well understood and should be straightforward as employees are staying with the public sector, unions will still need to be consulted and the rules surrounding TUPE transfers would need to be followed.

Also, additional skills will likely be needed to deliver a London-wide solution so recruiting and training costs will need to be budgeted for. As a preliminary assessment of such costs, recruitment and training would be of the order of 10-20%²³ of the first year employee costs, ie.£0.45 to £1.4 million.

Finally, not everyone may fit into the new model so redundancy (voluntary or otherwise) may need to be factored in for some staff at local authorities. The transition of the 23 London Magistrates Courts Committees in London to form the unified Greater London Magistrates Courts Authority (GLMCA) in 2000/1 was of the order of £2.5 million in relation to an organisation of 1800 people. It could be anticipated that a much lower figure than this would be required in terms of a single waste disposal authority as there is likely to be an overall net creation of posts.

As a people based business procedures will need to be standardised and employees trained in the new ways of working from health and safety processes, to new routes and handling procedures to new IT/reporting systems and processes, etc. There will be lots of change and this will be both disruptive in terms of working practices as well as in terms of "culture".

²³ Typical search & selection charges

5.3.2 *Offices and Facilities*

As outlined in 3.3.2, it is likely that rationalisation of the existing estate would be possible, and that indeed further premises would be likely to be required. Agents' fees and fit out costs would likely to be necessary to be payable as well as limited moving costs.

Based on in house data for office set up for an assumed 120 seat office, costs could be of the order of £300,000 - £500,000 depending on the rent level and fees payable and the extent of fitting out works required.

5.3.3 *Information System and Communications:*

Systems will need to be integrated/harmonised to allow for planning and operations to work efficiently on a London-wide basis, but would most likely require new systems for the organisation. This could be either as a stand-alone organisation or potentially use an extension of current GLA systems.

Based on in-house data serving a 120 work station office with costs for setting up a linked IT and communications infrastructure in a new location, including hardware and software would be of the order of £350 – 500k.

5.3.4 *Stakeholder Communications:*

Making sure all stakeholders are aware of the coming changes, their rationale and the plans for implementing the changes will be a big exercise. Communications plans will need to be developed to address the many stakeholders including Members, employees, and citizens of each borough, other government and voluntary agencies as well as ODPM and GLA itself.

5.3.5 *Transition Planning*

This change will be largely predicated on improving service delivery and providing better long-term planning (to avoid/minimise future problems). To this end, it will be important to invest in transition and future service delivery planning to ensure that services continue to be delivered to a high standard and that procedures/protocols are developed for dealing with surprises/breakdowns in service. Planning for this transition will need to be resourced. GLMCA in the development of its strategic plan incurred external costs of approximately £770 k in 2001/2²⁴. Based on this benchmark external transition planning costs could be in the order of £750 k to £1 million.

²⁴ GLMCA Statement of Accounts 2001/2

6 Conclusions and Next Steps

Table 4 summarises an initial assessment of the potential impact on costs of a single waste authority compared to an unchanged administrative structure in London, for delivery of the Mayors Strategy (2005/2020). **It is highlighted that this is very preliminary work and has been put forward as a basis for discussion and to inform priorities for further investigation.**

This analysis suggests that the investment required to achieve change in the administrative structures, and future administrative running costs may broadly balance, or increase to only a marginal extent. Note there are potentially significant transitional risks which have not been considered in this assessment, which could alter this conclusion. This is a matter for further investigation and analysis.

However what is clear, is that due to the level of investment over the next decades, the costs of not having the correct structure to deliver an optimum waste management solution for London is extremely high, the order of hundreds of millions of pounds of tax-payers money.

It may be that an optimum solution can be delivered through the existing structures, although analysis in a parallel work stream report on governance and administration highlights the shortcomings of relying on voluntary groupings to deliver. However due to the levels of co-ordination and expertise required to provide the necessary facilities for the future it is suggested that a single authority for waste disposal for London has the potential to deliver lower overall costs over the long-term.

This is due to enhanced capability of a single waste disposal authority to plan and coordinate the location and procurement of the necessary contracts and infrastructure, and to attract and develop specialist resources to support delivery and manage risk effectively on a London-wide basis.

Remaining with the current structures implies that the existing 16 WDAs can act to deliver the Mayors strategy. If London does not rise to the challenge of delivering this strategy, then London will potentially lose up to £2.5 billion in LATS fine or allowance purchases, and will not contribute to a sustainable solution for the long term management of solid waste for the Capital.

A fundamental question is to understand the impact of change on ongoing delivery of waste management in London, and this requires further consideration.

Table 3 Summary of preliminary indicative cost impact of a single waste authority for London compared to current structures, for delivery of the Mayors' municipal waste strategy

| Item | Report para ref | Assumption | Indicative order of costs of a single Waste Authority compared to existing administrative structures to deliver the Mayors' waste management strategy (£'000s) | | | |
|-----------------------------------|-----------------|--|--|-----------------|----------------------|----------|
| | | | Capital/Expenses Low | Total* High | Ongoing Revenue Low | p.a High |
| Transition | | | | | | |
| Issues & Risks | 5.2 | | Not Quantified | | | |
| HR/Recruitment | 5.3.1 | Based on 90-140 staff, 10-20% first year costs | 450 | 1,400 | | |
| Offices & Facilities | 5.3.2 | Based on 120 places | 300 | 500 | | |
| IT and Communications | 5.3.3 | Based on 120 places | 350 | 500 | | |
| Stakeholder Communications | 5.3.4 | | Not Quantified | | | |
| Transition Planning | 5.3.5 | Based on GLMCA benchmark | 750 | 1,000 | | |
| Sub Total | | | 1,850 | 3,400 | | |
| Overhead | | | | | | |
| Staffing | 4.3.1 | 90-140 staff in single Authority, similar numbers may be needs over all of London under current arrangement | | | Neutral 1,000 | |
| Offices & Facilities | 4.3.2 | New office in central/outer london for above staff | | | 750 2,400 | |
| Advisory | 4.3.3 | | | | Neutral Neutral | |
| Procurement Costs | 4.3.4 | Savings on multiple procurements 10 to 25 basis points on £0.5 to 1 billion, simple interest | -1,800 | -3,400 | | |
| Finance | 4.3.5 | p.a.* | | | -500 -2,500 | |
| Sub Total | | | -1,800 | -3,400 | 250 900 | |
| Service Delivery | | | | | | |
| Avoid Surplus Capacity | 4.2.2 | Additional capacity due to unpooled capacity of 60,000 tpa capacity units at current WDA boundaries | -160,000 | -180,000 | | |
| Avoid Additional Site Development | 4.2.2 | Each additional site based on typical site development costs (range for one site only) | -5,000 | -10,000 | | |
| LATS Penalty | 4.2.3 | Cash outflows due to unpooled London allowances, above pooled example (range to max at 2009)** | | | -22,000 -57,000 | |
| | 4.2.3 | As above - range to max (yr 2010-2032) | | | -1,100 -3,400 | |
| Procurement - Capital Profile | 4.2.4 | 6% interest on maximum differentials in spend profiles of approx £390m over 10 years | 0 | -234,000 | | |
| Procurement - Overall Savings | 4.2.4 | 0-5% in total contract costs of £5 bn NPV or approx £6.9 bn over first 20 years from 2004, assumes £1bn capital investment required, and 40% of total cost is disposal related revenue costs | 0 | -50,000 | 0 -5,900 | |
| Planning Delay | 4.2.5 | Advisors fees for one year | -500 | -1,000 | | |
| Sub Total | | | -165,500 | -475,000 | -1,100 -9,300 | |
| Total | | | -165,450 | -475,000 | -850 -8,400 | |

* NB Service delivery Capex (and financing for capex) shown separately but likely to occur as revenue cost through unitary charge to Authorities if privately financed.

Capex implications in transition and overhead costs realised in near to medium term 1-7 years, during peak procurement activity. Service Delivery Capex savings activated through similar time period but likely to be spread across whole contract period of say 30 years.

** Potential LATS penalties prior to 2009 after when assumed infrastructure will begin to become available not included in total as skews totals

Source: Mouchel Parkman

7 Appendices

7.1 Appendix A – Overview of existing WDA structures

| Waste Disposal Authority | Waste Disposal Authority | Waste Collection Authority | Waste Collection Authority | Unitary Authority | Unitary Authority | Unitary Authority |
|--|---|---|---|---|--|---|
| <p>13 FTE posts in Strategy & Contracts division, although only 7 FTE at present</p> <p>A constituent borough has taken the lead and another member borough provides support services.</p> | <p>80 staff, of which 8 FTE reside at headquarters and the remaining are from DSOs. Technical work is undertaken in-house and finance/ treasury and clerk/ legal/ valuation duties are performed by designated member boroughs.</p> | <p>Provides a Clerk and other support services to the Waste Disposal Authority.</p> <p>Current structure:</p> <ul style="list-style-type: none"> - 27 monitoring officers - 130 operatives for waste collection - 300 street sweepers. | <p>Current staffing includes waste officers and weighbridge staff.</p> <p>The Collection Service is run through the DSO.</p> <p>The New Performance Unit comprises of 4-5 officers and 2 senior managers.</p> <p>Other staffing includes a Performance team, Recycling Officer, Education Officer and one</p> | <p>The current waste management resource is as follows:</p> <ul style="list-style-type: none"> - 4 Recycling Officers – externally funded posts - 2 Waste Education Officers (schools, etc) – external funding - 1 Recycling Officer – collection/ recycling/ disposal | <p>Current staff include:</p> <ul style="list-style-type: none"> - 4 weighbridge staff - 3 Officers - Admin Staff | <p>Currently have an in-house DSO that perform collection and street cleaning duties, with disposal undertaken externally.</p> <p>There are also:</p> <ul style="list-style-type: none"> - 3 Recycling Officers (collection and disposal) - 10 Officers - 2 Clerical Staff |

| | | | | | | |
|--|--|--|------------|--|--|--|
| | | | other FTE. | <ul style="list-style-type: none"> - 1 Recycling Centre Officer - 2 Project Officers (mainly collection focussed, ticketing, IT flow collection) - 2 Admin Officers (Collection) - 1 Service Manager & 1 Assistant Manager - The implication is that fro a team of 12, there is approximately 1.25 FTE assigned to disposal related work. | | |
|--|--|--|------------|--|--|--|

| Authority | Comments |
|---|---|
| <p>North London Waste Authority (NLWA)</p> <p><u>Source:</u> <i>NLWA Best Value Performance Plan 2005</i></p> | <p>NLWA does not directly employ any staff directly. Two of the Constituent Boroughs (Camden and Haringey) provide officer support through both part-time and full-time employees instead.</p> <p>The following cross-borough arrangements for governance support services exist:</p> <ul style="list-style-type: none"> □ London Borough of Camden <ul style="list-style-type: none"> ○ Clerk ○ Deputy Clerk ○ Finance Advisor ○ Finance Officer ○ Leal Adviser □ London Borough of Haringey <ul style="list-style-type: none"> ○ Technical Adviser ○ Valuation Adviser ○ Strategy & Contracts Team (5 FTE) <p>There is also a Technical Officer Group, which is comprised of one senior waste manager from each Constituent Borough, and provides further officer support. The Group is chaired by the Technical Advisor.</p> <p>Authority has membership of 14 elected councillors. Each Constituent Borough appoints two councillors.</p> <p>NLWA formed a Joint Venture Company with SITA (GB) Ltd called LondonWaste Ltd. LondonWaste Ltd board has eight directors. Three are nominated by</p> <p>the Authority, three are nominated by SITA (GB) Ltd and two non-voting directors are nominated by LondonWaste Ltd itself. This is representative of</p> <p>the 50%-50% share holdings of both partners within the Joint Venture.</p> <p>A twenty-year contract for the transfer and disposal of the Authority's waste was awarded to LondonWaste Ltd in December 1994.</p> |

| Authority | Comments |
|---|--|
| <p>East London Waste Authority (ELWA)</p> <p><u>Source:</u> <i>ELWA Best Value Performance Plan 2004-05</i></p> | <p>Authority has a membership of eight councillors. Each Constituent Borough appoints two members each.</p> <p>In December 2003, ELWA formed a Joint Venture Company with Shanks Waste Services Ltd. and signed a 25 year Integrated Waste Management Services contract.</p> <p>ELWA has no direct employees but discharged its duties and functions through agency agreements with the constituent boroughs. Approximately 70 staff that were employed on ELWA's behalf as drivers, plant operators, site supervisors, managers and administration personnel, transferred to the new company in accordance with TUPE regulations.</p> <p>There exists the ELWA Management Board that is responsible for maintaining a general overview of the state of health of the Authority.</p> <p>There also exist longstanding agency arrangements with the constituent councils regarding the employment of the Authority's officers and the provision of legal, financial and audit support services.</p> <p>The Executive Director supported by a General Manager, Office Manager and Contract Manager play the lead executive role in the authority's management, administration and service delivery.</p> <p>Constituent council's staff are jointly responsible for day-to-day monitoring of the contractor's performance at the Reuse and Recycling Centres and other sites.</p> |
| <p>Western Riverside Waste Authority (WRWA)</p> <p><u>Source:</u> <i>WRWA Best Value Performance Plan 2004-05</i></p> | <p>Authority has a membership of eight councillors. Each Constituent Borough appoints two members each.</p> <p>The Authority itself currently employs 7 full-time staff.</p> |
| <p>West London Waste</p> | <p>Authority has a membership of six councillors. Each</p> |

| Authority | Comments |
|--|---|
| <p>Authority (WLWA)</p> <p><u>Source:</u> <i>Statement of Accounts for year ended 31/03/03</i></p> | <p>Constituent Borough appoints one member each.</p> <p>The following governance arrangements exist:</p> <ul style="list-style-type: none"> □ A full time General Manager □ Part-time Clerk to the Authority (London Borough of Hounslow) – legal, personnel, property and valuation advice, committee administration; □ Part-time Treasurer (London Borough of Harrow) – advice and support on all accountancy matters (financial advice, budgets, final accounts etc); creditor payments; internal audit; exchequer services, payroll; □ Part Time Chief Technical Advisor (London Borough of Richmond-upon-Thames) – technical advice required. <p>This arrangement enables the Authority to receive support in specialised areas from those boroughs' staff.</p> <p>The Authority expenditure on employees in 2002-2003 was £2,573,000.</p> |