

Final Report

Third Sector: Investment for growth



WRAP helps individuals, businesses and local authorities to reduce waste and recycle more, making better use of resources and helping to tackle climate change.

Document reference: WRAP, 2006, Third Sector: Investment for growth (WRAP Project BTS008). Report prepared by Eunomia Research & Consulting, WRAP

Written by:

Dr Lesley Rowan, Eunomia Research & Consulting
Joe Papineschi, Eunomia Research & Consulting
Sam Taylor, Eunomia Research & Consulting
Emma Gowing, Eunomia Research & Consulting

On behalf of WRAP/REalliance

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Image 1: WEEE testing and Repair.



Executive summary

Introduction

This is a state of the market report setting out the role and impact of resource recovery Third Sector Organisations (TSOs) in England. The project was conducted on behalf of WRAP (Waste & Resources Action Programme) and REalliance (which comprises the Community Recycling Network (CRN), London Community Resource Network (LCRN), Community Composting Network (CCN) and the Furniture Reuse Network (FRN)) to understand the barriers and opportunities for resource recovery TSOs seeking to deliver service contracts on behalf of local authorities.

Project Purpose: Investment for Growth in Resource Recovery TSOs

The value of TSO involvement in resource recovery activities focuses on the benefits of second life materials to people who need them, and the creation of jobs, training, volunteering and community development opportunities in making good use of these resources. With this focus, growth can be seen primarily as an increase in opportunity and impact. As a result:

- more people to have access to the benefits of resource recovery services;
- people have access to a wider range of services – more materials are reused or recycled;
- services capture a higher proportion of available materials;
- there is an increase in 'social benefits per tonne' through resource recovery activities; and,
- the environmental impact of resource use and disposal is reduced.

Resource recovery goes beyond recovering value, in pounds or tonnes, from beds, bikes and planks of wood. It includes enabling individuals to recover their own resourcefulness and valuing themselves and others, through second-chance training opportunities or volunteering skills to their community. Resource recovery is about relationships and networks linking people together to make a practical difference, especially where individuals and communities are under pressure. It is as much about the human recovery as it is about the material resources.

Methodology

The 2008/09 REalliance sector survey was conducted by email and telephone in January-April 2009. The survey targeted all resource recovery TSOs known to REalliance. The survey data was analysed by Eunomia and supplemented with information on TSO turnover and staffing from Companies House and the Charities Commission.

Extrapolation techniques were used to estimate the turnover, tonnage, carbon impact, and creation of jobs and volunteering placements for the resource recovery TSO sector as a whole. Although carried out with caution the diversity of the sector means extrapolations could under or over estimate the current scale and impact of resource recovery TSOs.

The sector survey included qualitative responses about TSO experience of contracting these were analysed in relation to quantitative data and additional stakeholder interviews to provide a context for TSO observations.

Analysis of the REalliance Sector Survey for 2008/9 has identified that:

- There are almost **700** active 'resource recovery' TSOs in England with a turnover of **£133,820,000** handling **248,000 tonnes** of material in 2008/9.
- **Total turnover has increased by up to a third since 2005**, despite the loss from the sector of the largest resource recovery TSO in 2008. The pattern of activity has changed markedly over the past four years, with the emphasis moving from kerbside collection to reuse.
- **Total tonnage has reduced slightly** as a result of the loss of TSO kerbside recycling collection services. However, reuse has increased markedly from 30,000 tonnes in 2005 to 76,000 tonnes in 2008/09.

- **4,600 full-time equivalent jobs** and more than **43,500 training and volunteering opportunities** have been provided by resource recovery organisations during 2008/9.
- Resource recovery TSO activities are estimated to be **reducing CO₂ impacts by 523,000 tonnes** compared with the same material being disposed of to landfill.

Rhetoric versus Reality

Over the past five years the national rhetoric of engagement with TSOs has become stronger, yet on the ground many resource recovery TSOs are finding it more difficult to develop secure medium term contract arrangements. There appear to be unintended consequences of public sector implementation of the 'Gershon' efficiency model. These consequences have had an impact on a wide range of TSOs but appear to be particularly acute in waste related services.

- TSOs are being encouraged to contract to deliver public services rather than rely on diminishing levels of grant funding;
- The procurement of local authority waste services through large integrated multi-service contracts has made it difficult for TSOs, as they are smaller and more specialised than the competition, to gain access to contracts to deliver resource recovery services; and,
- TSOs are also being encouraged to use debt finance rather than grant funding to develop their capacity, but it is difficult to achieve significant sustainable cash flows without secure medium term contracts.

The 2008/9 REalliance sector survey data shows that even where resource recovery TSOs have secured contracts, or more likely less secure SLAs, they are rarely for more than 1 year. This may not represent value for money for the public purse and makes strategic investment using loan finance particularly difficult.

Investment for Growth – Key Finance Solutions

Resource Recovery TSO Finance

The primary goals for TSOs may be social and environmental, but in order to achieve those goals the TSO needs effective financial management and planning.

Working Cash Flow

The key finance issue for TSOs is working cash flow. Where the TSO has to pay out wages, rents and leases before they receive payment in arrears for their services, they need enough cash flow to sustain this. The most cost effective strategy for addressing working cash flow is a blended approach. This involves securing the best payment terms from the buyer, then factoring invoices where this is necessary to bridge a 'secure gap' between incurring outgoings and receiving income, and finally the use of a standby facility only as an emergency back-up to non-routine cash flow issues.

Further work is needed to improve understanding of options available to improve cost-effective access to working cash flow for TSOs working at varying scales and different resource recovery markets.

Recognising and Securing Value for Money

Analysis of the 2008/9 REalliance sector survey and discussions with TSOs, resource recovery network organisations and finance providers has identified lack of assertiveness among TSOs to secure value for money. Examples of the areas in which more work is needed to support TSOs to achieve value for money in their finance arrangements include:

- arranging finance over a period appropriate to both the assets and the term of the prospective service contract;
- increasing awareness, by the public sector and TSOs, of the scope for public sector financing of capital assets where this provides value for money and the ability to reduce risks; and,

- increasing public sector officer understanding of the financial and developmental impacts of offering short-term and informal 'contractual arrangements' to TSOs for service delivery.

Working with Loan Finance

During research interviews, resource recovery TSOs of similar sizes and similar business models express quite different attitudes to loan finance. TSOs that started out with patient capital (grant plus loan) or loan funding early in their development appear comfortable to continue to use loans. TSOs that do not have experience of loan finance tend to view it as creating additional risks.

Social Banks and Community Development Finance Institutions (CDFIs) expressed a willingness in principle to fund resource recovery TSOs with loan or grant/loan packages. Resource recovery TSOs that are providing social and environmental benefits to their communities fit well with the aims of social finance. However, the short-term nature of many public sector 'contracts' is not bankable and does not support repayment of loans. If longer term contracts were available to TSOs, five to ten years rather than 0-3 years, banks expressed a willingness to lend against current or even prospective contracts.

Successful Resource Recovery TSOs

The 2008/9 REalliance sector survey identified a substantial number of resource recovery TSOs that are thriving and growing. These TSOs:

- have cost-effective business models;
- routinely price in a margin for the long-term development of the organisation;
- have secured externally verified quality assurance accreditation and take a professional approach to risk management across all their activities;
- invest in developing long-term relationships with their public sector customers, but also develop income streams from a range of other trading income; and,
- have useful and diverse support networks locally and nationally and to use the information they gain to refine their delivery model and influence the commissioning of future services.

For these TSOs the focus is around how to gain access to the materials and markets that they need to thrive, and how to increase their positive impact on the communities they serve.

Investment for Growth – Key Opportunities

Emerging Market Opportunities

Proposed revisions to the WEEE Directive include a higher binding target for the collection and treatment of WEEE. This will include the reuse of whole appliances within the recycling and recovery targets. **The landfill tax escalator** will continue to rise at £8/tonne/year reaching £72 per tonne in 2012/13. This will create strong pressure to divert material from disposal through waste minimisation, reuse and recycling. Some local authorities are already in the process of implementing services to deliver recycling and composting rates of close to 70%, a level considered ridiculously ambitious by most of the waste management industry only five years ago.

Resource recovery TSOs could make a very significant contribution to compliance with the revised WEEE Directive and diversion of recoverable material away from landfill.

Comprehensive Area Assessment and the new National Indicators (NIs) will be used to assess whether local authorities are delivering specific social and environmental benefits in their area. Authorities have to demonstrate that they are achieving these benefits in order to get a favourable rating in the new 'oneplace' assessments (until recently called Comprehensive Area Assessment, CAA). Local authorities are also required to create 'An Environment for a Thriving Third Sector' (assessed through an annual national survey of TSOs).

A systematic and proactive approach needs to be taken by the public sector to securing cross-cutting social/environmental/local economic benefits from resource recovery services.

Resource recovery TSOs could make a very significant contribution to a thriving third sector and the delivery of a range of cross-cutting benefits that would be of tangible value to communities and the local authorities that aim to support them.

Creating Community Benefits through Subcontracting

This study has identified significant opportunities to increase the amount of subcontracting by TSOs. Promoting subcontracting recognises the reality that local authority waste services are now procured through large integrated services contracts for which few TSOs have the scale or experience to deliver in full. TSOs can however act as subcontractors. Resource recovery TSOs have particular strengths in low volume, high customer contact services such as bulky waste where they can offer social and environmental benefits.

Efforts to help TSOs secure subcontracts from third parties are considered to be exercises in regeneration, not in procurement. It is therefore lawful for authorities to require main contractors to open a given percentage of the contract sum to sub-contractors and to package it such a way that 'small businesses' can compete for it. A 'small business' is defined as having a turnover less than €10m and not more than 50 employees. If this requirement for subcontracting is combined with stipulating strong community benefit requirements that address service and community priorities, it creates a clear incentive for subcontracting to TSOs that have specific local expertise.

Key issues in successful TSO subcontracting are:

- the clarity of local authority objectives for subcontracting the service;
- requiring contractors to deliver services, and additional social and environmental benefits, in ways that recognise the crucial contribution of smaller partners to achieving all the contract requirements. This is important as it alters the nature of the large contractor/smaller TSO working relationship;
- using the legitimate opportunity to sub-contract as regeneration not procurement. This offers significant benefits if linked to outcome based commissioning focused on local priorities;
- the need to address 'risk perceptions' around TSO service delivery through quality assurance, including waste services specific health and safety accreditation;
- recognising the need to establish a strong, clear 3-way relationship between local authority, private contractor and TSO. This should be led by the local authority at a local level but there is scope for WRAP/REalliance to broker relationships at a national level through local authority and contractor networks.

Service Delivery and Development Hubs

TSOs need to be able to deliver services at a competitive cost with added value. Small TSOs simply cannot afford to offer the full range of specialist services they need to thrive, without spreading these overheads across several contracts or a large turnover of materials – yet they can't grow to a size to spread the overheads without ongoing access to specialist skills. The proposed response is to develop the ability of strong existing TSOs to act as service delivery and development hubs for networks of newer or smaller resource recovery TSOs. This includes support services (business development, finance, marketing, HR) and development of a training and quality culture, even for small groups.

These hub organisations need to be strong enough to hold contracts through which they secure materials streams and TSO development funds. Hub TSOs can also provide cost effective collection services and deliver source separated materials to niche TSOs – efficient transport logistics are often a weakness for small specialist TSOs. Hub TSOs would also collect performance data on behalf of local network organisations. Smaller TSOs may remain grant funded, supported by donations or simply run on a shoestring, but they will be part of an active network of other local resource recovery organisations, and their contribution will be counted and valued.

Recommendations

For TSOs:

- Focus on contracting in **niche markets**, especially bulky waste collection and reuse, where skills in handling low volume materials involving high customer contact face less strong competition from the economies of scale of large contractors;

- **Assure** buyers you are offering a safe, high quality service that is very unlikely to fail. This requires the implementation of an externally verified quality assurance scheme covering financial health and operational capability, which may be insurance backed.
- Link quality assurance accreditation to a package of **investment readiness support** from social lenders.
- **Highlight cross-cutting environmental and social benefits** that resource recovery TSOs deliver. Use National Indicators (NIs), Social Return on Investment (SROI) measures and the national Third Sector survey to identify evidence of the impact being achieved;
- Develop **linked services that can be sold as packages** (e.g. getting void social housing refurbished rather than just providing furniture) that deliver on several NIs together, offering value for money and delivering Waste Strategy and Community Plan objectives.

For local authorities:

A much more systematic and proactive approach needs to be taken to securing cross-cutting social/environmental/local economic benefits from resource recovery and to the development of TSOs to deliver appropriate services. This includes:

- reviewing how local authority service contracts are currently specified and packaged;
- identifying materials potentially available in the area from both household and commercial sources;
- identifying social benefits such as the need to alleviate material poverty for low income households;
- identifying training and volunteering opportunities, for different groups (e.g. clients with learning disability, young offenders) and geographies (e.g. local regeneration area or the presence of a residential population in hospital or prison) and the priorities identified in the Local Area Agreement;
- identifying and consulting with all the groups currently undertaking resource recovery activities with the aim of learning from their expertise in operations, and approaches to the delivery of environmental and social benefits;
- identifying each of the TSOs who potentially have the scale, skills and experience to take on a development hub role and support capacity development by other TSOs;
- mapping of gaps in current resource recovery delivery looking at scale, materials, opportunities for different social benefits clients and geographical areas; and,
- using this process to target resource recovery activities and client beneficiaries in future contract specifications.

For WRAP/REalliance:

- Further work needs to be carried out to improve the completeness and consistency of the **quantitative data** collected from the sector;
- Strongly **promote** the imperative that each community should have access to a **full range of resource recovery opportunities**, rather than the ad hoc mix and limited scale currently on offer in most areas. This will require a strategic national approach and include brokering of relationships by REalliance with local authorities and government departments;
- Develop a package of training for local authority staff and councillors to highlight the benefits of a systematic and proactive approach to resource recovery and to support implementation. Include training on the legitimate opportunities for structuring contract specifications and evaluation criteria to bring out TSOs' particular qualities and their ability to work with target groups.
- Increase informed participation by TSOs in the early stage of contract commissioning and partnership development. Increase TSO awareness of the scope to structure contract specifications to active regeneration through subcontracting, and to frame evaluation criteria to bring out TSOs' particular qualities and their ability to work with priority target groups;

- Broker an agreement with the private sector around TSO subcontracting, and with local authorities regarding commissioning;
- Undertake further investigation of factoring, standby facilities and brokered leasing to improve the cost effectiveness of TSO financing;
- Identify approaches to improve TSO understanding of calculating an acceptable rate of return on investment;
- Develop a health and safety training module for resource recovery/waste services, to be applied across the waste services sector.

Defra

- Waste Data Flow returns do not currently require detail regarding which materials are being reused and the destination of materials for reuse. **Introduction of improved reuse tracking, by material and destination, through Waste Data Flow would support improved local authority reporting** on NI 192, 'Percentage of household waste sent for reuse, recycling and composting'.

Environment Agency

- The Environment Agency's WRATE (Waste and Resources Assessment Tool for the Environment) tool is intended to support local authority decision making on different municipal waste management systems. WRATE does not currently include the ability to evaluate the different impact of reuse rather than recycling of a wide range of materials. **WRATE should be amended to include the impacts resulting from reuse for a wider range of materials.**

Image 2: Furniture Re-use showroom.



1.0 Introduction

In the 2008 DEFRA Third Sector Strategy, the government made a strong case for the development of Third Sector Organisations (TSOs) capacity for public service delivery as a method for achieving social and environmental goals. TSOs were pioneers in recycling services particularly for local authorities. But as these activities have become more mainstream the TSO share of the local authority market has declined.

There is currently a £2.6 billion annual market for local authority waste services in England. However, there is also clear recognition by Government that there are barriers to third sector delivery. The Waste Strategy for England 2007, specifically identifies the need to address this issue. A key objective is:

"helping third sector organisations to win a larger share of local authority contract work, as well as making greater use of third sector expertise, particularly to prevent waste, raise awareness, segregate waste at source, and increase reuse and recycling of waste through capacity-building support"¹

There are also opportunities for TSOs to contribute to service delivery in the wider public sector market.

1.1.1 Purpose of this Project: Investment for Growth in Resource Recovery TSOs

The project was framed, in response to the Waste Strategy for England, as identifying these barriers and proposing solutions **'to enable a good quality TSO to gain a service delivery contract with a local authority.'**

What kind of growth is the sector seeking to achieve?

The Government has set out what it sees to be the benefits of employing the third sector to deliver services^[1]:

- involving local people to create community ownership;
- building the skills and experience of volunteers; and
- increasing trust within and across communities, thereby building social capital.

The value of TSO involvement in resource recovery activities focuses on the benefits of second life materials to people who need them, and the creation of jobs, training, volunteering and community development opportunities in making good use of these resources. With this focus growth can be seen primarily as an increase in opportunity and impact. As a result:

- more people to have access to the benefits of resource recovery services;
- people have access to a wider range of services – more materials are reused or recycled;
- services capture a higher proportion of available materials;
- there is an increase in 'social benefits per tonne' through resource recovery activities; and
- the environmental impact of resource use and disposal is reduced.

Resource recovery goes beyond recovering value, in pounds or tonnes, from beds, bikes and planks of wood. It includes enabling individuals to recover their own resourcefulness, valuing themselves and others, through second-chance training opportunities or volunteering skills to their community. Resource recovery is about relationships and networks linking people together to make a practical difference, especially where individuals and communities are under pressure. It is as much about the human recovery as it is about the material resources.

Sustainable increases in tonnage, turnover and carbon reduction impact are secondary indicators of the range of resource recovery impacts being achieved by the sector.

What kind of investment is needed to achieve this growth?

The initial premise for the project was focused on access to finance, and the relationship between social finance institutions (social banks, community development finance initiatives) and the sector. However, this research has

1 DEFRA (2007) *Waste Strategy for England 2007*

^[1] Cabinet Office & HM Treasury (2007), *The future role of the third sector in social and economic regeneration: final report. CM7189 July 2007*

found the key limiting factors preventing good quality TSOs from gaining local authority service delivery contracts focus primarily on:

- commissioning and procurement;
- relationship building; and
- development of TSO capacity to offer cost effective resource recovery activities across all communities in England.

If a local authority and a TSO can develop a stable medium term service delivery relationship, where income meets or exceeds service delivery costs then there are a range of finance providers and products available to TSOs. There is however, a need for innovation in the provision of working capital to help sustain cash flow, especially in the current financial climate.

1.2 Third Sector Organisations and Resource Recovery

1.2.1 What is a TSO?

The Office of the Third Sector uses the following definition for the Third Sector:

"The third sector comprises non-government organisations which are value driven and principally reinvest their surpluses to further social, environmental or cultural objectives. It includes voluntary and community organisations, charities, social enterprises, co-operatives and mutuals"².

This definition acknowledges the important economic dimensions in the work of TSOs. TSOs can adopt a wide range of legal forms, including: Companies Limited by Guarantee, Registered Charities, Industrial and Provident Societies, Charitable Trusts, Co-operatives, and Community Interest Companies (CICs). Some TSOs operate without a separate legal identity as Unincorporated Associations and Trusts. Social enterprises are not a legal form of TSO, but a model which may adopt one of a number of legal forms. They can be defined, in simple terms, as "enterprises that trade in order to pursue a social aim"³.

1.2.2 Resource Recovery TSOs

The term 'resource recovery TSO' is used in this report to describe the wide diversity of TSOs whose common bond is the creation of value from 'waste' resources or a focus on reducing the waste of resources. Resource recovery TSOs work with a wide variety of materials including furniture and white goods, compostable kitchen and garden waste, 'dry recycling', paint, wood, IT equipment and clothing. The underlying reason that TSOs work to recover resources also varies – some have primarily environmental aims, while others focus on achieving community benefits through the provision of training and volunteering opportunities in resource recovery, some on alleviation of poverty through providing low cost household necessities and some on the sale of goods to raise funds for charitable causes. Many resource recovery TSOs started out with a particular focus but have adapted to changing local and national conditions and have diversified into other opportunities and markets. Resource recovery TSOs create multiple benefits by linking together environmental, social and economic objectives. REalliance comprises the following TSO networks: the Community Recycling Network (CRN), London Community Resource Network (LCRN), Community Composting Network (CCN) and the Furniture Reuse Network (FRN).

1.2.3 Public Sector Organisations and Public Service Delivery

Public sector organisations are those that are funded wholly or largely from money raised through taxation. The public sector is estimated to have spent £568 billion in 2007/8 on public services across the UK⁴. A **public service** is one which benefits the public, the environment or society and is wholly or partly funded, from the money raised through taxation⁵.

Within the public sector are **local authorities**. Following recent reorganisation there are 353 local authorities in England covering County, Unitary and District geographical areas. The total expenditure of English local

2 HM Treasury, Charity and Third Sector Finance Unit. www.hm-treasury.gov.uk

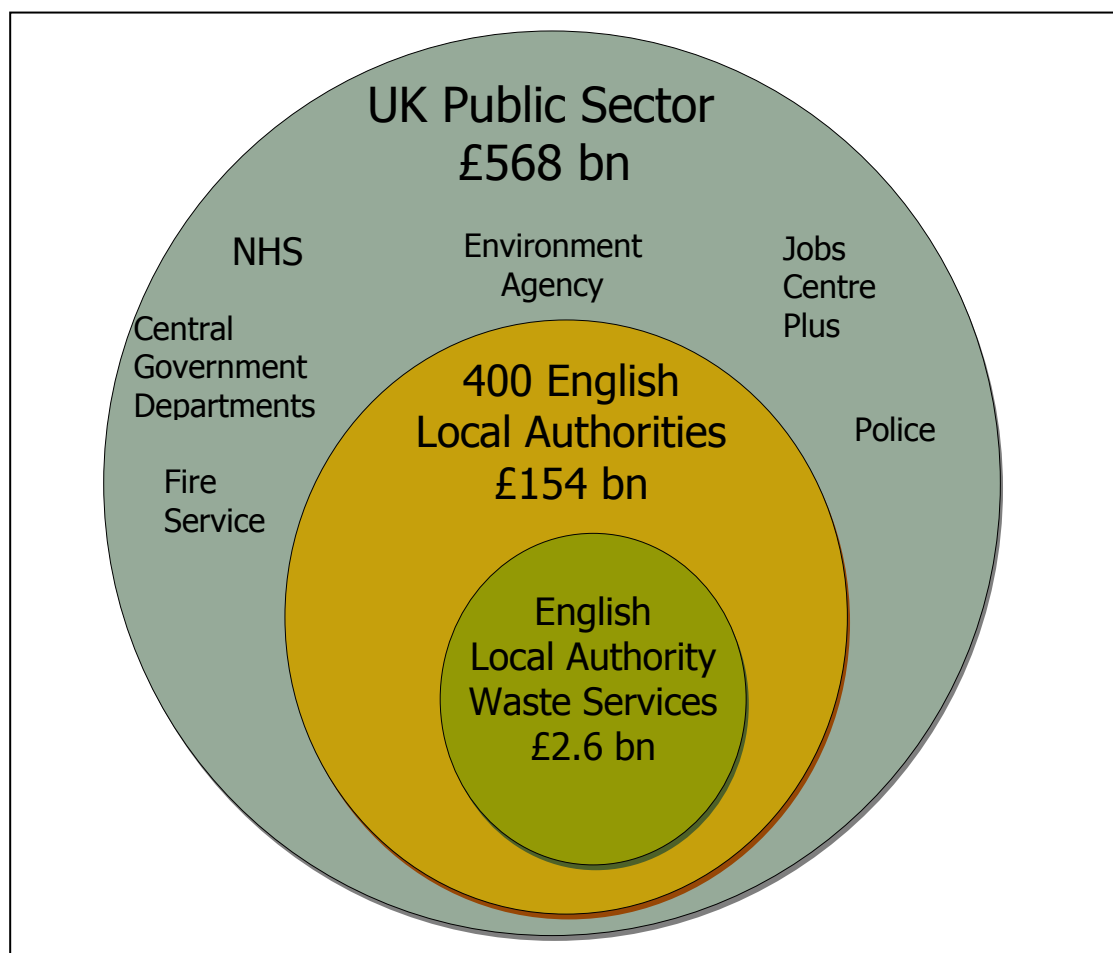
3 SQW (2007), *Research on Third Sector Access to Finance*, Report to the Office of the Third Sector, May 2007

4 BERR (2008) The Public Services Industry in the UK

5 www.futurebuilders-england.org.uk/about-us/public-service/public-service/

authorities in 2007/8 was £154 billion⁶. Local authorities provide a wide range of services including education, social services and planning, they are also responsible for waste services. Local authority waste services include both collection and disposal of municipal waste. This is waste from households, and waste which because of its nature or composition is similar to waste from households⁷.

Figure 2: Sector Relationships: Public Sector, Local Authorities and Local Authority Waste Services



6 CLG (2009) Local Government Financial Statistics England 19 2009 May
7 Waste Emissions and Trading Act 2003

In England 28.5 million tonnes of municipal waste was collected in 2007/08, of which 34% was recycled or composted, 11% was incinerated and 55% was disposed of in landfill.⁸ Disposal of municipal waste in England cost £1.46 billion in 2006/07 and collection services cost local authorities £1.15 billion, an overall cost of £2.6 billion (£121 per household).⁹

The costs of providing waste services are projected to rise to £150 per household, £4.2 billion per year, by 2013 as measures to reduce disposal to landfill and to comply with European environmental directives are implemented¹⁰. The 2009 budget announced that landfill tax would continue to rise at £8/tonne/year¹¹. As the costs of disposal increases, the financial pressure to divert material from disposal through waste minimisation, reuse and recycling also increases. In some localities long-term contractual arrangements for treatment and disposal tie materials to particular processes or reprocessors. This can be a barrier to increased resource recovery through reuse and recycling.

1.2.4 Public Sector Market Pressures

The Gershon Review¹² of Efficiency in the Public Sector in the UK conducted in 2004-05 focused on the Government's objective to "release resources to fund the frontline services that meet the public's highest priorities by improving the efficiency of service delivery." An efficiency gain is defined as 'raising productivity and enhancing value for money'. A gain is made when, for a given area of activity, an organisation is able to:

- reduce inputs for the same outputs (representing a cashable gain; i.e. money is released that can be reused elsewhere);
- reduce prices for the same outputs (representing a cashable gain);
- get greater outputs or improved quality for the same inputs (representing a non-cashable gain; i.e. money is not released); or
- get greater outputs or improved quality in return for a proportionately smaller increase in resources (representing a non-cashable gain).

Over the three years to 2007, the public sector was required to achieve savings of £21 billion. For local authorities this equated to year on year savings of 3%. These savings have been achieved and exceeded with £23 billion of savings identified. For the current Comprehensive Spending Review (CSR) period further savings of 3% per year have been identified to release £30 billion by 2010/11 for further public service reinvestment. Organisations seeking to contract with the public sector to offer services need to be able to demonstrate how their approach can help to support the delivery of these year-on-year savings.

Even before the current economic downturn in which many local authorities have experienced a drop in revenues, there has been considerable pressure to demonstrate value for money in service delivery. In this situation the difference between efficiency and effectiveness can sometimes be lost. There is a hazard that local authorities focus only on marginal cost savings on existing service designs. This compares with a more radical approach to meeting waste, and other related, service outcomes through a focus on greater effectiveness around waste minimisation, reuse and recycling. The Treasury's 'Public Value Programme' focuses on the latter approach, the need to find smarter ways of doing business and creating incentives for a value-for-money approach across public sector partners.¹³

8 DEFRA (2008) Statistical Release Ref: 352/08, 6th November 2008

9 Audit Commission (2008), *Well Disposed: responding to the waste challenge*, Sept 2008 <http://www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=&ProdID=C0CDCBFE-24E0-494d-824D-F053A576661E&fromREPORTSANDDATA=NATIONAL-REPORT>

10 Dr Dominic Hogg, Personal Communication

11 Landfill Tax escalator extended until 2013, Budget announcement 22nd April 2009

http://www.letsrecycle.com/do/ecco.py/view_item?listid=37&listcatid=5270&listitemid=51779§ion=legislation

12 HM Treasury (2004) Releasing Resources for the Front Line www.hm-treasury.gov.uk/d/efficiency_review120704.pdf

13 Ward, S (2008) Planning for (further) efficiencies, *Public Eye*, ACCA journal August 2008

www.accaglobal.com/pubs/members/publications/sector_magazines/public_eye/archive/2008/65/efficiencies.pdf

1.2.5 A Brief History of Resource Recovery TSOs and Local Authority Service Delivery

TSOs have played a key role in both innovation and service delivery of resource recovery services in England. In 2003/04 TSOs were estimated to have handled 500,000 tonnes of waste per annum¹⁴, more than 10% of all municipal waste reused, recycled or composted in England. New small resource recovery TSOs were developed to colonise niche markets and a range of government grant funds were available to develop the capacity of TSOs in the local authority waste services market.

However, as recycling of materials has become a more mainstream, higher value activity in recent years it has become more attractive for private sector waste companies. At the same time, local authorities have responded to the best value agenda with a shift from grant funding and service level agreements to large scale, more integrated, longer term competitively tendered waste services contracts. Some local and specialised TSOs have responded by engaging with private sector (including PFI) waste contracts as a subcontractor on large contracts.

In 2004 the Programme Director of the government's Waste Implementation Programme expressed a view that the 'community waste sector' would split into two parts: one that competes commercially for local authority contracts and another that contributes innovations and passes its skills on to other sectors¹⁵.

A 2005 survey¹⁶ estimated that there were around 1,000 TSOs for which waste activities were core, and that had a collective income of around £100m. But Sharp and Luckin¹⁷ highlighted the impact of a combination of regulation, competition, and changes to funding regimes as putting the community waste sector under considerable pressure by 2006 compared to their survey of the sector in 2002¹⁸.

In the 5 years since John Burns made his comments it has become very difficult for the majority of TSOs to compete successfully for local authority waste services contracts. The level of competition has increased markedly including contracts for kerbside recycling collections. It is no longer possible to use the previously established TSO route of piloting innovative collection services, securing a Service Level Agreement (SLA) without competition, and then using their existing scale and track record to successfully compete for a recycling-only contract.

The second part of Burns' analysis offers more potential for future TSO success. Resource recovery TSOs have shown they can deliver innovative services that offer cross-cutting social, economic and environmental benefits to the public sector. But for resource recovery TSOs to survive and thrive they need to do more than 'pass their skills on to other sectors', at the expense of having to constantly find new market ground. TSOs need to develop sustainable business models and widespread networks of service delivery that are strong enough to shape the perceptions of decision makers about future resource recovery activities.

The amount of recycling and composting of household waste in 2007/8 was almost five times as high as 11 years ago¹⁹. The Waste Strategy for England 2007 identified a new target to reduce the amount of household waste not reused, recycled or composted by 45% by 2020, to 225kg per household, and to increase the amount of household recycling and composting to 45% of waste by 2015 and 50% by 2020 across England. This highlights how rapidly expectations of waste services have changed, and the importance of new services being able to respond to the need for further improvements in performance.

It was the impact of offering recycling services that went beyond previous public and public sector expectations that created TSOs reputation for innovation in the 1990s. The 21st century opportunity may prove to be in TSO promotion of resource reuse and recovery of human potential that helps to re-shape local communities.

14 Sharp, L. and Luckin, D, (2006) The community waste sector and waste services in the UK: Current state and future prospects. *Resources, Conservation and Recycling* 47 (2006) 277–294

15 The Waste Paper (2004). "Delivering results" interview with John Burns, Director of Waste Implementation Programme, no. 95; May 2004a. p. 16–7.

16 Williams N, Croker M, Barrett D, (2005) *Review of the Voluntary and Community Waste Sector in England* The InHouse Policy Consultancy Serving ODPM, DfT and Defra.

17 Sharp, L. and Luckin, D, (2006) previously cited.

18 Luckin, D, and Sharp, L. (2003): *'Sustainable Development in Practice: Community Waste Projects in the UK'*. University of Bradford.

19 7% in 1996/7 up to 34.5% England-wide in 2007/08, DEFRA

1.2.6 Commissioning and Procurement of Public Services

The theory of commissioning is that a process of intelligence gathering and needs assessment is carried out to identify what services are required. This process should involve identification of current good practice performance, and benchmarking of existing services against good practice and the performance of reasonably comparable local authorities. The commissioning process includes defining the outcomes that are being sought and determining whether there is agreement between buyers and suppliers on an optimum service design.

There is now a single performance framework for the public sector in England covering all outcomes delivered alone or in partnership with the private sector. All local agencies are required to work towards the same goals. There is a significant shift in emphasis away from the measurement of the performance of individual organisations and towards measuring improvements in outcomes across a local area. These outcomes are measured through 188 National Performance Indicators (NIs). Each County or Unitary Authority area has drawn up a Local Area Agreement (LAA) which identifies up to 35 local priority NIs, plus local key indicators, which are to be the focus of local improvement action. Progress on all 188 NIs and on the impact of improvement actions on LAA priority areas will be assessed through the recently renamed 'oneplace' process (previously called Comprehensive Area Assessment - CAA). The majority of this new performance management regime was implemented from April 2008 and the first 'oneplace' inspections will take place in November 2009. Local authorities are being encouraged to use their role as local community leaders in partnership with businesses, other public sector and third sector organisations to achieve a more integrated approach to resources and waste in their area.²⁰

This study was framed around understanding and improving the relationship between TSOs and local authorities. Local authorities are a core customer for resource recovery TSOs because they control a large materials stream and because they will increasingly need to focus on waste minimisation and reuse.

Most waste services are still procured rather than commissioned. A process that involves the waste services department setting the service specification and then handing it to the procurement department to develop into a contract. This handover creates problems for third sector organisations in that standard contract terms and conditions are attached at this point, without recognition that they create insurmountable barriers for TSOs. Commissioning is widespread in other sectors such as health and social care, including within local authorities, but has been adopted much more slowly in waste services.

1.3 The Rhetoric of Engagement

The Waste Strategy for England 2007 identifies the Third Sector as an important partner in delivering the government's strategic objectives:

*"The third sector, ranging from voluntary and community organisations, charities, co-operatives and social enterprises, has the ability to deliver multiple benefits – social, economic and environmental – for the communities it serves."*²¹

TSOs are regarded in the strategy as having particular strengths in a number of key areas of waste management and resource efficiency, including:

- waste prevention – e.g. in encouraging behaviour change among individuals;
- reuse – e.g. through provision of household appliances and furniture to those in need, charity shops (where the UK has an exceptionally strong network by EU standards) and electronic services like Freecycle; and
- separate kerbside collection of specific materials, which they pioneered, achieving high participation rates in recycling and composting schemes.

These strengths, together with TSOs' ability to offer social benefits alongside environmental objectives, should make TSOs increasingly attractive potential delivery partners for waste services for local authorities in particular.

20 DEFRA (2007) Waste Strategy for England 2007, May 2007

<http://www.defra.gov.uk/environment/waste/strategy/strategy07/pdf/waste07-strategy.pdf>

21 DEFRA (2007) previously cited

Image 3: Tested WEEE – ready for resale



2.0 The Reality of Engagement

2.1 REalliance Sector Survey 2008/9

REalliance undertook a major new survey, funded by WRAP, to understand the current complexion of the TSO resource recovery sector. REalliance endeavoured to contact almost 850 TSOs that have previously been identified as working with waste. A telephone survey was carried out using a survey questionnaire during January-April 2009. A copy of the survey is included in Appendix 1. The survey information gathered was supplemented by records of turnover and materials tonnages provided from an FRN annual membership questionnaire 2008/09 and CRN data on tonnages. In some instances TSOs were known by REalliance network staff to be active, but were not responding to requests for data. Regional staff were asked to provide an estimate of size of any organisations that could not be contacted.

This process identified 691 currently active 'Waste TSOs' in England. Of these, data was returned for 462, giving a 67% rate of return. However, this return rate includes incomplete responses addressing only some parts of the survey. Detailed responses were received from 254 organisations, which represents a 36% return rate. A summary of the analysis of the survey results is set out in Appendix 2.

Eunomia Research & Consulting undertook the analysis of the survey data. Some additional information on turnover and staffing was obtained from annual returns lodged with Companies House and the Charities Commission. Duplicate records for organisations that are members of more than one network, and 'supporter members' such as local authorities were screened out.

The primary focus of the TSO survey was to gather information on current waste TSOs and their activity and impacts. Information was sought regarding:

- set up date;
- legal form;
- number of full time and part time staff and volunteers engaged in waste related and non-waste related activities;
- turnover;
- types of waste management activity being undertaken;
- qualitative information was sought on:
 - current contracts with the public sector

- previous experience of public contracts
- the organisation's desire to undertake contracts in future
- barriers to contracting
- experience of subcontracting
- current leasing of land, buildings, vehicles and equipment;
- types and amounts of material being handled;
- funding sources from grants, contracts and trading income and other sources of finance; and
- awareness of REalliance as an organisation and ideas for future REalliance work.

As detailed data was not available for more than half the 'known active' resource recovery TSOs extrapolations have been made to estimate the turnover, tonnage, carbon impact, and creation of jobs and volunteering placements by TSOs for the sector as a whole. While this has been carried out with reference to completed survey returns the diversity of the resource recovery sector means that extrapolations could contain a quite a high level of uncertainty. The techniques used are similar to those used in previous sector surveys^{22 23} and the methodology used is set out in Appendix 3.

In the case of the 2008/9 REalliance sector survey the number of fully completed survey returns (254) was higher than the sector surveys carried out in 2002 (90) and 2005 (144). Although the direction of travel in terms of data collection is positive there is a need to further improve the completeness and consistency of the quantitative data collected as evidence of sector impacts. This would further improve confidence in recognising the impacts of the sector.

The good trust relationship REalliance has with TSOs has given access to very rich qualitative data. These responses offer insight into the experience of TSOs seeking to survive and thrive in the current climate. That these responses can be explored in relation to the quantitative data on the activities the TSOs are undertaking and the current size of the TSO in terms of staffing and turnover, is particularly valuable. It enables recommendations to be more closely tuned to the scale and stage of development of TSOs.

In addition, 26 interviews were carried out by Eunomia with:

- resource recovery TSOs;
- REalliance network organisations;
- local authority commissioners and procurers;
- potential commercial partners;
- finance and funding providers.

Eunomia also made presentations about aspects of the Investment for Growth project at the FRN 2009 National Conference and the CRN 2009 Kerbside Summit. Feedback from participants at these events has also been taken into account in shaping this research.

This report reviews the current experience of TSOs contracting, or seeking to contract, with the public sector. In 2009 a large proportion of resource recovery TSOs are entrepreneurial, and earn the majority of their income through sales and service provision rather than relying on grant funding. However, in local authority waste services in particular, the rhetoric of TSO engagement in public service delivery is not matched by the reality of market shares.

2.2 Resource Recovery Sector Size

In 2009 REalliance has identified **691** currently active 'resource recovery TSOs' in England. This figure was derived from membership lists of network organisations screened by regional representatives to check that organisations were still active. Some resource recovery TSOs that are not members of national or regional waste networks are also included in this count, where they are known to regional network staff. This list does not include duplicate members (TSOs that are members of more than one network organisation), members outside England or non-trading members (such as local authorities that are members of network organisations). While

22 Williams N, Croker M, Barrett D, (2005) previously cited

23 Sharp, L. and Luckin, D, (2006) previously cited.

comparison with 2007/08²⁴ estimates of around 1,000 organisations suggests the total number of resource recovery TSOs has dropped by over a quarter, an alternative explanation is that estimates based on membership figures in earlier years have included duplicate membership of networks, non-trading members and inactive organisations.

In response to the 2008/9 REalliance sector survey 392 organisations provided information on income. A further 60 have had income extrapolated from reported staff numbers. 239 that are active but did not respond to the survey have had turnover estimated on the basis of regional network staff knowledge of organisation size and activity. This gives an estimated income of resource recovery related turnover of **£133,820,000** for 691 organisations.

This figure may well under-represent the full extent of sector activity. This study takes a more cautious approach to the attribution of resource recovery related turnover in large multifaceted TSOs than previous 'state of the sector' reports. However, when comparing the turnover of the sector with the total tonnage of resource recovery (see below), this produces a cost of just under £400 per tonne. This is lower than the £450-£600 cost per tonne range that may be expected for bulky waste collection activities that now make up a large part the sector. This may reflect the large contribution of some organisations providing lower cost per tonnes activities including commercial goods reuse.

Comparisons can be made between the findings of the 2008/9 REalliance sector survey and the 2005 sector survey²⁵. The 2005 study was commissioned by DEFRA to provide a more detailed picture of the activities of the 'community waste sector' and its role in the delivery of the waste strategy. The methodologies for identifying sector size, turnover, staffing and volunteers, materials handled and activities are broadly comparable as both surveys used the same questions for these issues and used the same sector boundaries. For income and funding sources the questions were changed slightly to reflect changes in grant and regeneration fund arrangements over the past 4 years.

The 2005 survey estimated total active organisations as between 800 and 1200 with a central estimate of 1000. The 2005 survey emphasised the need to be clear whether turnover is identified for 'TSOs involved in the waste sector' or on those organisations for which 'waste activities are core' and the aggregate sum they are devoting to those activities. In 2005 the study concluded that the total income for organisations for which waste activities are core was "probably somewhat over £100m". The 2008/9 has used similar caution. Where large multi-tasking TSOs are REalliance network organisation members only a proportion of their turnover has been attributed to the sector turnover total²⁶. While recognising the uncertainties in both sets of data it would appear that in 2008/9 a smaller number of waste TSOs appear to be producing a higher total turnover between them.

2.3 The Amount of Reuse, Recycling and Composting by TSOs

TSOs are estimated to have handled **248,000 tonnes** of material in 2008/9. This comprises 173,000 tonnes of recycling (including organic material) and 76,000 tonnes of reuse.

The graphs in section 2 are the result of Eunomia's analysis of the 2008/9 REalliance sector survey. Where 2005 comparative data is used this has come from the 2005 sector survey.²⁷

The total amount of resource recovery undertaken by TSOs reported through the 2008/9 REalliance sector survey has fallen slightly since 2005. The data sets for both years can only be treated as estimates as in each case it was necessary to extrapolate total tonnages from incomplete data returns. Reuse and recycling data has been identified separately in the survey. For example where electrical items are collected and then some refurbished for reuse and others stripped for materials recycling the reuse and recycling tonnages are recorded separately.

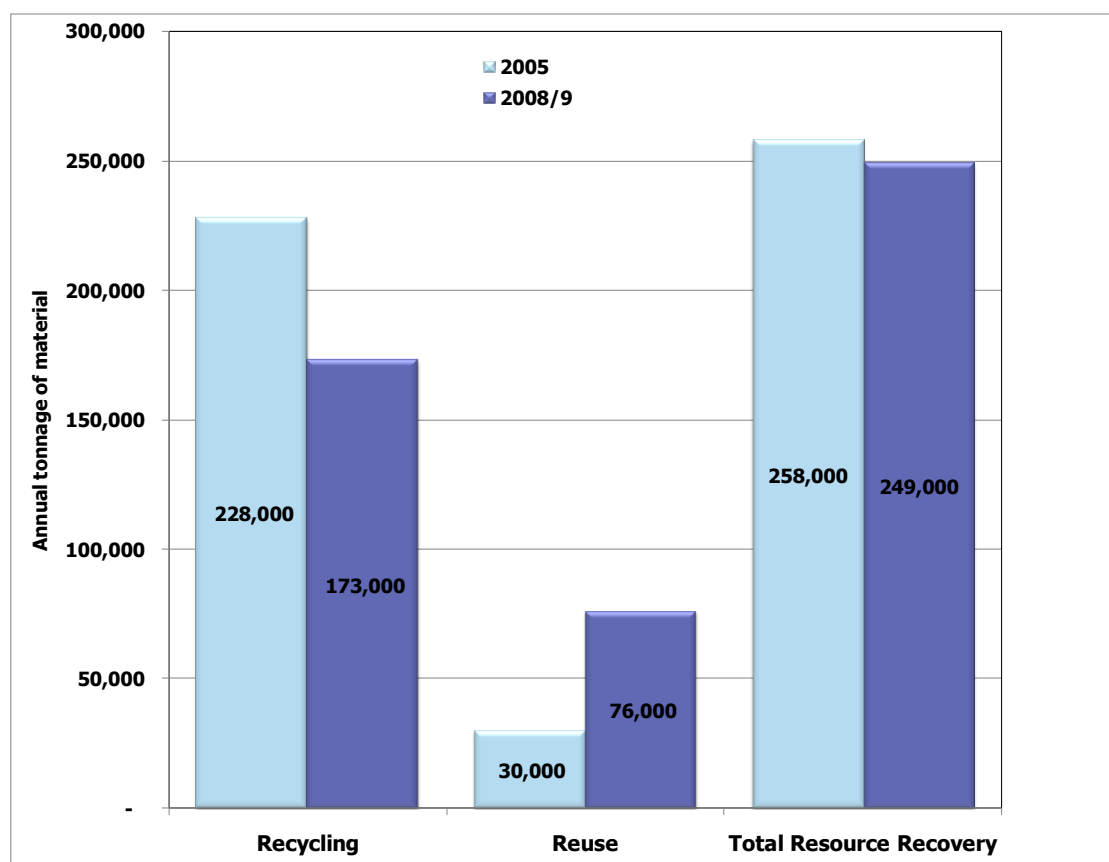
24 CAG Consultants/Eunomia (2008) *Appraisal of the CRED Programme, for the Royal Society of Wildlife Trusts* March 2008 <http://www.eunomia.co.uk/shopimages/CRED.pdf>

25 Williams N, Croker M, Barrett D, (2005) previously cited

26 The 2008/09 survey asked for information on the number of waste and non-waste services staff that were employed and these proportions were used to assess the proportion of total turnover to attribute to waste.

27 Williams N, Croker M, Barrett D, (2005) *Review of the Voluntary and Community Waste Sector in England* The InHouse Policy Consultancy Serving ODPM, DfT and Defra. Previously cited.

Figure 2: Total Resource Recovery by TSOs 2005 and 2008/9, thousands of tonnes



There has been decline in tonnage for recycling that is consistent with the reduction in kerbside collection contracts. However, total reuse has more than doubled from 30,000 tonnes in 2005 to 76,000 tonnes in 2008/09.

This reuse total excludes a further 87,500 tonnes of commercial end-of stock items redistributed through the charities sector by a single network member organisation, as it is uncertain whether the alternative disposal destination would have been to landfill.

The 2008/09 increase in sector turnover and slight decrease in tonnage is despite loss of ECT, who had been the largest TSO in the sector in recent years. In 2004/05 ECT Group had a turnover of £26.9 million. This suggests that they will have comprised over a quarter of the sector turnover, and 25-50% of the total resource recovery in the sector. In 2005/6 ECT were providing recycling collections to over 5% of the UK population. They continued to increase the scale of their waste management operations. In 2006/7 ECT recycled 263,000 tonnes of dry and organic materials and turnover rose to £51.8 million. In 2007/08 they retained Bath and North East Somerset and extended the services they were providing in Somerset by winning the large integrated Somerset Waste Partnership contract. However, in June 2008 the private sector contractor May Gurney bought ECT Group 'as a going concern'. ECT's waste services operations were still profitable but diversification into railways and healthcare services had put the group under financial pressure. Had ECT still been a TSO throughout 2008/9 their additional £60m turnover and 300,000 tonnes of recycling would have made a significant contribution to total activity.

In addition to the organisations identified in the 2008/9 REalliance sector survey, the Association of Charity Shops (ACS) listed 278 members in England on 31st March 2009. There is a small amount of overlap between the REalliance list and the ACS list. This suggests around 260 separate active organisations that haven't been included in the 2008/9 REalliance sector survey. The ACS claim an annual turnover of more than £550 million and enable the reuse or recycling of 250,000 tonnes of textiles a year. However, these figures are based on extrapolation of one 'average' charity shop, and are not the result of a more detailed survey of turnover and tonnage actually being achieved. The turnover per tonne (£222/t) is much lower than for 2008/9 REalliance

sector survey data.

There is a question for the sector, and for organisations supporting sector development, regarding whether charity shops should be recognised as full ‘resource recovery’ players. Charity shop activities vary, but generally include reuse of textiles and other household items, and recycling of materials that cannot be sold for reuse. For larger charity shops activities include furniture and white goods reuse and recycling. Charity shops currently make a significant contribution to resource recovery activity, and have a high public profile. A small number of charity shops are already REalliance network members and some receive recycling or reuse credits from local authorities. The resource recovery sector already comprises a broad range of business models, materials streams and scales of operation and it can be argued that the activities of charity shops clearly achieve a significant resource recovery impact. For the purposes of this survey only members of REalliance network organisations have been included in the ‘resource recovery’ TSO data.

Web-based swapping systems, such as Freecycle, that enable reuse have not been included in the scope of the sector. There is insufficient data currently collated on the impact of community-led web swapping activities for inclusion. However the popularity of schemes suggests that further work on their impacts would be of value.

2.4 Staff and volunteers

In 2008/9 a total of 3461 staff members were employed to undertake resource recovery activities by 437 organisations. Of these 2392 (69%) were full-time and 1069 (31%) were part time. Across 691 TSOs it is estimated that total staffing is 3765 full-time and 1680 part-time staff. If it assumed that part-time staff work approximately half the hours of full time staff this equates to **4600 ‘full-time equivalent’ staff**. In 2005 a total of 2487 paid staff were employed in 142 projects, 53% of them full time. However, comparison is difficult as in 2005 a small number of TSOs employed a very high numbers of staff (including an organisation with 850 full-time and 650 part-time staff). The largest number of full time staff employed by a single organisation on resource recovery in the 2008/9 survey was 77.

The total number of volunteers and training placements supported through the 322 waste TSOs that responded to this element of the 2008/9 REalliance sector survey is 30,985. However, a single organisation is responsible for 20,000 volunteer placements. Excluding this figure, resource recovery TSOs provided an average of 34 volunteering and training opportunities per organisation. It is therefore estimated that **43,500 volunteering and work placement opportunities** are being delivered by the sector as a whole.

2.5 Carbon Impacts

The data on total tonnages being handled for each material stream can be used to estimate the total carbon saving being achieved by TSO activities. WRAP have identified ‘carbon multipliers’ which estimate the tonnes of CO₂ saving for each tonne of material reprocessed. On the basis of the WRAP assumptions and the TSO tonnage data it is estimated that current TSO activities are reducing CO₂ impacts by **523,000 tonnes** compared with the same material being disposed of to landfill.

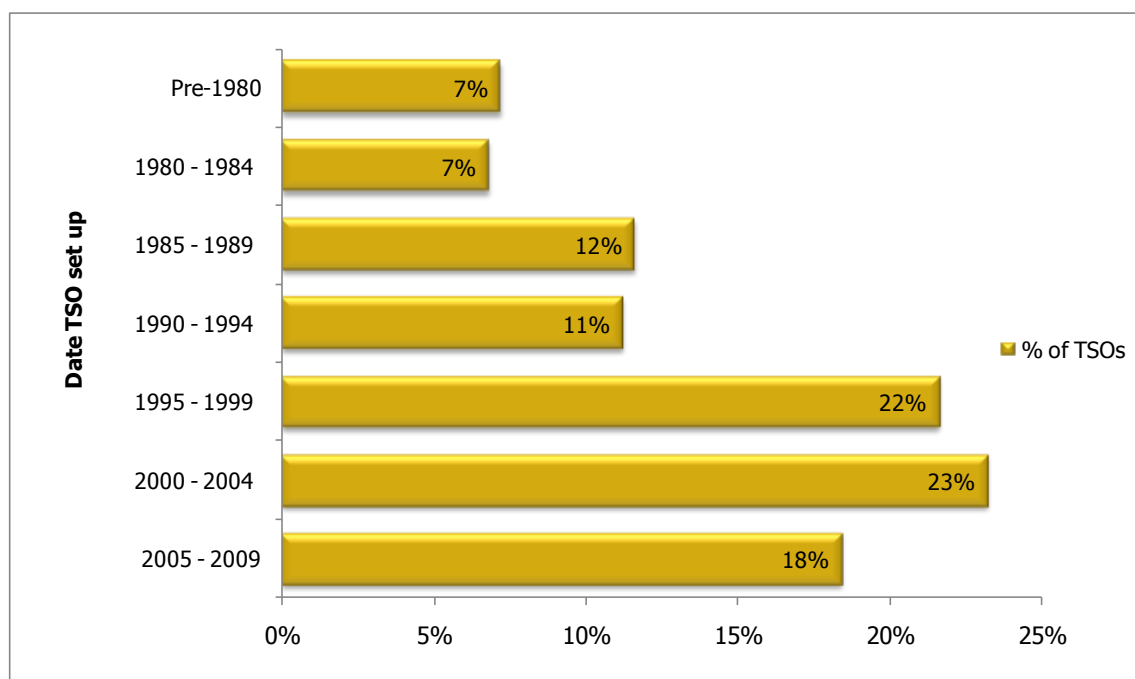
Figure 3: Carbon Impact of TSO Resource Recovery Services

	Tonnes CO ₂
Recycling	343,000
Reuse	180,000
Total	523,000

2.6 Profiling Resource Recovery TSOs

2.6.1 TSO Age Profile

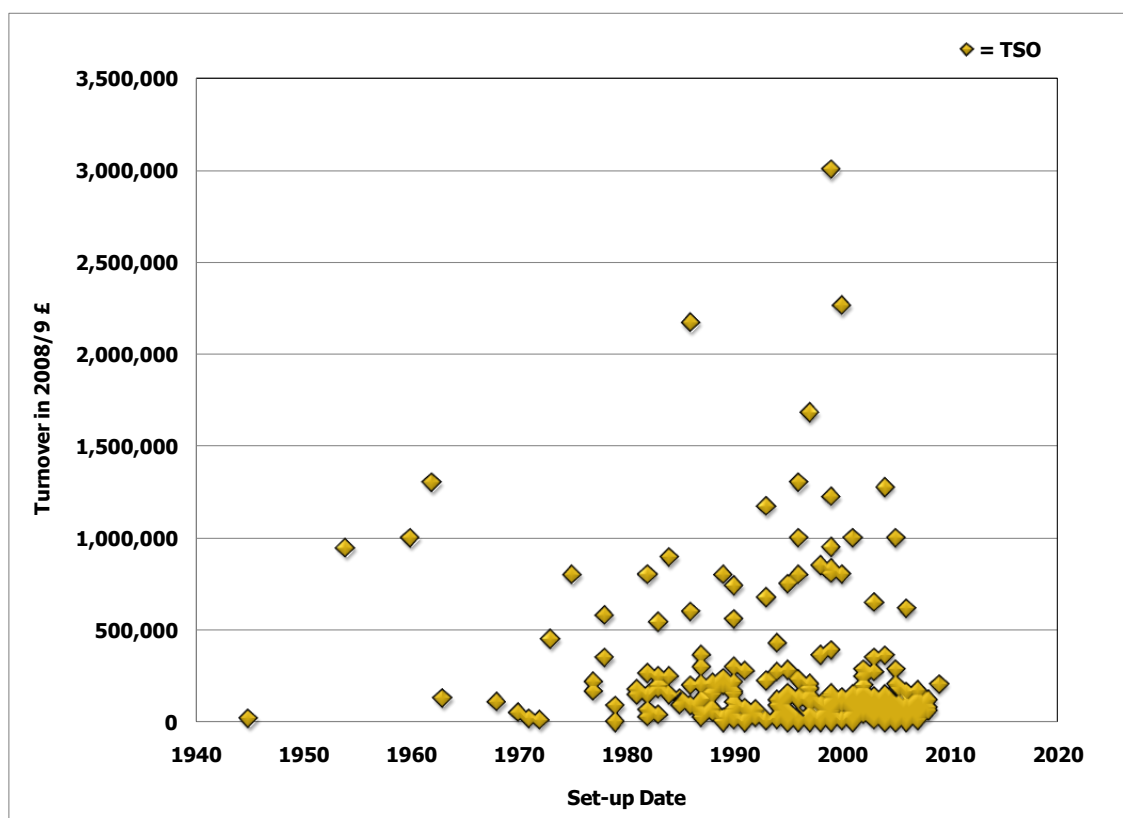
Figure 4: Age profile of Resource Recovery TSOs in 2008/9, % of TSOs reporting set-up date



A quarter of resource recovery TSOs are over 20 years old and a half are more than 10 years old. Exploring the relationship between age and scale of activity (using turnover as a proxy for activity) suggests that older organisations can choose to stay quite small, but few young organisations have had the opportunity to grow large.

Only 7 organisations set up in the past 10 years have a turnover of more than £500,000 and 80% of larger TSOs are more than 10 years old. It takes time to build up skills and market share. Continuity is also important in building relationships, with local beneficiaries and with the officers and members of local public sector organisations. Stability of income and the ability to plan activity strategically are important in developing continuity and retaining skilled and experienced staff.

Figure 5: Age and Scale of Activity of Resource Recovery TSOs, set-up date versus 2008/09 turnover

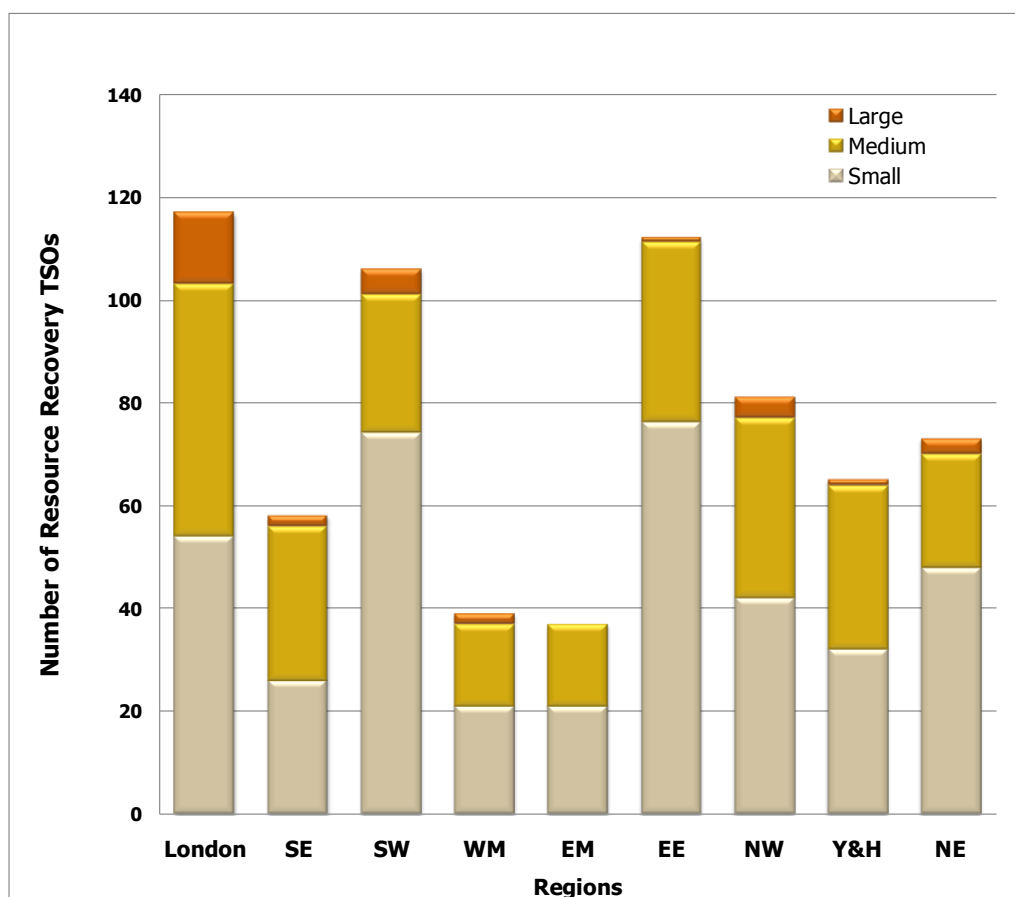


2.6.2 Regional Activity

The data provided by REalliance network organisations on currently active TSOs reflects both the level of activity on the ground and the level of their up to date local knowledge. London CRN is in regular contact with a high proportion of active TSOs. The South East has no regional network, so there may be active groups that have been missed. The South West had a regional network until 2007, and there has historically been an active resource recovery sector, but national network knowledge may be slightly out of date. The East of England, North West England and Yorkshire & Humberside have each had a regional co-ordinator for the last four years, so their knowledge of active groups should be good. The East and West Midlands have never had a regional co-ordinator so knowledge of active groups is dependent on national networks. The North East has had an informal voluntary network for the past two years.

The number and size of TSOs in regions with a co-ordinator and an active regional network is larger than in the regions where there has not been an active network.

Figure 6: Resource Recovery TSO distribution, number and size of TSOs by region 2008/9

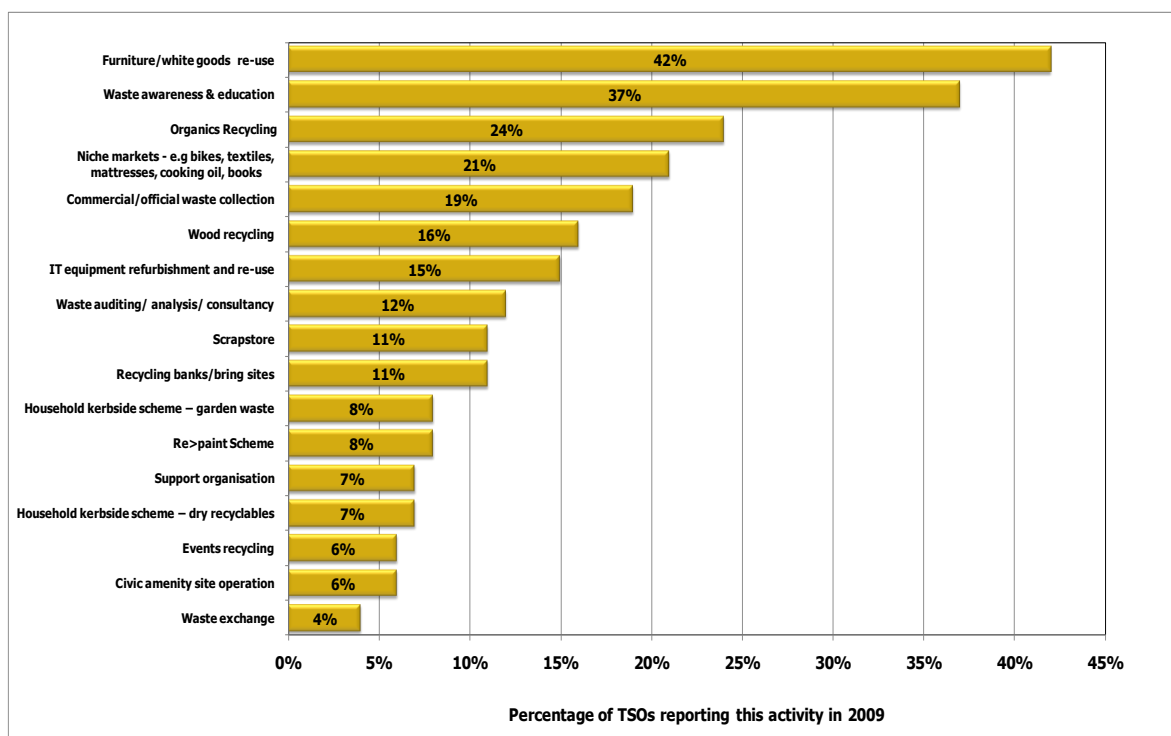


2.6.3 What Resource Recovery TSOs are Selling

Resource recovery TSOs are involved in a wide diversity of activities. Their common bond is that they are creating value from 'waste' resources or working to reduce the waste of resources. Resource recovery TSOs work with a wide variety of materials, provide services in a range of settings and sell services to different types of customer. The 2008/9 REalliance sector survey asked TSOs to identify all the activities that they undertake. 227 TSOs provided some information about their activities. The total percentage does not add up to 100 as many TSOs undertake more than one activity. For example 42% of all TSOs that provided details undertake some furniture and white goods reuse activity whereas only 4% of these TSOs undertake waste exchange activities.

The patterns of activity are similar to 2005. With the highest proportion of TSOs carrying out furniture and white goods refurbishment and reuse, waste awareness and education activities, organics recycling (composting) and commercial waste collections. The largest change is in the proportion of TSOs carrying out kerbside collections of household dry recyclables which has dropped from 17% in 2005 to 7% in 2008/09.

Figure 7: Resource Recovery TSO Activities: % of TSOs reporting in 2008/9 that they undertake this activity



2.6.4 Pattern of turnover

- In 2008/9 the majority of resource recovery TSOs are small, with a turnover of less than £100,000 per year. Almost 400 small TSOs produce 16% of the total sector turnover between them.
- 38% of TSOs have a turnover of between £100,000 and £999,000. This group of 260 TSOs produce 34% of turnover between them, amounting to nearly £74 million pounds.
- Only 4% of TSOs are 'large' with a turnover from resource recovery activities of £1 million or more, but this group of 31 organisations produce nearly one fifth of total sector turnover.

The issue of size and impact is important if the aim is to significantly increase the impact of the TSO sector on resource recovery activities. It would be too simplistic to seek only to develop the already large organisations, although this would appear to be the fastest route to increasing turnover and tonnage of materials recovered. Focusing development only on a small number of large players can leave the sector vulnerable to the decisions of a few organisations – as the impact of ECT leaving the sector has demonstrated.

The larger organisations of today have developed from successful and resilient medium sized organisations. It is these medium sized organisations that are producing the bulk of the activity in the sector. The focus of development also needs to take account of the way in which resource recovery TSOs work with their communities. Large TSOs may focus strongly on customer care and targeting of their activities to meet local needs, but there also needs to be space in the sector for small niche providers of services focused on particular low volume materials or specific beneficiary groups.

Figure 8: TSO Size: % of TSOs with small, medium and large turnover 2008/9

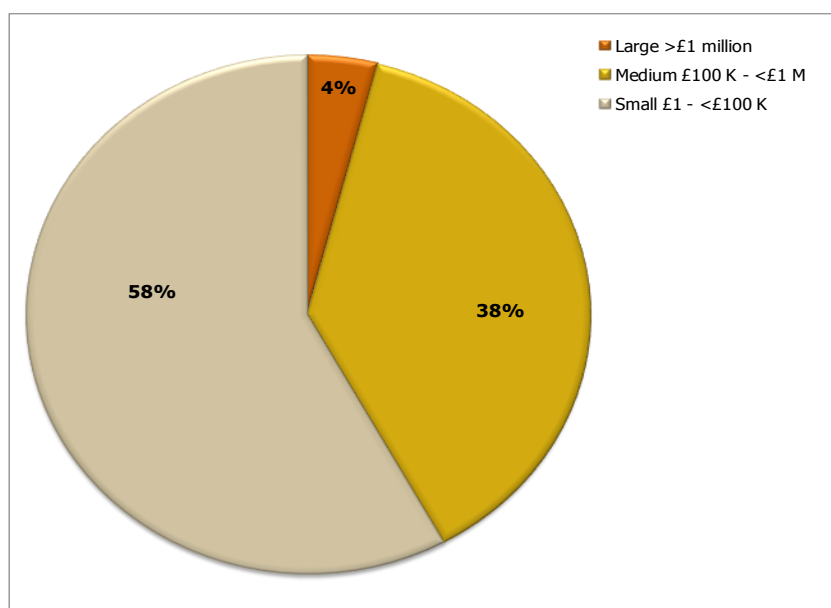
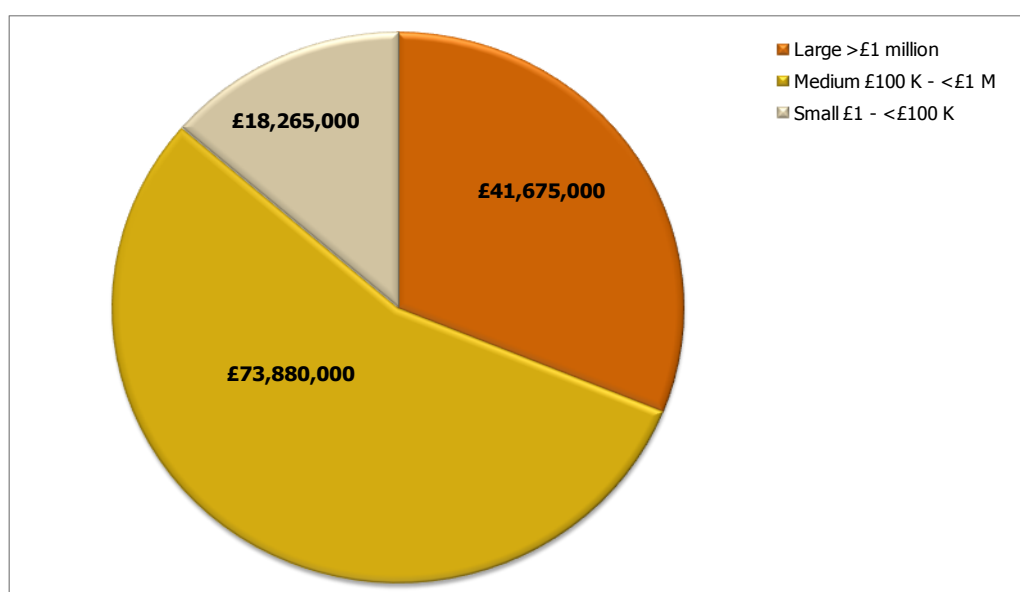


Figure 9: Contribution by TSOs of each size to total sector turnover 2008/9



The pattern of turnover for waste TSOs in 2008/9 cannot be usefully compared with previous survey findings²⁸, as of the 144 organisations surveyed in 2005 19% did not specify their turnover. Resource recovery TSOs feature increasingly as subsidiaries of larger TSOs such as housing associations. Operating as a part of a larger organisation gives access to significant borrowing as well as access to management, finance and administrative capacity. This can be significant in starting up and sustaining the development of resource recovery services. FRN have at least twelve members that are subsidiary companies of housing associations. Charities such as BHF (British Heart Foundation), St Vincent de Paul and Emmaus are also having an impact by providing national support for the development of new local resource recovery operations. At

28 Williams N, Croker M, Barrett D, (2005) previously cited

a smaller scale development trusts and local councils of voluntary service (CVS) have resource recovery subsidiaries. In addition to development through existing TSOs the opportunities for developing new resource recovery TSOs by adapting existing limited company structures, turning a limited company into a social enterprise by adding a social purpose.

The development question for the sector could be framed around how to build capacity by networking the skills and specialisms of TSOs of all sizes. How can TSOs make the resource recovery cake larger and more diverse rather than trying to slice the current cake in a slightly different way?

2.6.5 Diversity of Income Sources

In the 2008/9 REalliance sector survey 244 TSOs provided information on the sources of their income. This is a better return rate than the total of 144 TSOs that participated in the 2005 survey. However, caution should be exercised in generalising conclusions from this relatively limited data. The comparison of the two surveys suggests that:

- income from sales to the public is now received by half of TSOs, up from a third in 2005;
- the proportion of TSOs receiving grants is very similar to 2005 at 50%, despite a reduction in the range of recycling specific grants available;
- the proportion of TSOs securing public sector contracts has increased only marginally from 14% to 18% , however 23% of TSOs receive income from service level agreements. These were not recorded separately in 2005 and appear to have been treated as local authority grants;
- 28% of TSOs now receive reuse credits, which first became available in 2008;
- the reduction in receipt of recycling credits may be linked to the reduction in kerbside services but also to a shift from paying recycling to reuse credits for some reuse activities;
- the proportion of TSOs receiving income from sales of materials to merchants has reduced dramatically since 2005. This is likely to be linked to the reduction in the number and scale of TSO kerbside recycling services.

The data provided by these 244 TSOs identifies the source of only £55 million of the estimated £133 million sector income. The figures for income from different sources have nevertheless been included in the analysis as they help to illustrate the different between a commonly received income source, for example reuse credits, and the relative amount that this income stream is actually worth to each recipient TSO.

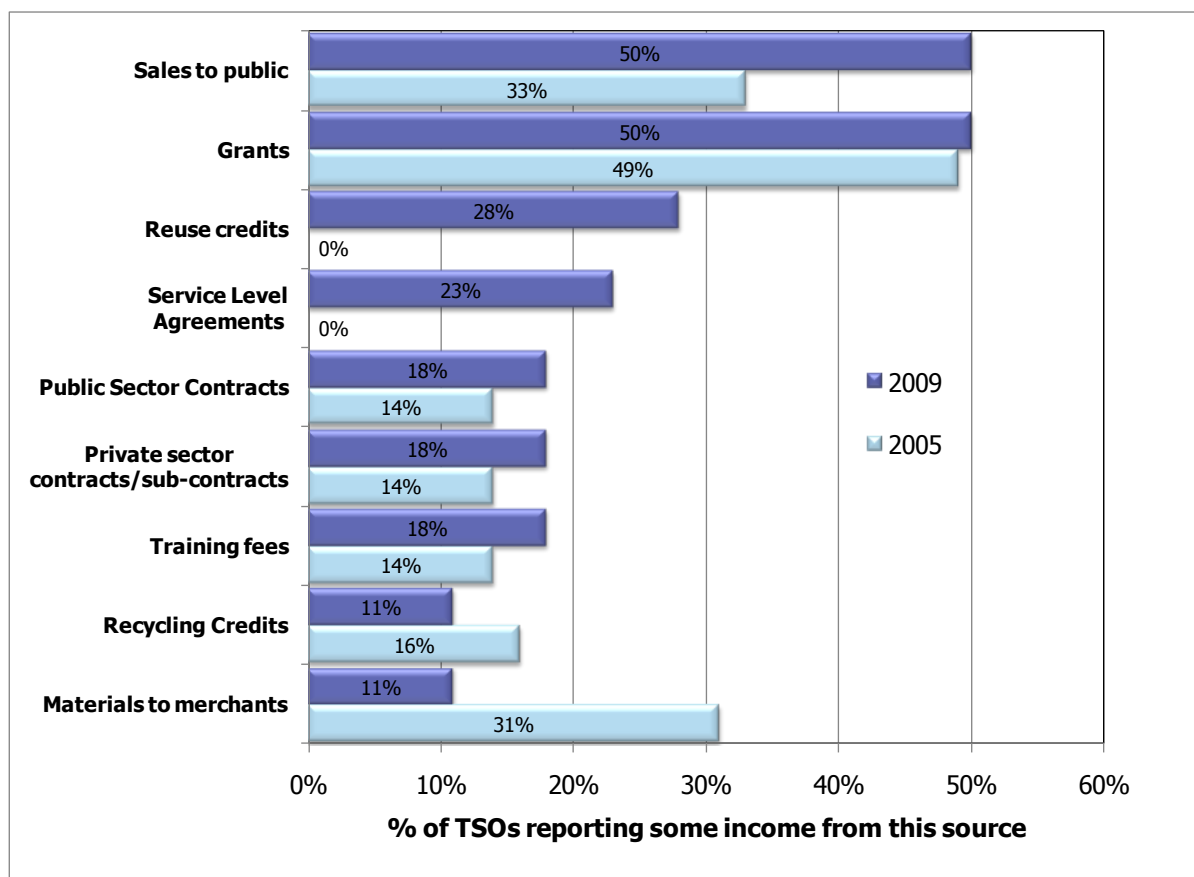
Sales to the Public

50% of the TSOs earned income from sales of materials to the public. These TSOs included furniture and white goods TSOs, scrapstores, organisations undertaking IT refurbishment, wood reuse, repaint and charity shops. The total value of these sales was £19,200,800. However, this is likely to be an underestimate as several large TSOs that sell significant amounts of furniture and white goods to the public did not provide a breakdown of income. Of the TSOs that provided data the average income was £156,104 per organisation.

Income from Public Sector Contracts

140 TSOs, with a total turnover between them of £75 million, stated that they had a contract of service with a public sector organisation. However, only 45 TSOs with public sector contract income provided detailed information on contracts worth just under £16 million.

Figure 10: Diversity of income sources: proportion of surveyed TSOs reporting income from this source 2008/9 and 2005



Income from Delivering Local Authority Waste Services

A detailed analysis of the qualitative and quantitative information given through the 2008/9 REalliance sector survey found that £4,120,000 was secured by providing services to local authority waste services departments. This is likely to be an underestimate as a result of the limited number of TSOs providing a detailed breakdown of income. This is split 54%/46% between contracted work and work undertaken under service level agreements.

Work undertaking collection services for local authority waste services departments, under contract and SLA arrangements, amounts to £2,848,440. This is 0.25% of the local authority waste collection services market of £1.15 billion. This figure is much lower than the public sector average for TSO service delivery of 2%.^{29 30} This figure is likely to underestimate the total income from services delivered on behalf of local authorities as some work is also carried out 'on behalf' of authorities but only rewarded with reuse credits rather than a contract payment. The absence of detailed financial information, particularly from furniture reuse organisations may also have had an impact on the snapshot of 'market share'.

Work undertaking waste awareness and education activity to the value of £1,270,420 carried out under contract or SLA arrangements was also reported, but this tends to be funded separately and in two-tier authorities is County Council funded.

²⁹ House of Commons Public Administration Select Committee (2008), *Public Services and the Third Sector: Rhetoric and Reality*, Eleventh Report of Session 2007-08 Volume 1 26 June 2008.

³⁰ Clark, J. et al (2009, forthcoming) "The State and the Voluntary Sector: recent trends in government funding and public service delivery". London: NCVO.

Figure 11: TSO contracts and SLAs with local authority waste services departments 2008/9



Grant Income

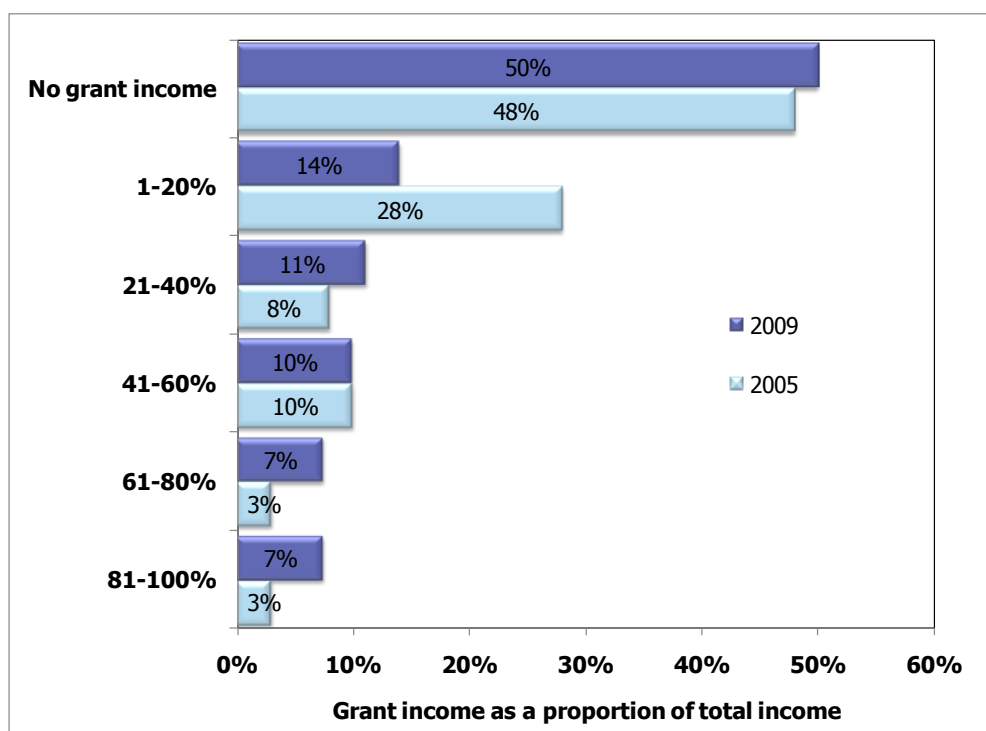
50% of waste TSOs that provided 2008/9 survey returns identified that they received grant income. This is similar to the situation in 2005. A further quarter of TSOs receive 40% or less of their total income from grants. Total income from grants was £13,297,090. The average amount of grant income received is £92,475 by 121 organisations but this figure is likely to be skewed by a small number of large grants.

There have been significant changes in grant funding regimes around resource recovery in recent years³¹. However, as TSOs were not asked the specific sources or purposes of grants it is difficult to discern the impact of these changes on TSOs. Perhaps surprisingly given the changes in grant regime the proportion of TSOs reporting that they receive more than 60% of all funding from grant sources has risen from 6% to 14% since 2005. There is no particular pattern around the type of TSO that is heavily reliant on grant funding, as they include new start-ups, large multi-activity environment organisations and small but long established TSOs.

Discussion with consultees, particularly in the area of furniture reuse, identified a return to grant funding by some local authorities. This appears to be related to difficulties faced by local authorities in securing community benefits through procurement.

³¹ In 2005 31% of organisations identified receipt of local authority grants, 18% identified receipt of CRED funding (fund closed 2007), 6% receipt of Environmental Action Fund money (fund closed 2008) and 6% receipt of Waste Partnership Fund money (fund closed 2007).

Figure 12: Grant income as a proportion of total income – proportion of TSOs surveyed in 2005 and 2008/9



Income from Recycling Credits

11% of TSOs reported receipt of recycling credits from local authorities. Recycling credits were an important source of income for several small composting TSOs, but since 2006 have also been paid to furniture projects and kerbside dry recycling TSOs. The total value of these credits was £948,500. The average value of recycling credits per tonne could not be calculated from the data provided. Recycling credits comprised between 0.2 % and 100% of reported income, so creating an average recycling credits income per organisation would be inappropriate.

Income from Reuse Credits

A higher proportion of TSOs now receive reuse credits from local authorities than receive recycling credits. But the total value of these credits is lower. 28% of TSOs that gave detail of income sources received reuse credits, including 70% of FRN members. 42% of TSOs stated in the 2008/9 REalliance sector survey that they carry out furniture and white goods reuse activities. It appears that not all TSOs carrying out eligible activities are receiving reuse credits.

Although TSOs were not asked whether these were collection or disposal credits, FRN have provided information that no collection credits (of an amount worth acknowledging – one pays 80p per tonne, another £1 per tonne) are yet being paid by local authorities. Reuse disposal credits have the effect of compensating the TSO for the need to dispose of material that is not of sufficient quality to be reused or recycled.

The total value of reuse credits paid was £395,693, an average of £5735 for each TSO receiving credits. The rate at which reuse credits were paid varied from £15 to £55 per tonne, with an average of £40.95 per tonne. While the cash value of reuse credits to individual TSOs is generally small reuse credits also have an important relationship building role. Reuse credits are paid by the upper-tier local authority. In two-tier areas (County and Districts) this can create an important link between the disposal authority and resource recovery TSOs.

Income from Training Fees

11% of TSOs receive training fees, amounting to £720,750 in total.

Sales to Merchants

11% of TSOs reported sales of materials to merchants. The TSOs selling to merchants include those promoting reuse and recycling of IT equipment, textiles, dry recycling, cooking oil and commercial recycling. The total value of these sales was £2,644,000.

Commercial Sponsorship

Six TSOs secured commercial sponsorship, amounting to a total of £236,300, and an average of £39,380. Both charities and companies secured commercial sponsorship.

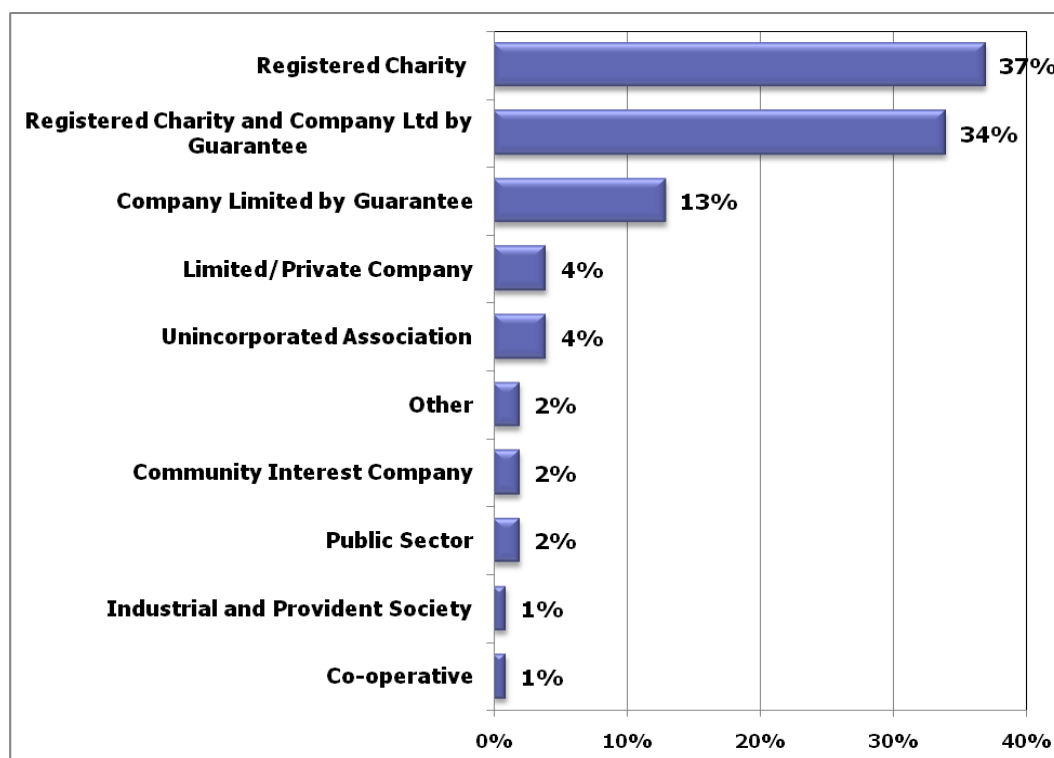
Finance Sources

Only three TSOs reported that they had commercial loans (0.8% of TSOs providing details of income sources). These amounted to £140,600, an average of £46,860 per TSO. TSOs were not asked detailed questions about previous loans or barriers to the use of loan finance.

Five TSOs reported using patient capital finance³² a total of £633,370, and an average of £126,670. Loans and patient capital were used by furniture and composting TSOs. There was no pattern around legal form and finance with charities, companies and a CIC securing loan finance and patient capital.

2.6.6 Legal Form

Figure 13: Legal form of TSOs 2008/9



The most commonly used legal form for resource recovery TSOs in 2008/9 is a registered charity (37%), but a further 34% are companies limited by guarantee with a registered charity. 13% are a company limited by guarantee. Only 2% of organisations have taken the new Community Interest Company legal form. With a relatively small sample of TSOs providing detailed income data, no strong pattern between legal form and income sources can be established.

2.6.7 Leasing – land, buildings and equipment

Nearly one third of TSOs lease land or buildings. This includes office space, warehouses, industrial units, shops and land for composting. Some TSOs receive discounted rent, either because they are social enterprises or charities or because they are in short-life premises with little or no security. Most TSOs are paying commercial rents.

³² Patient capital lowers the threshold for taking on loan finance. It can be a loan/grant package with a high grant component. The aim is to help a culture shift from grant to loan finance, including building up business management skills to able loan repayments to be budgeted for and achievable.

18% of TSOs lease vehicles and equipment including vans, forklift trucks, composters, shipping containers for paint, chippers and kilns. Where the term of the lease was identified, most were for three years. Few TSOs identified whether they were using finance or operating leases, but where this information was given the majority were operating leases.

Image 4: Kerbside collection in operation



3.0 Barriers to Contracting

3.1 Overview of the 2008/9 REalliance sector Survey Findings

Within the 2008/9 REalliance sector survey TSOs were asked a series of qualitative questions about:

- current contracts with the public sector ;
- previous experience of public contracts ;
- the organisation's desire to undertake contracts in future;
- barriers to contracting;
- experience of subcontracting.

TSO responses to these questions offer insights into the experience of TSOs seeking to survive and thrive in the current climate. That these responses can be explored in relation to the quantitative data on the activities the TSOs are undertaking and the current size of the TSO in terms of staffing and turnover, is particularly valuable.

217 TSOs responded to the question 'Have you experienced any barriers to contracting with a local authority?'

- 82 TSOs replied no.
- Of those that answered no, 44 had current contracts (53%) and a further 3 have previously had contracts.
- 135 TSOs replied yes.
- Of those that replied yes, 84 had current contracts (62%) and a further 10 have previously had contracts.
- A greater percentage of the TSOs that perceive barriers have contractual relationships with the public sector. That may mean that those not experiencing barriers are simply not pursuing contracts as hard as the other group. Some TSOs have reacted to barriers with specific public sector organisations by successfully securing work with different organisations.

The following sections set out the issues around contracting experienced by TSOs working in particular parts of the sector. Where TSOs are working in several sub-sectors the comments have been grouped around the TSO's primary activities.

3.2 Experience in Different Parts of the Sector

3.2.1 Furniture and White Goods Refurbishment

This is the largest and most rapidly growing area of the TSO 'resource recovery. TSOs in England that participated in the REalliance sector survey have enabled the reuse of an estimated 42,500 tonnes of furniture and white goods in 2008/09.

63 TSOs undertaking furniture and white goods reuse provided detailed responses to survey questions around contracting. Several larger, more established TSOs have service contracts with local authorities and housing associations to provide bulky waste collection services, or to collect furniture for reuse. The longest contracts were for 3 years. Some TSOs have SLAs to provide furniture and transport, undertake void property clearance, and to carry out assisted removals and storage for tenants and these SLAs are tending to move from 1 year to 3 year arrangements. Larger TSOs also have contracts with private companies such as B&Q and Co-op as approved contractors under the Producer Compliance Scheme. Other charities have contracts to provide refurbished goods for sale in retail outlets, e.g. British Heart Foundation shops. Furniture/white goods focussed TSOs also delivered supported training or volunteering placements for Primary Care Trusts (PCTs) and social services (clients with learning difficulties or mental health issues), housing associations and probation services. These arrangements tend to be on one year SLAs but some are on more secure 3 year contracts.

Non-contractual relationships between the public sector and furniture/white goods focussed TSOs included being a preferred supplier for one-off collections, payment of reuse disposal credits, and support for rental of premises. Some local authorities actively direct customers to TSOs to arrange collections of reuse items.

TSOs that have had contracts that have not been continued gave the following reasons:

- changes in the WEEE regulations;
- because costs per tonne were considered too high;
- because pilot projects were not considered successful; and
- a breakdown in the relationship between themselves and the local authority.

Furniture/white goods focussed TSOs work with a wide range of local authority departments and with other public sector partners. There is enthusiasm among larger TSOs that are carrying out furniture/white goods activities to take on, or to expand their contracted work. Several larger TSOs are actively negotiating additional local authority work around bulky waste and furniture provision. Medium and small TSOs tend to express broad interest in contracted work but plans to take this forward are more vague, and the focus is more strongly on securing reuse credits for work already being undertaken.

The larger furniture/white goods focussed TSOs identified the following barriers to contracting:

- contracts being too large and covering an integrated set of services;
- risk averse local authorities;
- the requirement for performance bonds;
- perceptions of TSOs and confidence in TSO service delivery;
- pre-qualification processes;
- time and effort to undertake procurement;
- lack of notification of opportunities;
- difficulties in the relationship with the local authority;
- lack of understanding of TSOs by the local authority, especially around procurement timescales and payments;
- the relative size of TSOs compared to competitors;
- tension between full cost recovery for TSOs and low cost contracts for local authorities;
- local authorities offering free bulky waste collection – so there is no market for TSO collections;
- volunteer confidentiality;
- securing planning permission for larger premises.

Existing arrangements. Local authorities can't basically move when they say they can and are always hide bound by existing procurement "rules" despite the best efforts of the CAA, OTS, Audit Commission.

Furniture Reuse TSO Manager

Local authorities don't understand what the community waste sector is about. They only want what they need from you to tick a box – then they re-organise!

Furniture Reuse TSO Manager

Three TSOs mentioned difficulties in persuading their local authority to pay reuse or recycling credits; this appears to be the extent of the contractual arrangement they were trying to secure to recognise the contribution they were making to recycling and reuse.

Small TSOs focused more on internal constraints, particularly lack of capacity to bid, or even to find out more about potential opportunities. There were also issues around technical capacity, for example, not wanting to take on a waste carrier's licence. Small TSOs expressed more negative experiences with their local authority than larger ones:

There was a disparity between understanding of the authority and the project – we didn't understand each other's priorities. The local authority had unreasonable assumptions. We were undertaking a pilot project and because it had European funding there was no allowance for the need for working capital. All payments were retrospective and this caused cash flow difficulties for the project.

Small TSO Manager

The local authority is not really geared up to working with the third sector so their tender documents and other paper-work don't take the third sector into account although clearly they do want to work with us. Once they work with us more on a day to day basis hopefully better understanding will occur.

Furniture Reuse TSO Manager

3.2.2 Composting

TSOs handled an estimated 14,300 tonnes of food waste, garden waste and compostable cardboard in 2008/9. This figure has fallen to only two-fifths of 2005 reported activity. 26 TSOs undertaking composting provided detailed responses to survey questions around contracting. However, none reported specific contracts to provide composting services. Many of the TSOs carrying out composting activities are community farms or gardens who have SLAs to deliver a wide range of social benefits including:

- horticulture training for young people and for offenders;
- volunteering opportunities for vulnerable adults;
- young farmers clubs;
- growing activities for children;
- alternative daycare;
- creating community spaces for people in high density housing; and
- composting workshops.

Medium sized TSOs undertaking composting have expressed interest in contracting to collect household organic waste. Other medium and small TSOs focused their ambitions around developing work with education and social services departments and PCTs. There was some more vaguely expressed interest around diversification into organic waste collections from hospitals, universities and military bases.

The barriers to contracting identified by TSOs undertaking composting overlap to a large extent with those expressed by furniture/white goods focused TSOs:

- late payment and the impact of this on cash flow;
- difficulty identifying the right person to deal with in each department, exacerbated by staff turnover;
- the impacts of transition from a grant to a commissioning culture, especially time pressure and inaccessible documents and processes;
- LAs don't see TSOs as professional enough; and
- the impact of tighter child protection rules on projects with young people.

The issue largely resides with trying to fit in with local authority priorities. LA often wants to work with the farm but doesn't effectively match opportunities with the capacity that the farm has.

City Farm Manager

There are often problems around picking up tender specifications late and not having the time to build a bid, other common issues include finding the right person to speak to, building the relationship, etc.

Manager, Composting TSO

The Council process is very slow and our organisation doesn't have the capacity to pursue the contracting process. Information from the Council is hard to obtain and communications are very sparse and uncoordinated. Allotment sites in general are severely neglected, as this site was before the charity moved in, as they are not part of the LA's targets and national indicators.

Co-ordinator, Community Garden

Comments from composting TSOs were generally more negative about relations with local authorities than furniture/white goods TSOs, although some composting TSOs were very positive about LA relationships. One identified the benefits of proactive contact with LA staff and presenting research making the case for local needs.

Access to land and security of tenure is also an issue for composting TSOs. Small and very small TSOs were struggling to fund capital equipment to help them increase their capacity. One objected to the need for Environment Agency licensing for composting processes.

3.2.3 Commercial Waste

TSOs are handling a wide range of materials from commercial premises including fruit and vegetable waste, plastic and cardboard from markets, office paper, glass, plastic and cans. Contracts are held with local authorities, courts, primary care trusts and housing associations. Two TSOs identified that they had moved into commercial waste collections following the end of LA kerbside contracts. One LA is part-funding (and heavily promoting) a collection service to encourage small businesses to recycle. Contracts are generally short: 1 or 2 years. One had a 3 month contract that has been renewed over 8 years.

Although there were only a small handful of detailed replies from TSOs handling commercial waste the problems of competition from private sector companies and perceptions of TSOs in this market comes across strongly.

The local authority is paying lip service to environmental considerations and cheapness is still 90% of the consideration. We have turnover issues with bidding for contracts – not enough reserves. Authorities are still sticking to their procurement mantra, despite the NAO/OTS/Comprehensive area assessments injunction to make contracts smaller and to include third sector organisations.

Commercial Composting TSO Manager

We have had good support from local authorities here. One helped set up the TSO, another funds us and strongly promotes our recycling services to small businesses. But there has been great pressure from private contractors for the council who deal with larger amounts of waste to phase out interaction with community groups like ours. The existence of Business Improvement Districts has been a manifestation of this –we have been unsuccessful bidding for work in these as we have no previous experience of working in B.I.Ds. They are ideal for private companies.

Manager, Business Recycling

Also mentioned was:

- size of bond required in procurement;
- lack of willingness to deal with small companies; and
- not being the DSO.

3.2.4 Wood recycling

TSOs handled an estimated 6,600 tonnes of wood for recycling in 2008/9. Wood is another material stream where the contracts and SLAs reported in detail focus around the provision of training placements. Wood is not seen as a priority waste stream for local authorities so TSOs do not appear to expect direct support for working with wood.

3.2.5 IT Equipment

TSOs reported informal agreements with a range of public bodies to collect IT equipment. These included local authorities, universities and colleges, government departments, police forces, and PCTs. There appeared to be no strong ambition to formalise these arrangements further. Some TSOs that hadn't detailed their current arrangements aspire to contracts for IT refurbishment. However TSOs identified strong private sector competition in this market, some of it linked to outsourcing of corporate IT services. Perception of TSOs is considered to be a barrier to subcontracting. Lack of recognition of the social benefits of TSOs approach was also seen as a barrier. Also mentioned was:

- local authorities wanting money back for reuse or recycling of IT equipment – gives private sector contractors the edge;
- tender rules;
- LA officer failure to return calls, provide contact details; and
- LAs wanting free removal.

The cost of our services can seem high due to the inability to factor in the value of social benefits. Reuse has not been prioritised for space at CA sites due to limited tonnage. IT reuse has been difficult to negotiate due to recycling being an easier option.

Co-ordinator Reuse & Recycling Project

Local Authorities are always after Quality Assurance systems (ISO9001 etc) which we are too small to afford to implement. We're too small to meet meaningful contract obligations for organisations as large as local authorities which seem to want one provider for all computers. Are looking at REalliance to provide an interim manager to come in and develop QA systems.

IT TSO Manager

Contractors have a perception (often inaccurate) of small companies delivering poor services. A national waste contractor has contracts with companies for all waste, and they bring all the IT to us. We have ISO standards developed and developed accreditation in specific areas – but need to develop our systems formally.

IT TSO Manager

3.2.6 Bring Sites

Three TSOs gave detailed replies identifying six formal contracts for bring site recycling. The contracts were 1-5 years in length. Another TSO has several informal contracts. Bring site provision has been affected by the expansion of kerbside services. TSOs were seeking to renew contracts and to operate in other geographical areas. Competition between charities and private companies for textiles from banks was identified as a challenge to securing new contracts.

3.2.7 Scrapstores

Of the scrapstores that provided detailed comments through the 2008/9 REalliance sector survey only one reported an SLA with Children's Services and none reported formal contracts. As the waste handled by scrapstores is from commercial and industrial sources, and the amounts of material a relatively small TSOs did not expect waste services departments to provide funding support.

The local authority has been very supportive and they really value the service they get for the money they put in. We would like similar contracts in other boroughs but don't have the resources to go through the process.

Scrapstore Manager

3.2.8 Kerbside Collections of Dry Recycling, Food Waste and Garden Waste

Just two TSOs provided detailed information about contracts for kerbside dry recycling service, one with a 7 year contract lasting until 2013, the other with a contract due to end in 2010. TSOs that are still trading in other markets explained that they have lost local authority collection contracts when services were procured within larger integrated contracts. A small number of TSOs have contracts or SLAs for the collection of household food or garden waste and a handful collect organic waste within wider kerbside contracts.

TSOs expressed a strong interest in developing new contracts with local authorities for kerbside collection services, including some who are currently bidding.

The comments from medium and large TSOs still operating in kerbside markets regarding barriers to contracting focus around:

- the impact of large integrated contracts that rule out smaller recycling focused organisations;
- some contracts grow very rapidly and outstrip a TSO's ability to scale up to meet this demand;
- the parts of the procurement rules that bar TSOs including capital investment and the size of organisation's reserves; and
- perceptions of TSOs and lack of trust.

All local authorities want to issue larger, integrated contracts that rule out smaller recycling-only groups.

Kerbside Recycling TSO Manager

Size of contract is the issue – contracts are either pitched too big for TSOs or a small contract suddenly grows in scale and out grows the organisation. The amount of capital investment needed, the size of the organisations reserves, all the things that are in procurement rules which bar TSOs.

Kerbside Recycling TSO Manager

Initial trust needs building up – TSOs need a track record. Local authorities have previous negative experiences of the third sector. TSOs are frustrated by restrictions on moving into new areas of work.

Kerbside Recycling TSO Manager

TSOs that have been involved in delivering pioneering kerbside recycling collection services, like us, have found themselves squeezed out as innovative services have become mainstream.

Funding that was not part of the Council's waste budget, but from Europe and focused on regeneration, enabled the local authority to start to deliver on their government recycling performance targets. The lack of a formal contract meant that changes in who was delivering the service could happen quite rapidly, which is damaging to longer-term relationships between the TSO and the local authority.

There is an acceptance on the part of TSOs that if they hold a competitive contract it will come up for renewal and they may not be successful in subsequent years. But at least there is some warning of the timing and implications. The breakdown of less formal arrangements seems messier and more difficult for a TSO to recover from.

Kerbside Recycling TSO Manager

3.2.9 Civic Amenity sites

One TSO runs a reuse shop located on a CA site, taking reusable goods brought to that site by householders and selling them. 10 tonnes of material a month are being diverted from recycling or landfill. This a 5 year contract won through a competitive procurement.

Other TSOs have formal and informal agreements to place collection banks on sites or to collect reusable WEEE and furniture, and reusable paint delivered by householders.

The main barriers to contracting are identified as:

- limited LA understanding of how TSOs operate;
- LAs not being prepared to pay a decent price for the service; and
- confidence in third sector quality of delivery.

3.2.10 Other materials

TSOs deliver niche services including reuse of child safety equipment, reuse of bikes, collection of cooking oil to convert to biodiesel, real nappy laundry (encouraging nappy reuse) and shredding of cardboard for animal bedding. These arrangements are on SLAs or informal contracts. Reduction in many of these materials streams is not supported by local authority waste departments, either because they are seen as commercial waste, or because the tonnage of materials being handled is not felt to justify the cost. This is a source of frustration to TSOs. Where projects were established several TSOs identified problems with differing expectations between the LA and TSO. However, where local authorities or PCTs were geared up to recognise the social benefits of the TSOs work some very positive relationships have been developed.

The Council's understanding of how social enterprises operate is limited. In terms of finances they are reluctant to pay a decent price for the service we offer. Negotiation and communication will hopefully resolve this!
Paint Reuse TSO Co-ordinator

The Council are reluctant to cover all our costs – full cost recovery – this is an increasing issue in the downturn. They say 'this is what we have in the budget – take it or leave it'.
Co-ordinator Child Safety Equipment TSO

We were looking for a contract with wider benefits than just waste reduction. However, this worked out fine as local authority sustainability targets include social benefits. We have contracts with 3 local authorities, various local authority nurseries, and run nappy laundry for hospitals. We also do awareness work.
Manager Nappy Laundry

3.2.11 Waste Awareness and Education

Waste minimisation training and education work valued at £1.27 million was carried out for local authorities in 2008/09. 14 TSOs whose primary activities include waste awareness and education work provided detailed comments about contracting. They provide waste education services for local authorities, schools and colleges. Some also provide outreach programmes about particular materials, for example composting or nappies. 62% of agreements to undertake waste awareness work are on a contract basis and 38% on SLAs of 3 months to 3 years.

Barriers to contracting included:

- competition from private contractors;
- local authorities doing all awareness work in-house; and
- difficulties with the LA evaluating the impact of previous programmes.

One TSO preferred to remain grant funded and not pursue contracts.

3.2.12 Waste Audit, Analysis and Consultancy

5 TSOs give detailed comments. Some undertook one-off projects, others had agreements with local authorities on 1-3 year contracts.

Barriers to contracting included:

- not having sufficient professional indemnity insurance to compete with the private sector;
- level of competition in this market;

One TSO observed that local authorities tended to be quite a demanding client, particularly in relation to targets.

3.3 Summary of Findings – Contracting Experiences

The key barriers to contracting that were identified by TSOs were:

The Size of Contracts – waste management departments increasingly let all the waste services for an authority as a large integrated contract covering refuse, recycling, food and garden waste and also minor services including bulky waste and bring sites. There are very few TSOs left in the market that can compete for large multi-disciplinary contracts – this has led to a marked decline in the number of TSOs undertaking kerbside collections;

Perception of Procurement Rules – TSOs recognise that there may need to be a competition for who will deliver services, but have found that the rules exclude TSOs and other smaller contractors. Some barriers like late notification of competitions, inaccessible documents and requests for 3 years accounts were issues across the sector. Local authorities have become used to dealing with large private sector contractors and have a risk policy geared towards them which is not appropriate for smaller contract values and third sector operators; for example, asking for references from 3 similar contracts inhibits smaller providers from developing into new markets. 'Contract value as a proportion of organisational turnover' is also a commonly applied evaluation criterion which is a barrier to rapidly growing organisation. The requirement for a performance bond was identified as a barrier by a small minority of larger TSOs working on furniture & white goods reuse, commercial waste and kerbside collections. The need for sizable reserves and the ability to fund capital investment was raised by a kerbside collection TSO. Breaking large contracts into smaller 'lots' does not generally help, because the pre-qualification requirements for each lot are pitched as though all suppliers need to be fit to carry out the whole contract.

Perceptions of TSOs by the Public Sector – TSOs working across a range of services and materials expressed the view that the public sector has a poor perception of TSOs. Some felt this perception was justified for some TSOs which made contracting harder for others. Other TSOs felt the negative perception on service quality and risk is unjustified, but quite difficult to change. Local authority waste departments appear to be even more difficult to contract with than other parts of the sector, with only 0.25% of the waste collection total spend of £1.15 billion being won by TSOs;

Developing and Sustaining a Working Relationship – Many TSOs found it difficult to develop and maintain a good working relationship with public sector officers – particularly in local authority waste management departments. Difficulty establishing a working relationship and rapid turnover of staff were commonly mentioned. Some TSOs felt they have very good relationships with the public sector and TSOs that had been proactive in developing relationships saw this investment as worthwhile;

Contract Length – SLAs and contracts that had been secured were mostly for 1-3 years. Some were for much shorter periods of a few months. Only a small handful of TSOs have contracts with the public sector for more than 3 years. This makes it harder to plan strategically, harder to secure finance to invest in developing the capacity of the organisation and ultimately gives less value for money to the purchaser as the equipment needed to run waste services should last more than 3 years.

What is particularly disappointing is that the list of barriers being experienced by TSOs in 2008/9 so strongly echoes the list of issues raised by CRN in 2004. A CRN paper 'Wasted Opportunities'³³ set out key themes in contracting that were also highlighted in surveys of other waste infrastructure organisations and is summarised in Figure 14.

33 CRN (2004) *Waste Opportunities*

Figure 14: Waste Opportunities: Barriers to Contracting 2004

1	Lack of early and effective consultation with the community sector in the development of policy, programmes and strategies, leading to poorly packaged or unattractive procurements.
2	Failure to properly assess community sector capabilities and to consider them as serious contenders. Insufficient recognition given to their strengths and skills. Public sector procurers are too risk averse and worried that community sector organisations lack the resources, organisation and business skills to deliver.
3	Difficulty finding out about contract opportunities and who to approach about becoming a supplier. Community sector organisations often lack knowledge and experience of government procedures and have great difficulty breaking into the market.
4	Trend towards use of large scale contracts, such as national or regional frameworks, and rationalisation of the supplier base, rules out many community sector operators. Difficulty in forging alliances with prime contractors prevents them from playing a supportive role in the supply chain.
5	Complex and costly pre-qualification and tendering procedures with unrealistic timescales, prescriptive specifications and excessive contract terms, which means invitations to tender can be consigned to the "too difficult" pile.
6	Lack of level playing field in procurement, particularly relating to the unwillingness of some procurers to accept full cost recovery, including management charges, in community sector tender prices.

Local authority waste departments appear to be even more difficult to contract with than other parts of the public sector, with only 0.25% of waste collection spending of £1.15 billion being won by TSOs. The next section will explore the issues from the perspective of the staff who are involved in commissioning and procurement of resource recovery services.

3.4 TSO Contracting – The Local Authority Experience

The waste services being bought by local authorities have changed markedly over the past 10 years and much higher performance is being achieved in recycling, composting and reuse. Local authorities are required to provide more 'resource recovery' services than ever before, but a small and decreasing proportion of these services are now being bought from TSOs.

The commissioning and procurement of resource recovery services involves not just waste management staff but also specialist staff in procurement, legal and finance. These specialist officers can have considerable influence over waste contract outcomes.

To complement the 2008/9 REalliance sector survey desk-top research and semi-structured interviews were carried out with local authority officers and with public sector support bodies working on procurement (Society of Procurement Officers (SOPO), Chartered Institute of Public Finance and Accountancy (CIPFA)), to understand the issues around waste service delivery by TSOs from their perspective.

3.4.1 Perceptions of the Third Sector

Local authority officers had a largely positive perception of third sector organisations as service providers. Officers described the kinds of resource recovery services local TSOs were offering in their area, these included kerbside recycling collections, collecting donated furniture and white goods, running a civic amenity site shop, and providing waste awareness education to local schools and community groups. This positive perception has been reinforced by recent work on National Indicators and 'oneplace' (previously CAA) where the social and environmental contribution that TSOs can offer in a local area is becoming more formally recognised.

The team have been working with schools for five years now and have been to almost every school in the county. Most schools they go to twice a year. They have a very good relationship with the staff because they provide a really good quality service. The kids must learn quite a lot too their understanding really helped when we rolled out new services. The kids told their parents what needed to go in the box & the caddy!

Local Authority Waste Management Officer

The local furniture project helps people to set up new homes that would really struggle otherwise. Some beds and a washing machine can make a big difference to a young family. The project also offers training places fixing up the furniture and helping on the collection vans. The good thing is that these days the work the project does actually counts when the Council is looking at how well it does the stuff that really matters to local people.

Local Authority Waste Management Officer

Local TSOs were really important when we had major flooding round here last year. They got lots of donated goods, but of course people had to wait until they got their homes dried out before they could take them. The TSOs arranged storage then delivered what people needed once they were ready to set up home again. For people who didn't have insurance it was a lifeline.

Local Authority Waste Management Officer

Officers expressed considerable enthusiasm for developing more TSO capacity to deliver services. This includes growing the scale at which existing TSOs are operating, and increasing the range of TSOs so that they can handle a wider range of materials that could be reused or recycled.

We would like to do more with TSOs, but the ones in our area are quite small. They don't cover the whole district and more people want their services than they can get around to at the moment.

Local Authority Waste Management Officer

The district next door has a very active community project using waste wood. We get lots of wood but no one has approached us to make use of it. It gets recycled, but we could do more with it. I haven't got time to chase round finding out who could use it though.

Local Authority Waste Management Officer

3.4.2 The changing relationship between local authorities and TSOs

3.4.2.1 Transition from 'grant culture' to 'contract culture'

Tensions

Local authority procurement staff identified that a culture change from awarding grants to TSOs undertaking resource recovery activities, to including the same activities within competitive contracts, as a source of tension with TSOs. Where a TSO has previously been grant funded there can be an expectation that they will get a contract to undertake similar work. This expectation can be considered unreasonable, particularly by local authority procurement staff if they see a service delivery competition as just another business transaction.

As a local authority we have to get value for money, but some people in the third sector think they have a god-given right to business.

Local Authority Procurement Officer

Being in the public sector we need to be sure that the contractor is going to be around to carry out the work.

Local Authority Procurement Officer

Risks

Local authority staff are quite cautious when commissioning and procuring waste services, justifying their caution as a necessary response to the high visibility of the waste collection services to the electorate. Yet the assessment of risk in resource recovery arrangements seems to vary from one authority to another. For example some authorities require a comprehensive SLA (of up to 200 pages) for undertaking quite low value, low risk services. Others local authorities require a micro-SLA, plus a review of the TSO's Health and Safety policy and procedures for provision of the same service.

Length of Agreement

Where TSOs have moved from grant funding to SLAs the length of these agreements tended to be no more than 3 years. There was recognition of the need for longer term contracts for a small handful of kerbside collection contracts. However, the issue that arrangements of 1-3 years for most TSO service delivery may offer poor value-for-money did not appear to be routinely assessed. There is a need for local authorities to develop a better

understanding of the financial implications of service delivery arrangements, for them and for the TSOs that they are working with.

Ability to Grow

Some officers were sceptical about TSOs that sought to take on contracts that were much bigger than those they had previously managed. They did, however, recognise that it is hard for TSOs to grow without taking on bigger contracts and that all contracts have some risk of failure. The majority of officers only have experience of TSOs as providers of niche services. They have heard of larger projects offering a wider range of services but are uncertain how they could best support local projects to scale up. Other officers, some of whom have experience in running TSOs themselves, are working hard to develop local capacity. This is not seen as a short-term option, but something that can take quite a long time to bear fruit.

It is all about building good working relationships. You have to be able to trust each other. You need to work together to tackle issues as they come up. Trust takes time to build up. Even where we have already developed some quite big successful projects in one part of the County we have to work out the best way of making that kind of service available to the rest of the community too.

Local Authority Waste Management Officer

Confidence to Buy the Services They Need Within Procurement Rules

There appears to be a tension between the desire of waste management staff to develop resource recovery services delivered by TSOs and a concern about what is allowed under procurement rules.

We want to get TSOs doing more in our area. We have good relationships with local organisations. But I'm not a procurement specialist, I'm not sure how we should go about trying to get them more involved, what we are and aren't allowed to do.

Local Authority Waste Management Officer

Local authority procurement procedures have their historical roots in construction projects. This approach assumes that there is a large up-front capital investment and a need to focus on a risk that the contractor will become unavailable to complete the construction task. For many types of waste project, particularly those where there is relatively low capital investment required, this risk management model is a poor fit. Risk can be managed by strengthening the clauses in the contract rather than by having high financial thresholds at pre-qualification.

Local authority officers recognised that the standard criteria do not necessarily work well for buying resource recovery services, particularly services run by TSOs. Local authority procurement staff may have the authority to vary the criteria for a procurement process to avoid unnecessarily excluding TSOs and SMEs, but this can feel quite an exposed position for the officers concerned.

The attitude can be that you can change the standard criteria for a project if you want to – but then the risk is your risk!

Local Authority Procurement Officer

Reducing the isolation of this role and increasing the ownership of the process among officers and members appears to help. Examples given were when waste management staff or senior politicians have taken a strong lead to ensure that the community benefits that local TSOs can offer to a service are recognised in a particular competition. This approach has challenged procurement staff to carefully consider the framing of the service specifications and the design of evaluation criteria for contracts where access by TSOs is considered important. Value for money and risk were still carefully assessed, but this was tailored to the particular contract. Trade-offs between value for money and community benefits were not left to individual procurement officers but the result of negotiation between technical and procurement staff.

Evidencing social and environmental benefits

Local authority staff identified a need for TSOs to be able to evidence the social and environmental benefits they had previously achieved. Feedback from TSOs to local authorities on the range of community benefits being achieved by their activities seems to vary. Some TSOs are quite proactive with publicity and feedback, while others provide local authorities with only a minimum of information when requested.

We have a duty of care to make sure that the material the TSO collects is dealt with properly. The reuse credit system has helped with this. We have to have a proper audit system in place to prove we are OK to pay out public money. This means we also know how much furniture has been reused and who has benefited.

Local Authority Waste Management Officer

Some TSOs have made use of 'Social Return on Investment' (SROI) tools to demonstrate the added value benefits of investment in TSO delivery of local authority resource recovery services. A recent report has identified substantial social, economic and environmental benefits and the element of these benefits which could be monetised revealed an added value per public £ invested of between £0.50 to £5.89 to local authorities, local citizens and communities, and the wider national and global community.³⁴

A SROI guide has recently been released by the Office of the Third Sector to encourage TSO take-up of SROI reporting.³⁵ SROI is a young tool that is not yet in widespread use and only a handful of TSOs in the resource recovery sector have developed SROI reporting.

Quality Accreditation

Local authorities are also keen to see TSOs offer accreditation that would demonstrate that they have good systems in place for health and safety, environmental impacts and running an effective business. Officers are increasingly used to private sector contractors, both large and SME, offering independent accreditation. The absence of comparable accreditation by TSOs can reduce confidence and increase perception, whether founded or not, that unaccredited TSOs present a higher risk of service failure.

It really helps the Council if the TSO has some kind of quality accreditation. It shows they are serious about what they are doing and can do it well. It's important that trainees and volunteers get a good experience.

Local Authority Waste Management Officer

Reuse and Recycling Credits

The 2008/9 REalliance sector survey data identified 70% of FRN member organisations in England as receiving reuse credits from their local authority. The amount of money received by each TSO is quite small (an average of £5735 for each TSO receiving credits) at an average rate of £40.95 per tonne. However, as well as a small additional income being useful to TSOs reuse credits also appear to play an important relationship building role. Local authority officers are becoming aware of the activities and materials being handled by local TSOs.

A lower proportion of TSOs are in receipt of recycling credits. This may be related to the relatively low number of kerbside recycling service providers. Where local authorities did pay credits this was sometimes in conjunction with TSOs taking ownership of the materials collected and marketing them. The contract payment was adjusted to take account of receipt of income from these two sources. In other situations the local authority did not pay a recycling credit but paid a proportionately larger contract cost.

Partnership Approaches to TSO Service Delivery

FRN have developed an approach to bulky waste collection services that is framed around three different partnership scenarios. The type of partnership is determined according to the scale of the local authority bulky waste service that is required, the flexibility different service delivery approaches provide, the current stage of development and scale of delivery of local TSOs and their willingness to take on further work or diversify their services.

A collection credit agreement makes materials available to the TSO for reuse or recycling and that credits will be paid to the TSO. A Service Level Agreement covers services up to £50,000 (there is lively debate in the sector as to whether an SLA is a contract or not, or indeed a contract that gives the impression it is not really a contract). Over £50,000 local authorities usually move to a fully tendered contract. Developing partnership arrangements early, and discussing the service arrangement that will best suit both parties can be very effective. For example a TSO may be ready to scale up from a part-District to whole district service, or may be able to collect 'clean'

³⁴ DEFRA (forthcoming) The benefits of third sector involvement in local authority waste management, Resources for Change with New Economics Foundation, Resource Futures and Community Environment Associates

³⁵ Office of the Third Sector (2009) A Guide to Social Return on Investment
http://www.cabinetoffice.gov.uk/third_sector/news/news_stories/090512_sroi.aspx

reusable bulky items but not be ready to scale up to take on a whole bulky waste service. The local authority can choose to shape the service specification for a larger contract to take account of commissioning arrangements. However, the downside of this approach is that the use of a £50,000 threshold is an artificial boundary that results from a commonly used interpretation of EU procurement rules. Being on an SLA can be interpreted as being less secure than a 'proper contract' and SLAs tend to be for shorter periods than fully tendered contracts. Other interpretations of the procurement rules may offer scope for longer term more secure contracting arrangements while still retaining flexibility in the specification of the type and scale of services delivered by TSOs.

3.4.2.2 The Impact of Integrated Multi-Service Contracts

As set out in section 1.1.3 and the 2008/9 REalliance sector survey findings, the trend towards waste services being let within large integrated, longer term contracts has led to a quite marked reduction in delivery of kerbside collections of recyclables by TSOs. This was seen by local authority waste management staff as a symptom of the level of competition for large contracts between national, and international, companies. The loss of ECT Recycling from the sector has had a considerable impact, not just by reducing the tonnages of material being handled by TSOs but also in changing perceptions within local government about the role of TSOs.

Feedback from local authority officers, including those who expressed strong support for the value of TSO service delivery, described the current competition for large scale integrated waste services contracts as extremely difficult for TSOs to engage with.

The separation of a contract into lots has been used to try and increase access to large contracts for smaller organisations that do not have the scale to undertake the whole work package. However, lotting does not appear to work on integrated waste services contracts. TSOs have to be able to meet finance and risk thresholds set at the level required for the whole service package, even though they are only seeking to undertake a small part of the whole, even to pre-qualify to take part. If a large contractor tenders for all lots they are free to load their tenders to make their whole package costs more competitive than any package for which smaller TSOs may be able to offer³⁶.

Kerbside isn't the place for the community sector these days.

Local Authority Waste Management Officer

This view illustrates a significant shift since 2003/04 when TSOs were estimated to have handled 500,000 tonnes of waste per annum³⁷, more than 10% of all municipal waste reused, recycled or composted in England. Yet in Wales and Northern Ireland there is still TSO delivery of contracts, including contracts covering large urban areas. It is unclear whether current government advice – to combine benefits of economies of scale and the ability to attract the interest of a wide range of suppliers, as appropriate – is being fully considered by local authorities in relation to kerbside services in England. There is a need for a better understanding of how strong the business case is for TSO service distinctiveness and scope for added benefits specifically around kerbside collection services.

3.5 Subcontracting

3.5.1 The Local Authority View

Local authority officers expressed an interest in TSOs acting as sub-contractors to private sector contractors. This was seen as a way of TSOs maintaining access to household resource recovery activities without taking on a very large scale multi-service contract. Some concern was expressed about losing the advantages of "having just one contractor to pin down", and scope for communications difficulties between contractor and sub-contractor. However, there was also recognition of the advantages TSOs could offer particularly around low volume, high customer contact services such as bulky waste or running HWRCs. Local authority officers were aware of difficulties with some subcontracting relations and this may have the effect of increasing the perceived risks of subcontracting. However, clarity of objectives and of the contract specification by the local authority was felt to be an important part of managing this risk.

36 CIPFA (2008) Standing Guide to the Commissioning of Local Authority Work and Services, Version 6 October 2008

37 Sharp, L. and Luckin, D, (2006) previously cited.

3.5.2 The Private Sector View

Commercial contractors expressed a positive perception of third sector waste service providers. There was felt to be a good fit between subcontracting to TSOs and a company's corporate social responsibilities, although TSO support organisations see this as a reactive view. The driver for private sector co-operation with TSOs is the content of the contract specification and the extent to which they are required to work with TSOs to achieve the contract requirements. There was recognition of the ethical values, idealism and enthusiasm of TSOs preparedness to focus on local issues and to create employment for individuals who may otherwise struggle to find work was valued.

The image of waste TSOs has come on significantly in the past 10 years and is now recognised as a realistic alternative for local authorities. Although the sale of ECT Recycling has, I feel, set the third sector back, I am confident the sector will grow.

Contractor

Contractors who currently have TSO sub-contractors identified that some service elements can be provided more effectively by the third sector. Bulky waste collection services and transfer stations are identified as an area that is currently sub-contracted. HWRCs were seen as offering potential for subcontracting, as was a TSO/private sector relationship for marketing materials collected through local authority contracts. Contracting out large elements of core service provision was seen as unlikely, as this would conflict with the core business of the primary contractor.

We would consider local sensitivities and "political" situation and where we considered that the third sector organisation had particular local strengths and/or influence we would consider subcontracting on these reasons alone providing we were satisfied that there would be no detriment to service quality.

Contractor

Perceptions of the operational risk of TSOs in comparison with private sub-contractors were quite varied. Some thought that TSOs may be less efficient and their standard of service may not meet contract key performance indicators (KPIs) though a lack of resources. Others thought that day-to-day service quality is not really a problem but that risks of service delivery problems increase when service changes are introduced. The lost of 'champions' within a TSO was identified as an area where risk could increase quite rapidly.

Service quality is not considered to be an especially high risk for the basic services provided, however this risk increases when major change is introduced or where there is a significant change to service requirements

Contractor

On health and safety a view was expressed by one contractor that TSOs can offer a higher standard of service on health and safety than suppliers from other sectors. However, other contractors voiced concerns about health and safety risks, which they focused around insufficient investment and the range of staff employed. A perception that TSO health and safety practice was not up to the same standard as that of the private contractor was felt to present a barrier to subcontracting.

There is no hard evidence that TSO health and safety performance is worse, or better, than the industry average. This is a perception issue rather than a problem with the track record of resource recovery TSOs. Because perception can be a significant barrier to TSOs securing contracts there would be value in developing an accredited quality assurance scheme specifically for resource recovery TSOs. The construction industry has an established health and safety accreditation scheme. This helps reduce the uncertainty around comparability of practice faced by commissioning and procurement staff. Such assurance scheme are also useful in creating a good practice culture and addressing the real hazards found in undertaking waste services that are faced by suppliers from all sectors.

In terms of financial risks some contractors expressed quite strong concerns about TSOs viability as businesses and their ability to finance capital. Sometimes idealism was perceived to override realism and a commercial edge. Yet other contractors did not perceive the problem to be any greater for TSOs than for the private sector.

We perceive difficulties in raising capital and in some cases a lack of understanding about the importance of financial aspects in regard to dealings with contractual issues, and in dealing with local authorities in general. The risk of complete financial "failure" of a third sector organisation is considered to be high.

Contractor

Where sub-contracts are in place the current contractual arrangements are not always considered to be ideal, particularly if the level of capital investment required by the TSO to run the service is unclear. The way in which public sector contracts are set up is felt to introduce challenges that may not be the case for a straightforward private contractor to TSO relationship. The potentially triangular relationship between three parties is perceived as a source of uncertainty and risk.

Our willingness to subcontract to a TSO would depend on the contract specification, the legal framework and the availability of TSOs within the LA area

Contractor

Choosing whether to sub-contract a particular area of work to a TSO is addressed by contractors on a case by case basis. A contractor perception of higher risk may be enough to stop a subcontracting relationship being developed, even if there is no strong evidence for this view. These perceptions do appear to be open to influence and change. Factors that would motivate contractors to engage with TSOs on subcontracts in the future included:

- Where we perceive it would give us a competitive advantage
- If it was specified in a contract
- If it was inferred in a contract or there was an existing arrangement
- Where we have an existing, positive, relationship with the organisation
- Where there were service elements that we do not have the experience or inclination to provide.

We would be more likely to engage with TSOs that can demonstrate professional accreditations and competency awards.

Contractor

3.5.3 The Challenges of Subcontracting

The 2008/9 survey did not ask TSOs specific questions about subcontracting, but there are recent examples of sub-contracts, or attempts to form subcontracting relationships that have been acrimonious, unsuccessful and quite widely publicised.³⁸ This situation is not unique to waste services. Bubb³⁹ identifies a range of potential hazards of private-third sector partnerships that focus around one partner seeking to exploit the other.

"We need to break down the culture barriers between the sectors - the belief in some quarters that the third sector is nice but amateur, or the belief in others that the private sector is professional but evil".

Stephen Bubb, acevo

However, Bubb argues that private-third sector delivery partnerships have an important role to play in areas, like waste, where commissioning is moving towards larger contracts and TSOs can't deliver over the whole contract area. TSOs can bring expertise, local networks and client trust that is of huge benefit to their private sector partners. The private sector could contribute support to help TSOs to scale up their services or give access to back office capacity, for example IT systems, legal or financial expertise.

The key to enabling private-third sector partnerships to flourish is at the commissioning stage. By requiring contractors to deliver services, and additional social and environmental benefits, in ways that require them to recognise the crucial contribution of smaller partners to achieving all the contract requirements, alters the nature of the working relationship. Network organisations can very helpfully broker relationships to support culture change between local authorities, TSOs and private sector contractors to deliver much more effective sub-contracts.

38 PricewaterhouseCooper (2009) Investigation into the procurement of the waste collection contract by Calderdale Metropolitan Borough Council, September 2009 <http://www.calderdale.gov.uk/council/news/pressreleases/detail.jsp?id=20453>

39 Bubb, S (2009) Working Together, Ethos Journal, Edition 7 Spring 2009 www.ethosjournal.com/this_issue/workingtogether.asp Stephen Bubb is the Chief Executive of the Association of Chief Executives of Voluntary Organisations (acevo)

3.6 Conclusions on Procurement

3.6.1 The Nature of the Problem

Environmental services procurement was specifically identified in the Gershon Review (see 1.2.2 above) as a key potential area for savings. However, there appear to be unintended consequences for resource recovery TSOs of the public sector seeking efficiencies using this model. These consequences have had an impact on a wide range of TSOs but appear to be particularly acute in waste related services.

- TSOs are being encouraged to contract to deliver public services rather than rely on diminishing levels of grant funding;
- The procurement of local authority waste services within large integrated multi-service contracts has made it difficult for TSOs, as they are smaller and more specialised than the competition, to gain access to contracts to deliver resource recovery services;
- TSOs are also being encouraged to use debt finance rather than grant funding to develop their capacity, but it is difficult to achieve significant sustainable cash flows without secure medium term contracts;
- The 2008/9 REalliance sector survey data shows that even where resource recovery TSOs have secured contracts, they are rarely for more than a year. This does not represent value for money for the public purse, and makes strategic investment using loan finance particularly difficult.

It is not really surprising that the 2008/9 REalliance sector survey identified a low level of TSO contracting by waste services departments.

Image 5: White goods ready for re-use.



4.0 Investment for Growth – Key Finance Solutions

4.1 Finance

In a private business the primary goal is to maximise the value of the organisation while managing the firm's financial risks. In TSOs the primary goals may be social and environmental, but in order to achieve those goals the TSO needs effective financial management and planning.

The total cost of a service is a function of the cost per tonne and the scale of delivery. Some services can be run on a relatively small scale and be cost effective – small scale geographically focused ‘home compost champions’ projects can be at least as cost effective as larger, more extensive programmes. Other service designs may need to be run on quite a large scale to be cost effective and this creates high associated set up costs – for example anaerobic digestion plant may require several million pounds for an economically viable project to operate.

4.1.1 Working Cash flow

The key finance issue for TSOs is working cash flow. Where the TSO has to pay out wages, rents and leases before they receive payment in arrears for their services they need enough cash flow to sustain this. As contracts have become larger the amount of working capital needed to buffer payment in arrears becomes very significant for TSO finances.

Payment terms

Some local authorities have addressed this working capital issue by making service payments partly or wholly in advance. The TSO makes a saving through the avoided cost of cash flow financing. The local authority then receives a discount from the TSO for this payment mechanism – so both parties benefit.

Factoring Loans

Where an advance payment mechanism cannot be negotiated one option is a factoring arrangement, also known as invoice discounting. The TSO borrows money each month against the security of contract income, and then pays back this loan when the contract payment is received. This approach works well for public sector contracts because the public sector is a reliable but slow payer; the money will arrive, but not soon enough to pay the wages.

Factoring is usually only available to businesses with a proven track record and an annual turnover of at least £500,000, although greater flexibility is starting to be shown for smaller businesses⁴⁰. However invoice discounting adds to costs (typically 1.5 to 3% over base rate, with interest calculated on a daily basis) and potentially ties a TSO into a long contract.

Standby Facility

A standby facility involves a lender providing a commitment to advance funds up to an agreed amount, on demand, with the terms agreed in advance. So if for example a TSO did not receive a payment for a service on time and this left the TSO unable to pay its own creditors the TSO would be able to quickly draw on the standby facility. This type of arrangement can avoid TSOs collapsing due to short-term financial problems. However, the cost of a standby facility can be high as interest is charged for having the facility in place, before any money has actually been drawn down.

A Blended Approach to Addressing Working Cash flow Issues

The most cost effective strategy for addressing working cash flow is a blended approach. This involves securing the best payment terms from the buyer, then factoring invoices where this is necessary to bridge a ‘secure gap’ between incurring outgoings and receiving income, and finally the use of a standby facility only as an emergency back-up to non-routine cash flow issues.

Further work is needed to improve understanding of options to improve cost-effective access to working cash flow for TSOs working at varying scales and different resource recovery markets.

4.1.2 Improving TSO Financial Assertiveness: Recognising and Securing Value for Money

Analysis of the 2008/9 REalliance sector survey and discussions with TSOs, resource recovery network organisations and finance providers has identified lack of assertiveness among TSOs to secure value for money. This may result from a lack of understanding of the basic rules of financing, for example, how to finance asset cost effectively. This leads TSOs to accept the terms they are offered by vendors without recognising that there are better financial deals available more closely suited to their needs.

⁴⁰ Business Link, debt factoring and invoice discounting www.businesslink.gov.uk

Lack of assertiveness may also come about because TSOs are accustomed to historical imbalances in power relationship between themselves and much larger contracting organisations. This is not helped by the continuing prevalence of short-term contracts of a year or less, non-binding SLAs and informal arrangements for service delivery all of which can be subject to very rapid change.

This section sets out examples of the areas in which more work is needed support TSOs to achieve value for money in their finance arrangements. It concludes by identifying a key role for Resource Recovery Network organisations to broker a more appropriate approach to TSO financial risk.

4.1.3 Improving Asset Financing by TSOs

Where a TSO does not have the funds to buy equipment it will use a leasing arrangement. The most efficient approach to leasing in the context of equipment required to deliver a public sector service contract is usually to arrange a finance lease over the lifetime of the contract, unless the term of the contract exceeds the usable life of the asset (for example the contract is for 10 years but the vehicle leased is expected to last seven years). This means that the cost of supplying the asset is fixed for the whole of the contract and there is no risk of being left with an asset that is no longer required, but on which repayments must still be made, at the end of the contract.

Operating leases are arranged over terms that are generally considerably shorter than the lifetime of the asset. However, where an asset such as a specialist vehicle is leased via a three year operating lease, the finance company will generally seek to charge a significant premium to reflect the fact that the asset will have a relatively low market value after three years of use.

It is important that assets are financed efficiently in order to ensure that a competitive price can be submitted when tendering. This can be illustrated using the example of £100,000 worth of capital equipment financed over three years at 5% interest, set out in Figure 15. Financing this asset over three years costs more than twice as much per year as financing it over 7 years.

Figure 15: Costs of Financing Assets Over Different Time Periods

Cost of finance per year: £100,000 @ 5% interest		
3 years	5 years	7 years
£36,667	£23,000	£17,143

Arranging finance over a period appropriate to both the asset and the term of the prospective service contract is therefore very important to both competitiveness and risk management. Evidence from both the 2008/9 REalliance sector survey and discussions with waste TSOs suggests that TSOs do sometimes lease assets over too short a period to be competitive with standard private sector practice. This means that TSOs are either losing money on assets, or they may be pricing themselves out of contracts.

Public sector technical officers, for example in waste services departments, may also lack the skills to identify the financial impacts of offering short-term and informal contractual arrangements to TSOs.

There may be value in exploring the establishment of brokered leasing arrangements for the kinds of assets commonly used by resource recovery TSOs. This could be similar to WRAP's eEquip scheme⁴¹.

4.1.4 Reducing the Requirements to Finance Capital

Larger scale contract activities have often brought with them a requirement to demonstrate in a tender that a TSO can finance capital. For example, can TSO finance the provision of a large fleet of collection vehicles cost effectively compare to private sector competition? This has been a challenge. TSOs do not tend to have large reserves or a multi-national parent company. It is also more difficult to arrange finance for a contract when you

41 WRAP eEquip guarantees the future residual value of recycling machinery which has the effect of reducing leasing costs

are at the bidding stage, (when negotiations are rushed and there is a high level of uncertainty if the work will be won) than to arrange finance for a contract you have already secured.

However, this can be a commissioning rather than a finance barrier. If the ownership of capital assets provides value for money (and the ability to reduce risks) for public sector procurers they do not need to ask bidders to finance this capital investment. For example Somerset County Council purchased a new vehicle fleet, using prudential borrowing powers, on behalf of the Somerset Waste Partnership. These vehicles were then made available to ECT (now May Gurney) to carry out the collection contract.

4.1.5 The Need for Stable Long-Term Working Relationships

Partnership development with key stakeholders is as much about individual relationships as it is about organisations. For relationships between a TSO and key stakeholders to develop and be sustained staff continuity over several years is important. Such continuity is difficult if funding is short-term and experienced staff have to move on to find other jobs. Long term working relationships can be important in building an organisation's strength and capacity. Where a resource recovery TSO operation has been set up under the umbrella of a larger multi-service TSO such as a Housing Association it is not unusual to find 5 years of investment in the new operation before it is expected to be self financing.

The duration of contracts has an impact on TSO's ability to be innovative. Innovation requires development time and therefore funding/finance extended over a sufficient period to cover this investment in innovation. The cost of innovation, such as new systems and structures needed in order to refine the method of service delivery, tends to be incurred up front and revenue returns that compensate for the additional investment take some time to generate. Yet the resource recovery sector is similar to other TSOs in the UK. For TSOs with short-term contracts the primary focus is to maintain their current operations and service delivery. They are not focusing on investment to improve the security or develop the organisation⁴².

4.1.6 Culture Change to Loan Finance

The development model for many smaller TSOs in the past was to start up using grant funding. This would include grants for buying vehicles and equipment. The TSO would earn some income through sales, but continue to receive ongoing grant funding from charitable or public sector sources. Where grant funding for capital has not been available vehicles and buildings have been leased. The problems associated with this model include:

- an inability to plan and invest beyond the current cycle of grant payments;
- high level of uncertainty (and anxiety) if grant decisions are delayed or the focus of grant schemes changes;
- inadequate surplus funds to invest in building the capacity of the organisation.

The accumulation of a surplus has been discouraged by funders. This has set the culture for the third sector and for the funders themselves.

The culture change to loan finance can feel like a big jump for staff and TSO Boards. They need to move to costing and pricing all services so that they provide to achieve a return on investment. This leap seems to be being undertaken by many TSOs without the 'parachute' of the appropriate skills and knowledge for this new task. During the research we found only limited evidence of TSOs using calculations that would support them to understand an 'acceptable rate of return' on investment in their business. Where these skills are being used there is evidence of a good quality long-term finance advice relationship between the TSO and a parent organisation (e.g. a Housing Association) or with a social lender.

4.1.7 Perceptions of Loan Finance

During research interviews resource recovery TSOs of similar sizes and similar business models express quite different attitudes to loan finance. TSOs that started out with patient capital (grant plus loan) or loan funding early in their development appear comfortable to continue to use loans. TSOs that do not have experience of loan finance tend to view it as creating additional risks.

Emerge in Manchester started out with a Prince's Trust loan and grant package and they continue to use loan funding from a range of social and commercial providers to support income earning activities.

42 SQW (2007), Research on Third Sector Access to Finance, Report to the Office of the Third Sector, May 2007

Devon Furniture Forum secured a loan of £85,000 from Charity Bank, repayable over 3 years to buy vehicles to support recycling and reuse activities on public contracts.

The key issue with loan finance is to be able to generate income with sufficient predictability to pay the loaned amount including the interest. TSO staff who are used to dealing with loan finance find it hard to understand why this would be treated any differently than other organisational costs.

Paying the loan in the same as paying the rent, you just have to plan to have enough money coming in to cover it.

TSO Manager

The difficulty with short-term contract relationships, informal arrangements and the resulting insecurity is that TSOs that are struggling to pay the rent will be poorly positioned to take on loan finance.

However, TSO network organisations and social finance providers expressed concern about the level of financial literacy in the sector.

TSOs are working with very narrow margins and many lack of experience at pricing in a return on investment. If they don't know the cost of the service they can't price to be able to pay back a loan.

TSO Resource Recovery Network Officer

Yet use of loan and part-loan finance can provide just the types of capacity building and diversification to enable a TSO to become more robust and to offer better quality or a more diverse range of services. This increased robustness and diversity is what many smaller TSOs that are dependent on short term grant and contract funding claim to aspire to.

Case Study – Doncaster Refurnish

Since they started in 2003 Doncaster Refurnish has had a succession of finance packages from Key Fund Yorkshire. Each finance package has been tailored to the organisation's needs at the time. Support funding has included a feasibility study and business plan, purchasing a residential property and a grant/loan package to open a new retail outlet.

"You can go and talk to them about ideas. Test things out. They have a refreshing approach and are not threatening. They are partners. Taking out loans has not been an issue for us because we can make it work for Refurnish." Jo Ward, Manager

The ability to build capacity and diversify has helped Refurnish to sustain their innovative approach. Re-Furnish were the winners of the Yorkshire and Humberside 'Business of the Year' and 'Enterprise through Innovation' categories for the Biz Awards 2008.

Refurnish have had an SLA with Doncaster MBC for the past 6 years. The regular income from the local authority has been supplemented with income from sales. Anticipating the letting of a new contract Refurnish sought support from FRN Enterprises to gain ISO quality assurance accreditation. This accreditation was seen as crucial in reassuring contractors that Refurnish would be a reliable working partner. Refurnish encouraged Doncaster MBC to include reuse and community benefits clauses in their integrated waste contract.

This thoughtful preparation and partnership working paid off in 2009 when Refurnish were successful in securing the area wide Bulky Waste sub-contract to deliver reuse and community benefits.

Securing a loan to support a project can be used as a lever to access other sources of income. It improves the credibility of the TSO that they can convince another funder that they are a well run organisation – which in public sector decision making can be important in underpinning officer confidence. By reducing dependence on particular grants or contracts, loan finance can also improve the perceived power relationship between TSO and local authority – the TSO is in a stronger position to negotiate terms, which can enable the negotiation of more sustainable agreements.

Appendix 4 sets out current finance providers and finance packages for TSOs, nationally and regionally. This data is based on material collected by the Community Development Finance Association and regularly updated.⁴³ Detailed product and eligibility information is available on the funder's websites.

Social Banks and Community Development Finance Institutions (CDFIs) expressed a willingness to fund resource recovery TSOs. If a TSO has a contract, social finance providers see them as relatively easy to support with loan or grant/loan packages. Resource recovery TSOs that are providing social and environmental benefits to their communities fit well with the aims of social finance.

The difficulty of scaling up gradually in competitive markets in the face of large commercial companies is seen as a problem for larger scale services. The short-term nature of current public sector contracting with resource recovery TSOs is a barrier across the sector. The current length of many contracts is not bankable. If longer term contracts were available to TSOs, five to ten years rather than 0-3 years, banks expressed a willingness to lend against current or even prospective contracts.

Investment for growth among resource recovery TSOs should include investment in the financial skills of TSO staff. This could be achieved using an investment readiness training package.

Charity Bank in the North runs an Investment Readiness Programme. Offering First Steps and Next Steps workshops the programme enables voluntary and community organisations to plan towards financial stability. Workshops are offered on:

- Funding trends, the pros and cons of different funding sources, and planning for sustainability
- Opportunities to generate sustainable sources of income
- Organising for success – legal and governance issues and how they can make a difference
- Running a health-check on your organisations finances, and identify areas that need closer attention.

4.1.8 The Value of Shared Services Models for TSO Finance

Small and medium sized TSOs often expect a very wide range of specialist skills from a single generalist manager. Remuneration levels in the sector can make it difficult to find and retain staff with such a broad range of specialist skills. It is not necessary for TSO development to focus around growing small stand-alone organisations.

Credit unions are currently exploring 'shared specialist services' models. These enable small scale geographically focused credit unions to secure access to specialist finance, marketing and development skills on an on-going basis, but without having to carry the costs of several full-time staff.

Many resource recovery TSOs are started as subsidiaries of larger organisations such as housing association or national charities. Larger TSOs can use their in-house specialist expertise in finance, IT, HR and marketing to develop resource recovery projects. This can leave project staff to focus on designing services that meet customer needs for resources, training and volunteering places.

⁴³ Community Development Finance Association. (www.cdfa.org.uk)

Case Study – Impact Housing Association, Cumbria

Impact Housing Association have supported their resource recovery project from an initial start-up idea through to a 4 site operation employing 15 staff and turning over nearly £1 million a year. During the project set-up phase 'Impact Furniture Services' (IFS) had access to the specialist expertise of the central support team at no cost. This 'development phase' lasted 5 years. Since then IFS have contributed 10% of turnover each year for support service costs. IFS is now a sustainable project whose income comfortably exceeds running costs.

The manager and a finance officer review project finances on a monthly basis. Income & expenditure, and cash flow are checked against budget projections. Every quarter they also review rents and risk assessments.

"The way the Housing Association supports IFS enables us to focus on the kind of attention to detail that means our services really meet the needs of our customers. The central services team have been invaluable. They really know their job and have been a great help in developing our project. It would have been much harder without their expertise". Margaret Graham, Manager

IFS have been similarly keen to understand their social and environmental performance. The 'Impact Green Group' - of interested staff across the Housing Association and its Projects strongly encourage all 200 Impact Housing staff to make good use of the furniture, household goods and training/volunteering opportunities being provided by IFS.

Information on how many households have benefited, and what training and volunteering placements are provided is collected along with figures on resources recovered. A social audit has been carried out to 'capture the quality' of the contribution IFS is having for its customers.

The financial pressures of the current recession are leading to mergers and consolidations in the third sector. There is a lively debate as to whether the result is likely to be a smaller number of larger, stronger, organisations with greater financial and management capacity and commensurately greater community impact, or a corporatisation of the sector which reduces diversity and leaves some communities and causes under-represented. What happens in practice is likely to be a product of the skill and care with which mergers and consolidations are carried out and the strength of the community benefits that can be effectively demonstrated and delivered.

4.2 Successful Resource Recovery TSOs

The 2008/9 REalliance sector survey identified a substantial number of resource recovery TSOs that are thriving and growing. These TSOs:

- have cost-effective business models;
- routinely price in a margin for the long-term development of the organisation;
- have secured externally verified quality assurance accreditation and take a professional approach to risk management across all their activities;
- invest in developing long-term relationships with their public sector customers, but also develop income streams from a range of other trading income;
- have useful and diverse support networks locally and nationally and to use the information they gain to refine their delivery model and influence the commissioning of future services.

For these TSOs the focus is around how to gain access to the materials and markets that they need to thrive, and how to increase their positive impact on the communities they serve.

5.0 Investment for Growth – Key Opportunities

5.1 Environmental legislation and cost pressures to achieve much higher service performance

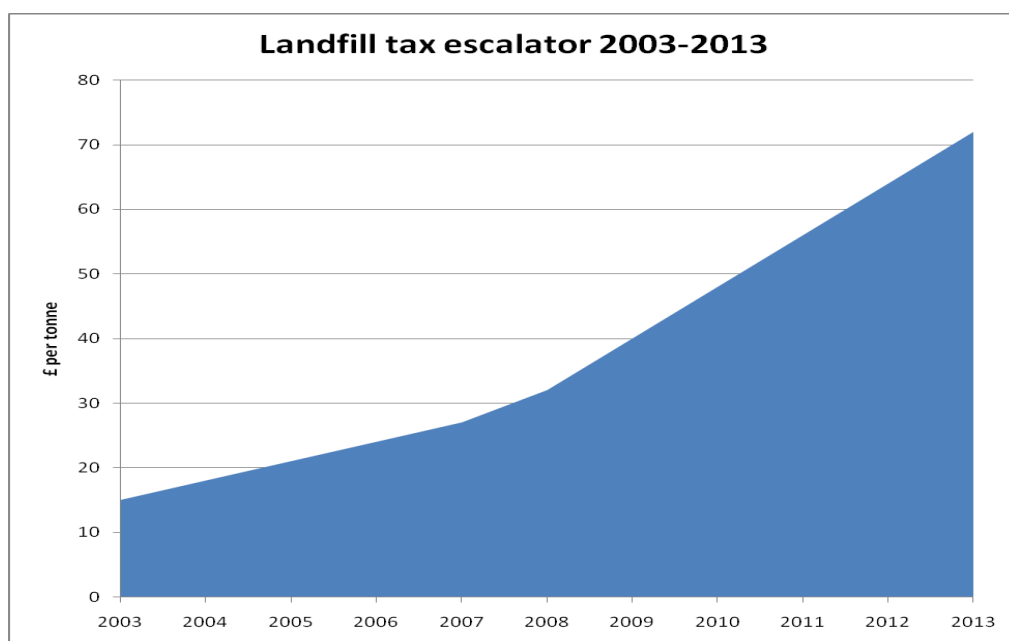
Gershon II requires the public sector to achieve cashable savings amounting to 3% a year each year to 2011. The Climate Change Act targets require the equivalent of a 2% per year, year on year reduction in carbon dioxide equivalent emissions from all public sector organisations.

The Waste Strategy for England 2007 identified higher targets to reduce the amount of household waste not reused, recycled or composted to 225kg per household by 2020, and to increase the amount of household recycling and composting to 50% by 2020 across England. Currently the highest rate County-wide rate is Somerset at 50.9% and the average rate is 34.5% across all authorities.

Across the EU around 65% of electric and electronic equipment is currently collected but less than half this amount (only one third of total WEEE) is treated and reported according to the requirements of the current WEEE Directive. Proposed revisions to the WEEE directive⁴⁴ include a higher binding target for the collection and treatment of WEEE. This will include the reuse of whole appliances within the recycling and recovery targets.

In the April 2009 budget it was confirmed that the landfill tax escalator would continue to rise at a rate of £8 per tonne through to 2013 for every tonne of waste disposed of as landfill. As the cost of treatment and disposal of residual waste rise there will be an economic pressure on local authorities to achieve much higher rates of waste minimisation, reuse and recycling.

Figure 16 Landfill Tax Escalator 2003-2013



The economic case for investment in localised resource recovery services

If after the use of all conventional waste management approaches each household in an LAA area is left with 500 kg of residual waste per year and that waste costs £50 to landfill (£100/tonne) there is a strong economic case for investing in more intensive minimisation, reuse and recycling measures.

If the LAA partners spent £25 per household on intensive, community wide behaviour change to save 250 kg per household this would halve the total expenditure on landfill disposal.

If this change in behaviour can be achieved at less than £100/tonne the local area makes savings per household. Currently Somerset spend around £3 per household per year on engagement and behaviour change focused activities and is seen as a best practice organisation for education and engagement.

With £25 per household per year there is scope for tailoring service designs more closely to specific household needs. If 70-80% reuse and recycling rates are to be achieved a wide range of innovative markets in specific materials and tailored services will be required. These niche market and close to the customer services are where

⁴⁴ European Commission (2008) Proposal for a revised directive on waste electrical and electronic equipment
http://ec.europa.eu/environment/waste/weee/index_en.htm

TSOs have a strong track record. For low volume highly flexible services TSOs can compete in an open market against much larger less flexible less community focused deliverers.

The delivery of intensive waste minimisation, reuse and recycling services, for households and businesses, could also fit well with a range of other services that benefit from good local network knowledge and the ability to keep staff close to service users.

Parish and town councils are moving back into the commissioning of street cleansing services. They are precepting authorities so can work with current budgets passed on by hard-pressed District or Unitary authorities.⁴⁵ Parish and town councils can choose to buy into an existing local specialist provider or to a community focused TSO.

Community safety, micro-economic development and regeneration, climate change adaptation and mitigation and street scene services can all have local delivery synergies when delivered as elements of partnership strategies. TSOs could develop a range of interlinked skills and services, or can act in a consortium of TSOs working closely together to develop linkages between individual specialisms. Either model offers the potential for well-networked stakeholder delivery organisations can take on a role as a community anchor⁴⁶ - a role seen by social innovators in grounding rapid change in local networks of support and opportunity. This is in contrast with more individualistic models in which periods of rapid change have the most negative impact on the already-vulnerable. Instead of past experiences of being at a competitive disadvantage against larger businesses in each specialist market, TSOs offering packages of cross-cutting outcome focused services to start with will have business model advantages in these newly developing markets.

5.2 New Performance Framework

The single framework covering all outcomes delivered alone or in partnership should mean that all local agencies are working to the same goals. The outcomes are measured through 188 National Performance Indicators (NIs). Local Strategic Partnerships (LSPs) now have a duty to involve the third sector in the design and delivery of the LAA which identifies key priorities for local improvement action. Progress on all the NIs, and on the impact of improvement actions on LAA priority areas will be assessed through Oneplace and presented in a new searchable online database.

Local authorities will find that Oneplace inspectors are looking for evidence of active local community and TSO involvement. This is to include deciding the best options for service provision and financial planning using tools that focus on whole life costs. They will also be assessing the extent to which commissioning and procurement is tailored to local needs. This includes reviewing whether approaches in use are delivering sustainable outcomes and value for money. The ability to provide evidence of value-added social and environmental benefits through contracting will be very relevant. Local authorities themselves will be required to demonstrate that they are managing natural resources, assets and people effectively.

Area Based Grants – Investment in Prevention and Early Intervention Work

As a part of the new performance framework, the majority of funding to statutory bodies is to be in the form of area based grants, rather than grants ring-fenced for certain services or delivery types. LSP partners are to be strongly encouraged to realign resources to improve the effectiveness, not just the efficiency of services. Previously it has been difficult to justify undertaking work in one public agency that has a big impact in reducing demands for services in another public agency, even if the overall public benefit could be clearly demonstrated. LAAs and area based grants are designed to enable more resources to be focused on prevention and early intervention work.

Area based budgets offer opportunities to develop markets for packages of services that are co-funded across several beneficiary organisations. For example offering a cross-cutting housing turnaround service could involve: clearing existing furniture from a property as it becomes vacant, undertaking deep cleaning, redecoration and maintenance; and, refurnishes and re-equipping the property as necessary ready for re-letting. Beneficiary organisations may include housing services or a housing association, an employment and training service and

⁴⁵ A precepting authority is one that is permitted to raise funds by imposing a levy (or precept) on the Council Tax.

⁴⁶ The role and definition of Community Anchor organisations is set out on the Local People Leading website: www.localpeopleleading.co.uk/on-the-ground/anchor-orgs/. Stephen Thake coined the community anchor definition and has written widely on the context role and importance of community anchors, for example: www.communityalliance.org/Communityanchors/

waste services in terms of reuse of paint, furniture and white goods that would otherwise have been destined for disposal.

The National Survey of Third Sector Organisations

The first 'National Survey of Third Sector Organisations' (NSTSO) was published in May 2009⁴⁷. This survey is designed to be a measurement mechanism for NI 7 "An Environment for a Thriving Third Sector". This indicator assesses the contribution being made by local government and its partners to an environment in which TSOs can successfully thrive. The 2009 survey provides a performance baseline for every local authority in England. The analysis of the survey findings assesses the issues that shape TSO success.

Overall 16 per cent of TSOs felt local statutory bodies (LSBs) have a positive or very positive influence on their success – a NI 7 score of 16. When TSOs are very satisfied with their ability to influence local decisions, have current contact with LSBs, feel their work is valued, and are satisfied with the support available to TSOs in the local area this score rises to 84.

When TSOs are dissatisfied with their ability to influence local decisions, there is little or no current contact with LSBs, TSOs don't feel their work is valued the NI score drops to 3.

Local statutory funding through grants and contracts had a relatively small influence on TSOs perception of positive impact. Where a higher proportion of TSOs receive local funding there tend to be higher NI 7 scores. However, receiving local funding does not automatically generate a positive view of LSB influence. This is partly because the survey does not enable identification of changes in funding status (removal, decrease, increase). Community development and mutual aid organisations and organisations that deliver public services are both more likely to be positive about LSB influence than other TSO types.

The NSTSO gives a very clear message to local authorities, primary care trusts and other statutory bodies about the activities and approaches most highly valued by TSOs. This is an indicator that will be kept under close scrutiny and NI 7 scores will be reassessed annually to track the progress of LSBs in developing their ability to support a thriving third sector.

The New Performance Framework offers a significant development opportunity for resource recovery TSOs. Use of resource assessments will draw attention to the way organisations are using natural resources and will have an increased focus of sustainable development⁴⁸. There are NIs on engagement in employment and training for people with higher support needs and a range of indicators on social inclusion and local environmental quality in addition to NI 192 'Percentage of household waste sent for reuse, recycling and composting'.

TSOs will gain a much clearer opportunity to demonstrate the contribution of their activities to delivery on NIs and LAA priority indicators. Oneplace focuses the review of performance on these indicators right to the most senior level of politicians and officers. Oneplace also places performance information in the public domain through an interactive website. This profile with politicians, voters and managers should mean that the contribution well run TSOs can make to local wellbeing should be taken much more seriously than in the past.

The way in which the 'Key Lines of Enquiry' (KLOEs) for Oneplace inspectors are framed mean TSOs will have the opportunity to demonstrate improved value for money through more secure and longer term contracting relationships. There is greater pressure to demonstrate that commissioning and procurement processes in use do not 'accidentally' exclude TSO bidders. There are also more clearly structured opportunities and better recognition of the benefits that can be secured through partnership working. This includes partnerships between TSOs for capacity building and service delivery and partnerships between public sector organisations to design and provide services.

47 Ipsos MORI (2009) *National Survey of Third Sector Organisations*, Analytical report, key findings from the survey, 6th May 2009 www.ntso.com/results

48 Walford, A. (2008) presentation to Tackling Climate Change Beacon Councils event, Local Government Association, 23rd September. Andy Walford is Head of Environment and Regeneration at the Audit Commission

Figure 17 Beneficiary groups: relevant national indicators for local authorities performance reporting

Beneficiary Group	Activities	National Indicator
Whole community	Regular Volunteering	NI 6
Young Offenders	Employment & Training	NI 45
Offenders under probation supervision	Employment	NI 144
Adults with learning disabilities	Employment	NI 146
Care leavers	Employment & Training	NI 148
Adults in contact with secondary mental health services	Employment	NI 150
Working age people claiming out of work benefits	Employment, training, volunteering	NI 152
Working age people claiming out of work benefits in worst performing neighbourhoods	Employment, training, volunteering	NI 153

Councils have a duty to involve local people and the organisations that represent them in decision making. Information from the National Survey of Third Sector Organisations and the Place Survey will contribute to evidence on meeting the duty to involve. By considering how well local partners engage local people, Oneplace will assess how well this duty is carried out.

The Office of the Third Sector has urged TSOs to engage with Oneplace (in its previous guise as CAA):

"The CAA is an important opportunity for the third sector in holding local government to account and it will be important for the sector to take a coordinated approach to engaging with the CAA locally, in order to most effectively have their contribution heard."⁴⁹

Office of the Third Sector

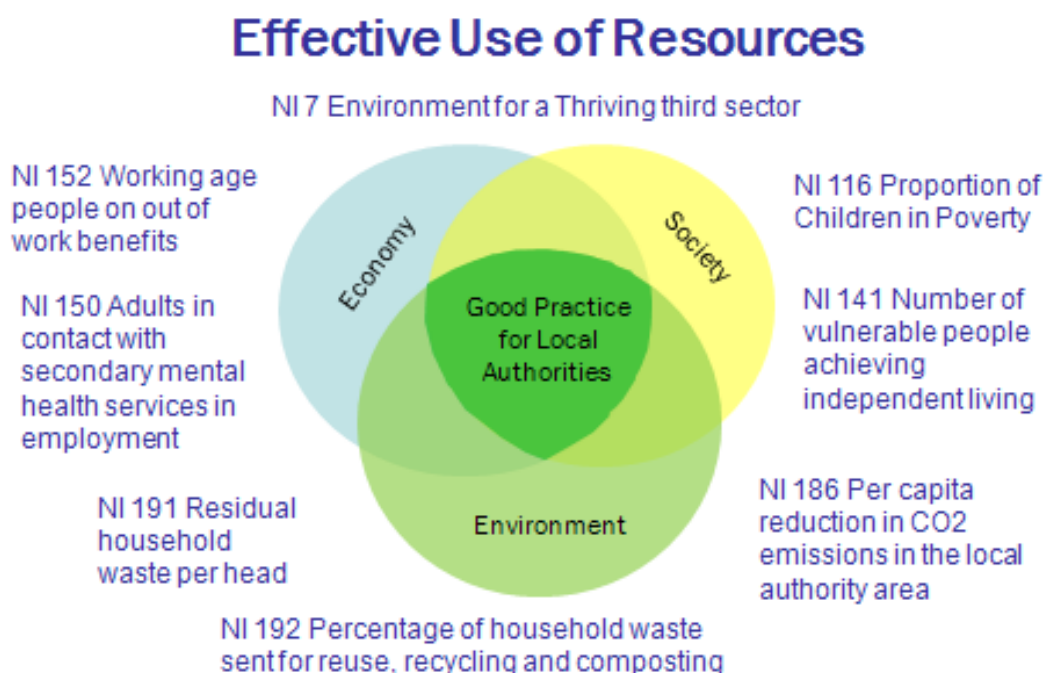
Case Study – Community Chest Grimsby

Community Chest Grimsby receive client referrals from 29 partner agencies in North East Lincolnshire., many of them housing associations and the Homelessness Department of the local council. Through his involvement with the Local Strategic Partnership Community Chest's Manager was aware of the opportunities available through the new performance framework for local authorities; the National Indicators and priority indicators chosen for the Local Area Agreement.

"This approach fits wonderfully with what we have learned through our work at Community Chest. The social and environmental issues we are dealing with are not going to go away. It is a huge opportunity for TSOs to help local authorities in the delivery of their core performance indicators."

Neil Cartwright, Chief Executive, Community Chest

⁴⁹ OTS, 2009, *Comprehensive Area Assessment: Briefing for the Third Sector May 2009*



5.3 Innovations in contracting and subcontracting

Consortia

One response to the procurement of larger and more integrated contracts has been to encourage TSOs to group together and form consortia for service delivery. Consortia are described as a route to overcoming some of the barriers of scale and the need for a diversity of specialist skills.

OTS has recently produced guidance for the options and implications for third sector organisations that may wish to collaborate to tender for public service contracts.⁵⁰ Futurebuilders offers a Consortia Fund, a combination of loan finance and professional support specifically for groups aiming to work together as a public service delivery consortium.⁵¹

But consortia present different challenges to TSOs than those of bidding alone. Putting a consortium together requires a considerable investment of time, resource and expertise. Identifying and engaging with consortium partners, delineating roles, drawing up legal formalities, and preparing a rigorous and collaborative bid document are all challenging. Small TSOs report that they do not have the resources or expertise available to engage in this process⁵².

Consortia can also exacerbate tensions between organisations having different values or using different business models. Other sectors can sometimes perceive the third sector to be relatively homogeneous – whereas there are actually a wide diversity of organisations and approaches in use.

Even when all this preparatory work has been undertaken the consortium vehicle is a single partnership with no service delivery track record of its own and no financial trading history. This could, understandably, be considered to increase the service delivery risks of the consortium, putting the consortium at a disadvantage in a competition process.

⁵⁰ OTS (2008) Working in a consortium: A guide for third sector organisations involved in public service delivery

⁵¹ <http://www.futurebuilders-england.org.uk/our-products/tender-fund/tender-fund/>

⁵² SQW (2007), Research on Third Sector Access to Finance, Report to the Office of the Third Sector, May 2007

TSOs have also expressed concern that consortia approaches put pressure on the lead TSO to manage the delivery risks of the other TSO partners. This arrangement is more straightforward for the contracting authority, but this transfer of risk needs to be fully acknowledged and resourced.

Co-Planning Approaches

Public-Social Partnerships (PSPs)⁵³ are a UK adaptation of well established co-planning approaches developed in Genoa and Turin in the early 1990s for strategic service commissioning and procurement. PSPs have already been used in North West England for social care procurement and piloted in Scotland for waste services. A PSP brings together public sector organisations and TSOs to share responsibility for a strategic service design. The aim is to enable the public sector to procure a high quality, customer focused, service that incorporates specific additional social and environmental benefits. PSPs recognise the significant contribution TSOs can bring to service design and delivery in the form of local knowledge, customer focused approach and flexibility to a changing service environment. The culmination of the PSP process is the letting of contracts based on a specification that draws in all the learning from TSO and public sector partners.

However, open competition means that TSOs are not guaranteed work as a result of their participation in the process, and the first waste pilot in Scotland was only partially successful. A further 10 PSPs are being developed, led by Grangemouth Enterprises. There are questions around the extent to which the Italian model is fully transferable to UK conditions as PSP support funding regimes are different. The amount of time and effort that needs to be invested in developing a PSP is not yet proportionate to the scale and impact of the contracts to be let. This may be a learning process issue so that the model needs to be adapted to be effective in local conditions before it can be made more efficient and cost-effective.

Outcome Based Commissioning

This approach has been developed by Camden Council and supported by HM Treasury's Invest to Save Budget. No examples have been identified of the application of the approach to resource recovery service. However, the model appears to offer considerable benefits to the public sector and resource recovery TSOs in the context of the Oneplace, NIs and the increasing pressures to increase resource recovery.

The two key elements of the outcome based commissioning approach are:

- explicit specified social, economic and environmental outcomes to be accounted for in procurement and delivery;
- effective ways to measure and report on outcomes.

"Building outcomes into the procurement process needs to be considered at every stage of the procurement cycle, from service user involvement to the final review of the impact the service has made."⁵⁴

A common misunderstanding regarding competitive procurements that must comply with EU Procurement Directives and UK regulations is that the buyer has to at all times be objective. This is not the case. It is very important that local authorities are subjective about the type of service that meets local needs and priorities. A 'good' procurement is one that achieves value for money which is defined by the Treasury as '*...the optimum combination of whole-life cost and quality (or fitness for purpose) to meet user's requirements.*'

This 'subjective view' about the requirements of the service, and any additional social or environmental benefits that are to be sought through the delivery of the service, need to be set out clearly in the service specification. Evaluating the ability of bidders to meet or exceed this specification is the area in which buyers need to be carefully objective. The art is to be subjective and objective at the appropriate stages of the process and to put these stages in the right order.

The outcomes model values service level outcomes and the wider social, environmental and economic impacts providers' claim they can create. These outcomes are set out at the tendering stage and are tracked over the course of the contract. This means that decisions regarding contract award are made on quality not just cost and

53 McDonald, K., Wilson, L. & Jack, A. (2007) Public Social Partnership in Scotland: Lessons Learned, Forth Sector for the Social Economy Scotland Development Partnership

54 Camden Council (2008) Commissioning Outcomes and Recovery October 2008 [insert web reference]

there is an increased understanding by the purchaser and the supplier of the impact of the services being delivered.

The use of innovative tools for measuring the outcomes of a service for individual service users to measure their own progress and for commissioners to evaluate service performance is an important part of this model. Camden have piloted a web-based monitoring and reporting tool 'SPRS'⁵⁵ to generate and bring together data from a range of participating projects.

The attraction of applying this approach to resource recovery TSO service delivery is that:

- by drawing together qualitative and quantitative information it helps TSOs demonstrate the full breadth and quality of their work;
- the tool collates details of the engagement and progress of participants (staff, volunteers, trainees) as well as other service performance numbers;
- it can be organised to quickly pull-out details of how activities are meeting agreed service level and community outcomes;
- the accessibility of the data for commissioners encourages commissioners and service providers to undertake regular reviews and encourages continual learning and development.

5.4 Subcontracting As Regeneration

As described earlier, lotting has proved to be an ineffective route to increasing TSO access to services grouped within large integrated contracts. Recent guidance for local authorities sets out a subcontracting option that appears to address many of the disadvantages of lotting.

Local authorities can ask suppliers who have applied to tender for their larger contracts, for example an integrated collection services contract for recyclables, organics and residual waste, how much work they propose to subcontract **if this enquiry is for the purpose of encouraging small businesses (CIPFA emphasis)**⁵⁶. The track record of suppliers in identifying and using small businesses of specified types can be tested within the contract evaluation criteria⁵⁷.

*All efforts to help third sector bodies to get subcontracts from third parties are exercises in regeneration, not in procurement, so create no opening for allegations of discrimination.*⁵⁸
Chartered Institute of Public Finance and Accountancy (CIPFA)

Authorities **cannot require** main contractors to reserve a given percentage of the contract sum for subcontracts to small businesses. **It is however lawful for authorities to require main contractors to open a given percentage of the contract sum to subcontractors, and to package it in such a way that small businesses can compete for it.**

"Councils should invite bidders for partnerships to include in their offers optional, priced proposals relating to the delivery of specified community benefits (economic, environmental and social) that are relevant to the contract and that add value to the council's community plan. This might include employment, training and enterprise opportunities in the locality and local multiplier effects. Impacts upon voluntary sector partners and the sustainability and equality issues of the area may also be factored into priced proposals where relevant to the contract."

National Procurement Strategy for Local Government in England 2003

A TSO counts for the purpose of the Directive as a small business if it has⁵⁹:

55 Substance Project Reporting System – SPRS was piloted with the Home Office positive futures programme in 2005 and is used in a wide range of initiatives including monitoring the contribution of FA community football initiatives

www.substance.coop/sprs

56 EU (2004) Directive 2004/18/EC on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts, 30.04.2004, article 25

57 ODPM & LGA (2003) National Procurement Strategy for Local Government in England, October 2003

58 CIPFA (2008) Standing Guide to the Commissioning of Local Authority Work and Services

- an annual turnover and/or annual balance sheet total of not more than €10 million;

and

- not more than 50 employees.

TSOs can be contacted directly about upcoming opportunities for subcontracts. Local authorities can also provide seminars and training specifically for local TSOs, provided that this training is to enable these TSOs to seek business with any client (it is not lawful to provide training only for contracting with that particular local authority).

5.5 Delivery and Development Hubs

TSOs need to be able to deliver services at a competitive cost with added value. Small TSOs simply cannot afford the full range of specialist services they need to thrive, without spreading this overhead across several contracts or a large turnover of materials – yet they can't grow to a size to spread the overhead without ongoing access to specialist skills. One response is to develop the ability of strong existing TSOs to act as **delivery and development hubs** for networks of newer or smaller resource recovery TSOs. This would include support services (business development, finance, marketing, HR), and development of a training and quality culture, even for small groups.

These delivery and development organisations would be strong enough to hold contracts through which they secure materials streams and TSO development funds. The role of hub TSOs in securing access to materials streams will become crucial as the landfill tax escalator causes competition for materials to leap, otherwise new and small TSOs will fail to gain access to markets however strong their social benefits offer. Hub organisations include network organisations, such as the London Community Resource Network (LCRN).

Case Study – Furniture Matters Lancashire

A working example of the Delivery and Development Hub approach is Furniture Matters Lancashire. Furniture Matters (FM) started in 1999 focusing on furniture reuse. As the organisation has developed a series of additional projects have been created under the FM umbrella covering business furniture reuse, household electrical appliance reuse, a 'Make a House a Home' showroom for households eligible for donated reuse goods, and a bike repair and training project.

Since 1999 FM have:

- Collected 40,000 items of furniture and distributed them to 25,000 household in need
- Saved 3,000 tonnes of furniture from going to landfill
- Repaired, reused and recycled 3,000 bikes
- Recruited 500 local volunteers
- Taken 150 New Deal Trainees and 120 people serving Community Punishment Placement Orders

Through FM's wide range of projects they are able to offer a diversity of training and volunteering opportunities. Accredited qualifications on offer include:

HSE First Aid; CIEH COSHH; CIEH Basic First Aid; CIEH Basic Food Hygiene; CIEH Principles of Manual Handling; OCNW Basic Woodwork; OCNW Furniture Restoration; OCNW Hand Painted Furniture; OCNW Basic Painting and Decorating; NVQ Warehouse and Distribution; Forklift Truck Licence; Driving Licence

FM are proud that over 100 people have left roles as trainees or volunteers and gone into paid work, with many more going on to further and higher education.

59 EC definition of small and micro businesses, commission recommendation 2003/361/EC 06.05.2003

http://europa.eu/legislation_summaries/enterprise/business_environment/n26026_en.htm

In 2006 FM and Lancaster City Council launched Bulky Matters an innovative partnership which replaced the city council's bulky collections system. By improving customer service Bulky Matters have greatly increased the amount of material that can be reused. This customer service approach includes:

- offering collections within seven days of a customer booking;
- informing customers what date and time of day their items will be collected;
- helping customers who need items to be collected from inside their home.

FM are using their skills and expertise to support the development of other resource recovery TSOs in the Lancashire area. There is interest in replicating the 'Bulky Matters' model on other district level bulky waste collections within the County.

Hub TSOs can also provide cost effective collection services and deliver source separated materials to niche TSOs – efficient transport logistics are often a weakness for small specialist TSOs. Hub TSOs would also collect performance reporting data on behalf of local network organisations. Smaller TSOs may remain grant funded, supported by donations or simply run on a shoestring, but they are part of an active network of other local resource recovery organisations, and their contribution will be counted and valued.

5.6 Transforming Engagement with Resource Recovery TSOs

Combining outcome based commissioning with subcontracting as regeneration offers some really interesting potential for reshaping procurement of TSO resource recovery services.

At the earliest stages of commissioning there is a need to identify the range of potential benefits that should be secured locally through resource recovery. This involves identifying the available resources that need to be recovered instead of wasted and identifying the target groups in the community who need opportunities to benefit from training and volunteering. At this stage the current capacity, and potential capacity for development, of local TSOs also needs to be identified. This scoping exercise will determine whether there is value in identifying subcontracting specific elements of a major integrated contract as regeneration.

Community benefits that are to be sought from the delivery of the contract need to be specified, in detail, in the main integrated contract. These benefits will need to be set out in a more high-level way throughout the contract process beginning with the notification of an intention to let a contract. Including challenging community benefits requirements in the main contract has the potential to alter the power relationship between a TSO and a private contractor. This approach may also encourage more strategic partnering.

Subcontracting is not necessarily an easy option for TSOs as they need to offer good operational standards, to be able to offer a responsive customer focused service, and to commit to a longer term contract (of five to seven years). However for a good TSO the capacity building benefits of subcontracting could be considerable. Subcontracting in this way would bring access to materials & customers, cost-effective asset financing, pricing with margin & scope for significant organisational development as a result of contract clarity & security.

The following pages set out two 'route maps', one for local authorities and one for TSOs, identifying the stages involved in buying resource recovery service that have strong community benefits outcomes.

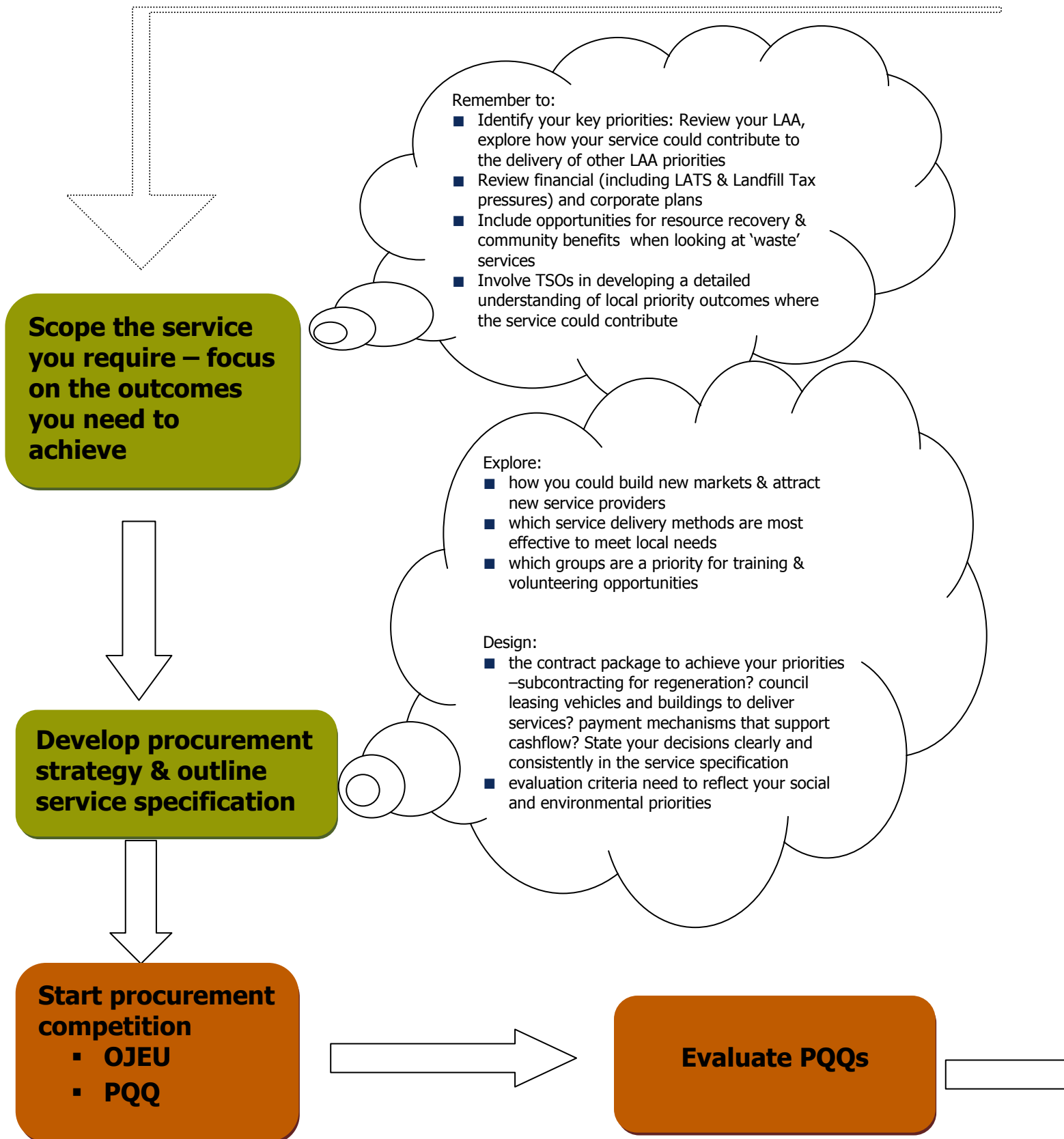
The coloured boxes in the route maps set out the stages of commissioning and procuring a new waste related service. The colours are intended to flag up the parts of the process where local authorities need to be objective (red) and where they can be subjective (green). The 'think bubbles' identify the issues that need to be considered at each stage of the process.

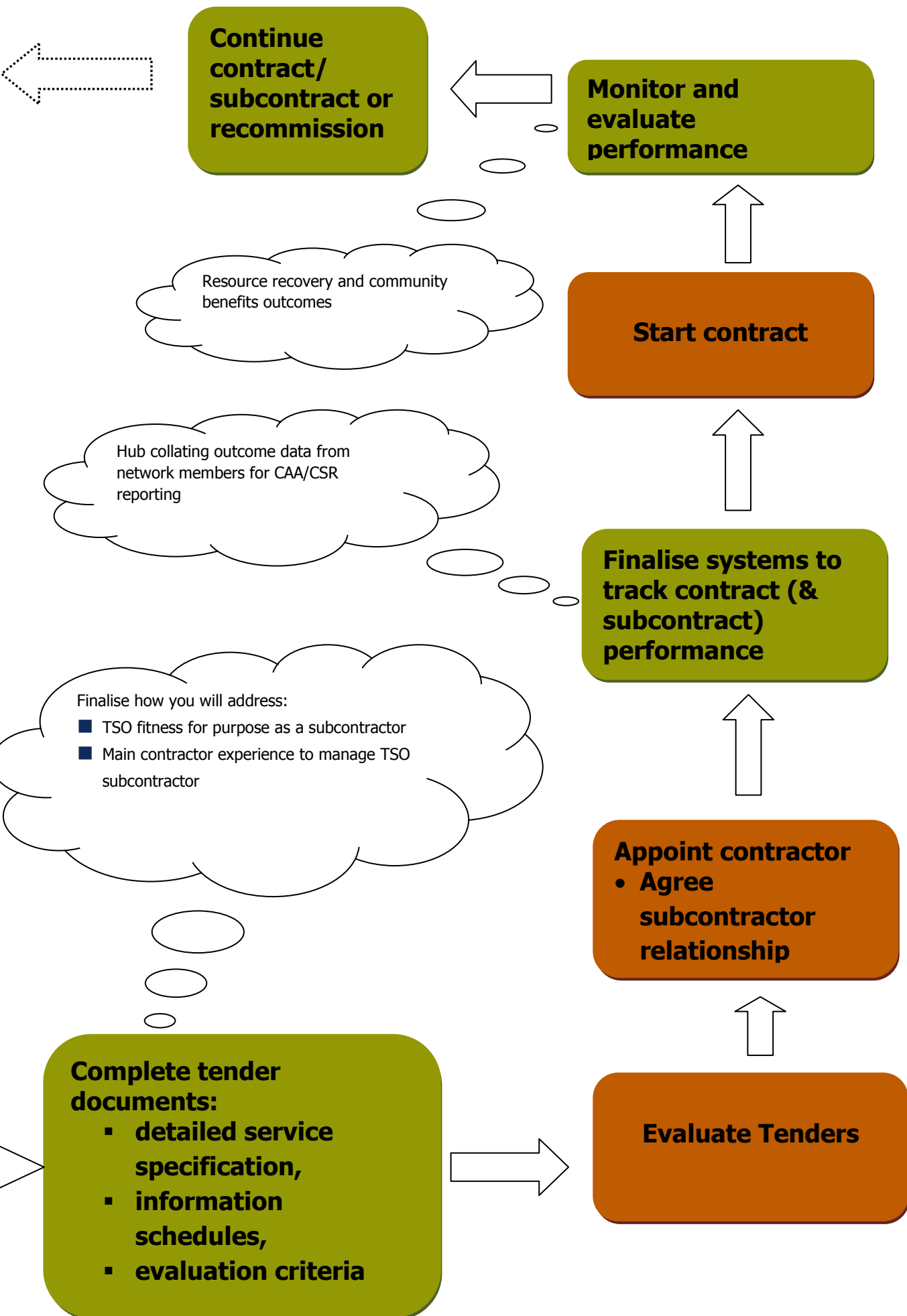
One issue the maps help to highlight is the importance of TSOs getting involved very early in the commissioning process.

Image 6: Choosing re-used furniture



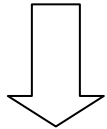
Local Authority Route Map: Buying TSO Resource Recovery Services



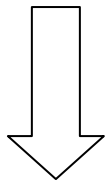


TSO Route Map: Selling Resource Recovery Services

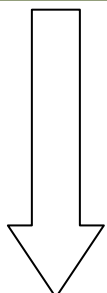
Develop TSO understanding of opportunities to deliver services for your local authority



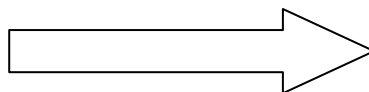
Identify opportunities for service change



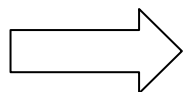
Influence the scope of new services



Identify TSO capacity building, service delivery and network development opportunities



Influence the procurement strategy, service specification & evaluation criteria



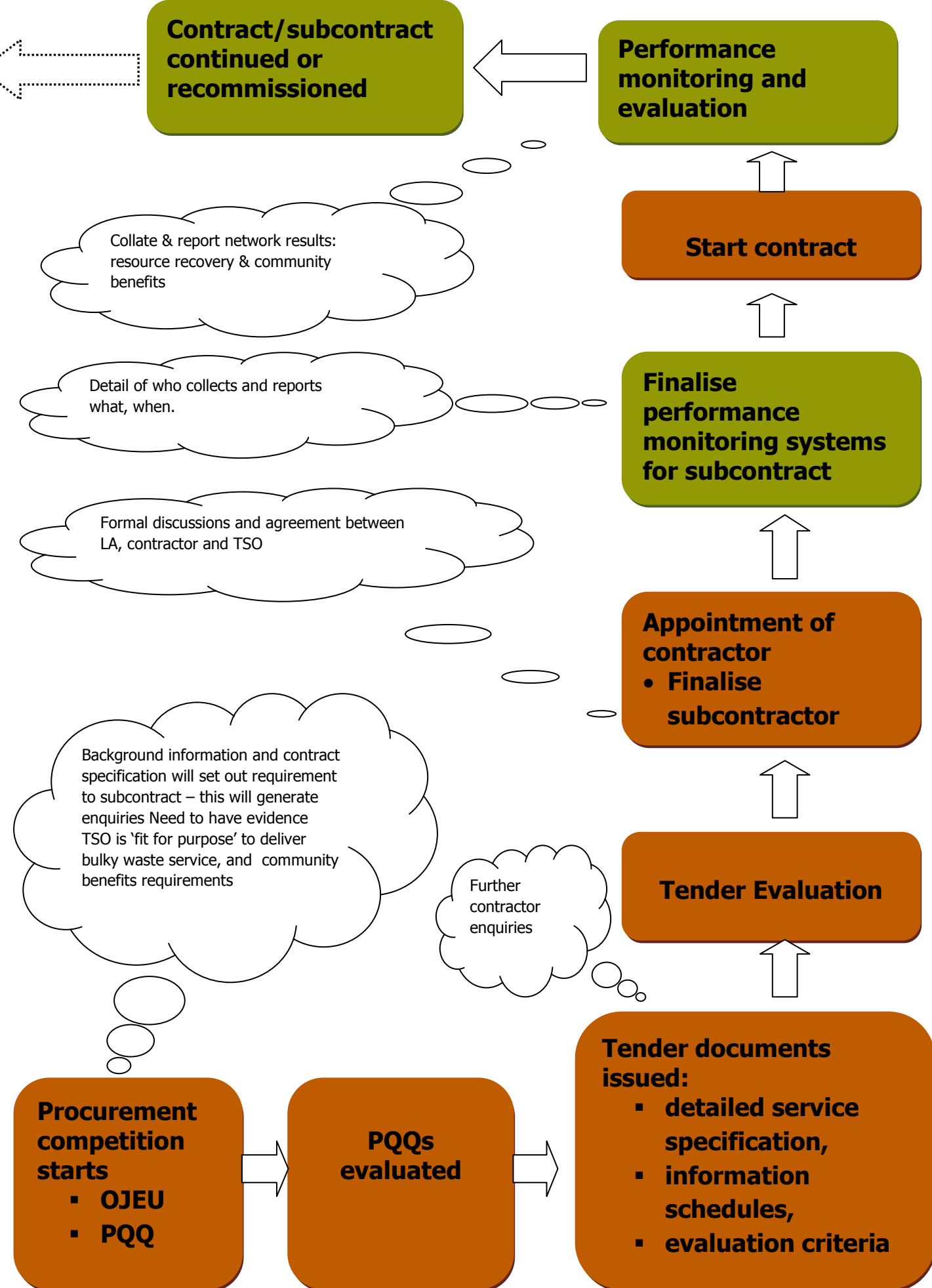
- LAA priorities, financial pressures including LATS and landfill tax escalator, corporate plans
- How the service runs now
- Key officers and members to work with
- What is good practice in the service you are offering – are you achieving this, what else do you need to achieve it?

- Is the service currently run by a contractor – when does the contract end – scope to influence new contract 2-3 years before it starts!
- If a long contract in place is there scope to vary this to allow a new subcontractor?
- In-house service - is there scope for a waste service review

- What community benefits should the LA seek from resource recovery?
- Which groups are a priority for training & volunteering opportunities
- Which service delivery methods would be most effective to meet local needs

- Design contract/subcontract so TSO can best deliver priority outcomes: eg council leasing vehicles and buildings to deliver services offers value for money for LA.
- Service specification and evaluation criteria must to reflect social and environmental priorities
- Develop performance reporting criteria that recognise TSO contribution

- Start working towards quality accreditation
- Seek funding support for capacity building
- Develop links with even more TSOs improve service impacts



Conclusions and Implications

The pattern of third sector resource recovery activity has changed markedly over the past 4 years. The emphasis is moving away from kerbside collections to reuse. Despite the loss from the sector of the largest resource recovery TSO in 2008, turnover is estimated to have grown by around a third since 2005 to £133,820,000 and tonnage has fallen only slightly to 249,000 tonnes. It is estimated that CO₂ impacts have been reduced by 523,000 tonnes compared to materials being disposed of to landfill.

Although nearly 60% of resource recovery TSOs are small (turnover of less than £100,000 per year) the combined impact of the sector is significant. 4,600 full time equivalent paid jobs and more than 43,500 training and volunteering opportunities have been created. Resource recovery TSOs are increasingly subsidiaries of larger organisations such as housing associations and national charities – increasing their financial muscle and community impact.

TSOs appear to be at least as entrepreneurial as in the past, but are struggling to gain access to public sector resource recovery markets and through those markets, to materials. Although there are a diverse range of business models in use, the government's wish that TSOs use debt finance to develop their capacity is only going to come from business models that will deliver significant, sustainable cash flows. This requires TSOs to secure public sector contracts or have to be able to compete in larger commercial waste markets.

Over the past 5 years the rhetoric of engagement with TSOs has become stronger, yet on the ground many resource recovery TSOs are finding it more difficult to develop secure medium term contract arrangements, particularly in local authority waste services markets.

There is a need to enable resource recovery TSOs to access the opportunities as well as the challenges of a market approach to service delivery. This should include improvements in local authority commissioning and procurement to:

- enable greater participation in resource recovery service delivery by TSOs where they can offer service and community benefits outcomes;
- improve commissioners awareness of the value for money implications of contract timescales, contractor versus public sector purchase of assets, and of payment mechanisms and timing versus the cost of cash flow for TSOs.

For TSOs to be able to make good use of such changes they need to:

- develop skills in pricing the services they are offering to provide;
- to be prepared to look at innovative approaches to managing service costs while retaining a sufficient range of specialist staff – for example by developing shared support services models across several TSOs;
- improve their understanding of loan finance and how to become investment ready;
- focus services around producing good quality services for which there is a market – even where this market delivers community benefits rather than trading income.

Resource Recovery TSO Finance

In TSOs the primary goals may be social and environmental, but in order to achieve those goals the TSO needs effective financial management and planning

The key finance issue for TSOs is working cash flow. Where the TSO has to pay out wages, rents and leases before they receive payment in arrears for their services they need enough cash flow to sustain this. The most cost effective strategy for addressing working cash flow is a blended approach. This involves securing the best payment terms from the buyer, then factoring invoices where this is necessary to bridge a 'secure gap' between incurring outgoings and receiving income, and finally the use of a standby facility only as an emergency back-up to non-routine cash flow issues.

Further work is needed to improve understanding of options to improve cost-effective access to working cash flow for TSOs working at varying scales and different resource recovery markets.

Analysis of the 2008/9 REalliance sector survey and discussions with TSOs, resource recovery network organisations and finance providers has identified lack of assertiveness among TSOs to secure value for money.

Examples of the areas in which more work is needed to support TSOs to achieve value for money in their finance arrangements include:

- arranging finance over a period appropriate to both the asset and the term of the prospective service contract;
- increasing awareness, by the public sector and TSOs, of the scope for public sector financing of capital assets where this provides value for money and the ability to reduce risks;
- increasing public sector officer understanding of the financial and developmental impacts of offering short-term and informal 'contractual arrangements' to TSOs for service delivery.

Social Banks and Community Development Finance Institutions (CDFIs) expressed a willingness in principle to fund resource recovery TSOs with loan or grant/loan packages. Resource recovery TSOs that are providing social and environmental benefits to their communities fit well with the aims of social finance. However, the short-term nature of many public sector 'contracts' is not bankable and does not support repayment of loans. If longer term contracts were available to TSOs, five to ten years rather than 0-3 years, banks expressed a willingness to lend against current or even prospective contracts.

Successful Resource Recovery TSOs

The 2008/9 REalliance sector survey identified a substantial number of resource recovery TSOs that are thriving and growing. These TSOs:

- have cost-effective business models;
- routinely price in a margin for the long-term development of the organisation;
- have secured externally verified quality assurance accreditation and take a professional approach to risk management across all their activities;
- invest in developing long-term relationships with their public sector customers, but also develop income streams from a range of other trading income;
- have useful and diverse support networks locally and nationally and to use the information they gain to refine their delivery model and influence the commissioning of future services.

For these TSOs the focus is around how to gain access to the materials and markets that they need to thrive, and how to increase their positive impact on the communities they serve.

Key Opportunities

Environmental and Cost Pressures

Proposed revisions to the WEEE Directive include a higher binding target for the collection and treatment of WEEE. This will include the reuse of whole appliances within the recycling and recovery targets. **The landfill tax escalator** will continue to rise at £8/tonne/year reaching £72 per tonne in 2012/13. This will create strong pressure to divert material from disposal through waste minimisation, reuse and recycling.

Resource recovery TSOs could make a very significant contribution to compliance with the revised WEE directive and diversion of recoverable material away from landfill.

New Performance Framework

Comprehensive Area Assessment and the new National Indicators (NIs) will be used to assess whether local authorities are delivering specific social and environmental benefits in their area. Authorities have to demonstrate that they are achieving these benefits in order to get a favourable rating in the new 'oneplace' assessments (until recently called Comprehensive Area Assessment, CAA). Local authorities are also required to create 'An Environment for a Thriving Third Sector' (assessed through an annual national survey of TSOs).

A systematic and proactive approach needs to be taken by the public sector to securing cross-cutting social/environmental/local economic benefits from resource recovery services. This includes:

- reviewing how local authority service contracts are currently specified and packaged;
- identifying materials potentially available in the area from both household and commercial sources;

- identifying social benefits needs such as training and volunteering opportunities, for different groups (e.g. clients with learning disability, young offenders) and geographies (e.g. local regeneration area or the presence of a residential population in hospital or prison) and the priorities identified in the Local Area Agreement;
- identify all the groups currently undertaking resource recovery activities, their expertise in operations, and the environmental and social benefits they deliver. This activity focus will include groups who would not see themselves as TSOs ;
- identify each of the TSOs who potentially have the scale, skills and experience to take on a development hub role and support capacity development by other TSOs;
- undertake mapping of gaps in current resource recovery delivery looking at scale, materials, opportunities for different social benefits clients and geographical areas; and,
- use this process to target resource recovery activities and client beneficiaries in future contract specifications.

Resource recovery TSOs could make a very significant contribution to a thriving third sector and the delivery of a range of cross-cutting benefits that would be of tangible value to communities and the local authorities that aim to support them.

Creating Community Benefits Through Subcontracting

This research has identified significant opportunities to increase the amount of subcontracting by TSOs. Promoting subcontracting recognises the reality that local authority waste services are now procured through large integrated services contracts for which few TSOs have the scale or experience to deliver in full. TSOs can however act as sub-contractors. Resource recovery TSOs have particular strengths in low volume, high customer contact services such as bulky waste where they can offer social and environmental benefits.

Efforts to help TSOs secure subcontracts from third parties are considered to be exercises in regeneration, not in procurement. It is therefore lawful for authorities to require main contractors to open a given percentage of the contract sum to sub-contractors and to package it such a way that 'small businesses' can compete for it. A 'small business' is defined as having a turnover less than €10m and not more than 50 employees. If this requirement for subcontracting is combined with stipulating strong community benefits requirements that address service and community priorities, it creates a clear incentive for subcontracting to TSOs that have specific local expertise.

Service Delivery and Development Hubs

TSOs need to be able to deliver services at a competitive cost with added value. Small TSOs simply cannot afford to offer the full range of specialist services they need to thrive, without spreading this overhead across several contracts or a large turnover of materials – yet they can't grow to a size to spread the overhead without ongoing access to specialist skills. The proposed response is to develop the ability of strong existing TSOs to act as service delivery and development hubs for networks of newer or smaller resource recovery TSOs. This includes support services (business development, finance, marketing, HR) and development of a training and quality culture, even for small groups.

7.0 Recommendations

For TSOs:

- Focus on contracting in **niche markets**, especially bulky waste collection and reuse, where skills in handling low volume materials involving high customer contact face less strong competition from the economies of scale of large contractors;
- **Assure** buyers you are offering a safe, high quality service that is very unlikely to fail. This requires the implementation of an externally verified quality assurance scheme covering financial health and operational capability, which may be insurance backed.
- Link quality assurance accreditation to a package of **investment readiness support** from social lenders.
- **Highlight cross-cutting environmental and social benefits** that resource recovery TSOs deliver. Use National Indicators (NIs) and the national Third Sector survey to evidence the impact achieved.
- Develop **linked services that can be sold as packages** (e.g. getting void social housing refurbished rather than just providing furniture) that deliver on several NIs together, offering value for money;

For local authorities

- Develop a package of training for local authority staff and councillors to highlight the benefits of a systematic and proactive approach to resource recovery and to support implementation. Include training on the legitimate opportunities for structuring contract specifications and evaluation criteria to bring out TSOs' particular qualities and their ability to work with target groups.

For other stakeholders:

REalliance

- Further work needs to be carried out to improve the completeness and consistency of the **quantitative data** collected from the sector;
- Strongly **promote** the imperative that each community should have access to a **full range of resource recovery opportunities**, rather than the ad hoc mix and limited scale currently on offer in most areas. This will require a strategic national approach and include brokering of relationships by REalliance with local authorities and government departments.
- Increase informed participation by TSOs in the early stage of contract commissioning. Increase TSO awareness of the scope to structuring contract specifications to active regeneration through subcontracting, and to frame evaluation criteria to bring out TSOs' particular qualities and their ability to work with priority target groups.
- Broker a compact with the private sector around subcontracting, and with local authorities regarding commissioning;
- Undertake further investigation of factoring, standby facility and brokered leasing to improve the cost effectiveness of TSO financing;
- Identify approaches to improve TSO understanding of calculating an acceptable rate of return on investment;
- Develop a health and safety training module for resource recovery/waste services, to be applied across the waste services sector.

Defra

- Waste Data Flow returns do not currently require detail regarding which materials are being reused and the destination of materials for reuse. **Introduction of improved reuse tracking, by material and destination, through Waste Data Flow would support improved local authority reporting** on NI 192, 'Percentage of household waste sent for reuse, recycling and composting'.

Environment Agency

- The Environment Agency's WRATE (Waste and Resources Assessment Tool for the Environment) tool is intended to support local authority decision making on different municipal waste management systems. WRATE does not currently include the ability to evaluate the different impact of reuse of a wide range of materials. **WRATE should be amended to include the impacts resulting from reuse of a wider range of materials.**

Worked Example: Achieving Community Benefits Through Resource Recovery

Identifying the Scope for Resource Recovery from Bulky Waste

What is Bulky Waste?

Household bulky waste includes large and heavy items and are usually defined according to The Controlled Waste Regulations 1992 (Schedule 2) “(1) any article of waste which exceeds 25kg in weight and (2) any article of waste which cannot be fitted into a receptacle of 750mm diameter and 1m length”⁶⁰

Figure A.1 Categories of Bulky Waste

Household bulky waste categories	Example Items
Hard Furniture	chair, table, chest of drawers, bookcase, cupboard, shelves, sideboard
Soft Furniture	bed, sofa, armchair, mattress
Other Furnishings	carpets, underlay, bath, sink, toilet
General	bike, ironing board, seesaw, duvet, roof felt, ladder
Large WEEE	cooker, washing machine, fridge, tumble dryer, dishwasher

How much bulky waste is there?

DEFRA identified bulky waste as less than 5% of the 25.4 million tonnes of household waste collected in England in 2003/4⁶¹. A 2003/4⁶² study of individual local authorities found that bulky waste varied between 4.0% and 11.6% of total household waste arisings. The high variability between authorities is attributed to a combination of factors: deprivation, bulky waste policies and level of activity of furniture reuse groups in an area. The absence of comprehensive and up to date information on the bulky waste as a proportion of the total household waste stream, by authority, and the levels of reuse being achieved through different collection and distribution routes makes it difficult to systematically assess the effectiveness of policy and service changes. DEFRA requires local authorities to provide information on the destination of bulky items for recycling in Waste Data Flow returns. Detail regarding which materials are being reused and the destination of materials for reuse not currently required. Introduction of improved reuse tracking would support local authority reporting on NI 192, ‘Percentage of household waste sent for reuse, recycling and composting’.

A study using survey data for 3 local authorities, identifies local authority bulky waste collections are the second most popular disposal method for bulky items⁶³. These study estimates bulky waste as 6.1% of total waste arisings in England.

60 TSO (1992) The Controlled Waste Regulations 1992

61 DEFRA (2005) Municipal Waste Management Survey 2003/04

62 Cameron-Beaumont, C. & Lee-Smith, C. (2005) Bulky Waste Toolkit, Network Recycling and FRN

63 Curran et al (2007) Management of Household Bulky Waste in England, Resources Conservation & Recycling Vol. 51, Issue 1, July 2007 Anthony Curran, Ian D Williams, Sonia Heaven

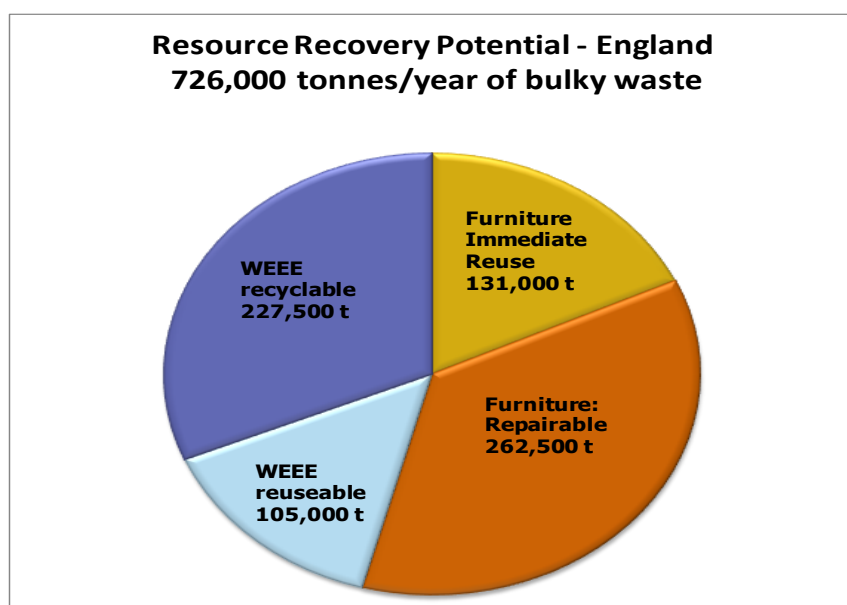
Figure A.2 Disposal Methods for Bulky Items – Identified Through Audit

Method of Disposal	Estimated Throughput		Primary Destination of Items
	Proportion (%)	Tonnes per annum	
Council Bulky Collection	15	274772	Landfill/recycled
Voluntary/charity collection	7	123234	Reuse
Commercial collection/skip	10	176425	Landfill/recycled
HWRC	56	1005057	Landfill/recycled
Private sale	1	21021	Reuse
Give away	6	106606	Reuse
By other means	5	81080	Landfill
Total bulky waste stream	100	1788195	

Bulky waste – nuisance or opportunity?

For most local authorities bulky waste is a minor service. One that ticks along and commands relatively little attention compared with high volume kerbside services. Custom and practice in many authorities is that bulky waste except WEEE is disposed of to landfill. Yet for resource recovery TSOs the availability of more than 1.75 million tonnes⁶⁴ of reusable and recyclable material could be a treasure trove of opportunities. An indicative sense of the resource recovery potential in England can be identified by combining total tonnage data with bulky waste audit data that identifies items suitable for reuse and recycling⁶⁵. The resulting estimate should be treated a broadly indicative as there is a high level of variability both between and sometimes within local authorities when bulky waste surveys have been carried out.

Figure A.3 Estimated Resource Recovery Potential: England

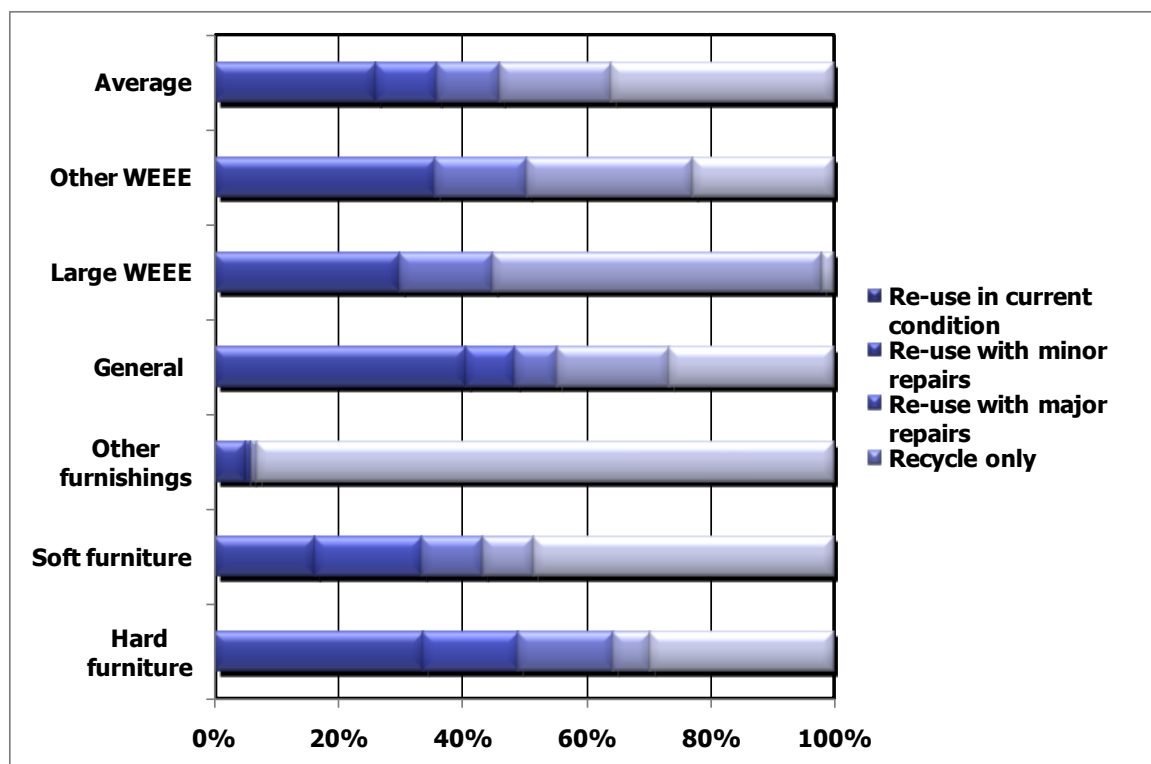


The ability to achieve 'easy reuse' varies considerably between different bulky waste categories. This indicates a need for careful targeting of materials streams and resource recovery activities.

64 Calculated using DEFRA 2007/08 municipal waste statistics, total waste arisings 28.5 Mt, and an assumption of a 5% level of bulky waste

65 Caroline Lee-Smith personal communication based on Bulky Basics (2006) but making adjustments for the impact of the WEEE Directive.

Figure A.4 Ease of Reuse: Estimates for Different Bulky Waste Categories



The 2008/9 REalliance sector survey identifies 56,000 tonnes of bulky waste reuse and 23,000 tonnes of bulky waste recycling undertaken by TSOs that provided materials data. This suggests that TSOs are capturing 11% of the easy reuse market from bulky waste. These figures can only be indicative, but they do suggest that there is significant scope to improve both capture rates and TSO activity.

To develop an understanding of the amount and types of bulky waste available in a particular locality the recommended approach is to undertake trail of collections or to use national data. It is tempting to run an audit, but unless bulky items are collected from inside the house or other weatherproof area the items may well have been damaged by rain. Details of appropriate methods are set out in the Bulky Basics.⁶⁶

Improving Diversion of Bulky Waste

A bulky waste 'master class' held in 2009 by WRAP and FRN and involving local authority officers identified the most difficult issues in improving bulky waste diversion from local authority waste streams. These key challenges were felt to be focused around project planning, procurement and analysis and costing of projects.

⁶⁶ Lee-Smith, C. (2006) Bulky Basics, FRN http://www.frn.org.uk/bulky_waste.asp

Figure A.5 Challenges to Improving Bulky Waste Diversion

Difficult stage	Specifically:
Planning	<ul style="list-style-type: none">■ Getting buy-in from stakeholders■ Overcoming perceptions of the 3rd sector■ Getting a project started
Procurement	<ul style="list-style-type: none">■ Knowing what the procurement options are for partnerships■ How to get procurement departments involved■ The stages of negotiation
Analysis/costs	<ul style="list-style-type: none">■ Knowing what is possible■ What is, and can be, included■ How to calculate costs■ How to sell the benefits

Proposed solutions to these challenges are set out in Figure A.6. These focus around improving buy-in from key stakeholders, improving perceptions of TSOs, improving networking with procurement departments and developing good costed examples of bulky waste TSO service delivery.

Figure A.6 Solutions to Improving Bulky Waste Diversion

Difficult bit	What could local authorities and stakeholders do:
Planning (buy-in)	<ul style="list-style-type: none">■ Have open meetings with possible providers■ Set up a project team with a champion (possibly in procurement) and have a member as a champion■ WRAP prioritising Bulky waste (as part of Waste Prevention)
Planning (perceptions)	<ul style="list-style-type: none">■ Share information■ Communicate good news stories■ Visit successful partnerships■ Invite experts to give presentations
Procurement	<ul style="list-style-type: none">■ Involve this department from the start■ Set up support networks and going on training
Analysis/costs	<ul style="list-style-type: none">■ Produce and share more information on examples, their costs and benefits

Mapping the Community Benefits of a Bulky Waste Resource Recovery Network

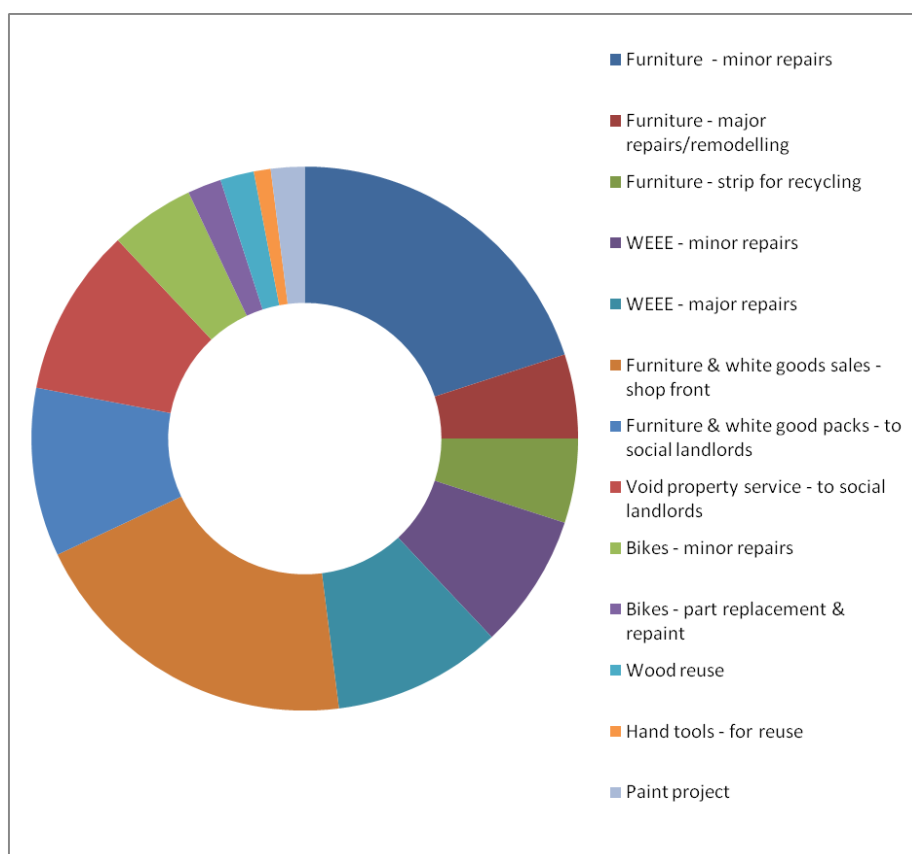
In the majority of areas of England there will already be activities around bulky waste reuse. Mapping which groups are currently active, the materials they are current working with and the scale of operations is useful. This helps to understand the impacts that current reuse and recycling activities may be having on the bulky waste levels being received through local authority services (bulky waste collections & HWRCs). The information is also useful in scoping the skill base and opportunities to develop the breadth and depth of current services.

"Every £1 given to a local voluntary reuse charity organisation to run the bulky waste collection service can generate a total of £5.32 of social benefits locally"⁶⁷

There are a wide range of different activities necessary to make good use of key materials with the bulky waste stream. Figure A.7 characterises these activities – there are other activities involving additional materials that could be undertaken, this list is illustrative not exhaustive.

Figure A.8 reiterates the priority beneficiary groups for employment, training and volunteering opportunities to be reported by local authorities through national indicators.

Figure A.7 Bulky Waste Resource Recovery Activities



By combining Figures A.5 and A.6 and adding examples of the kinds of markets for reuse goods that have been identified over the course of this research study Figure A.7 is designed to create an impression of the scope and community benefits that can be created from material that may otherwise go to landfill.

An advantage of looking at bulky waste resource recovery from this perspective is that 'community benefits per tonne' becomes a useful unit of measurement for materials. Items like bikes are relatively light and require repairs that would not be cost effective at a skilled mechanic hourly rate. 'Community benefit per tonne' is a measure that fits much better with a sustainable community approach merely assuming no reuse value or using disposal cost per tonne.

⁶⁷ Anderson et.al., The Benefits of Third Sector Waste Management. Proceedings Waste 2008 Conference (Sept 2008)

Figure A.7 Priority Groups in the Community Requiring Employment, Training and Volunteering Opportunities to be Reported Through National Indicators

Beneficiary Group	Opportunity	National Indicator
Whole community	Regular Volunteering	NI 6
Young Offenders	Employment & Training	NI 45
Offenders under probation supervision	Employment	NI 144
Adults with learning disabilities	Employment	NI 146
Care leavers	Employment & Training	NI 148
Adults in contact with secondary mental health services	Employment	NI 150
Working age people claiming out of work benefits	Employment, training, volunteering	NI 152
Working age people claiming out of work benefits in worst performing neighbourhoods	Employment, training, volunteering	NI 153

Figure A.8 Scope and Community Benefits of a Well Developed Bulky Waste Resource Recovery Network

Resource Recovery Activity	Community Priority Group	Market for Products	NI
Furniture Minor Repairs	Adults in contact with secondary mental health services	Soft furnishings to Warehouse and Shop	NI 150
Furniture Minor Repairs	Adults in contact with secondary mental health services	Hard furniture to 10 Charity Shops	NI 150
Furniture Minor Repairs	Offenders under probation supervision	Hard furniture to Warehouse and Shop + Supply Void Property Refit Service	NI 144
Furniture Major Repairs/Remodelling	Adults with learning disabilities	Warehouse and Shop + Monthly 'Second Life' Furniture Auctions in 3 towns	NI 146
Furniture Strip for Recycling	Working age people claiming out of work benefits	Merchants	NI 152
WEEE Minor Repairs	Adults with learning disabilities	Warehouse and Shop + PAT testing for 10 charity shops + Supply Void Property Refit Service	NI 146
WEEE Major Repairs/Parts Replacement	Working age people claiming out of work benefits	Warehouse and Shop + + Supply Void Property Refit Service	NI 152
Furniture & White Good Sales Warehouse	Working age people claiming out of work benefits in worst performing neighbourhoods	Low Income/ Resettlement Households + Supply Void Property Refit Service	NI 153
Furniture & White Good Sales Shop	Whole Community	General Public	NI 6
Furniture & White Goods Packs	Working age people claiming out of work benefits	Social Landlords	NI 152
Void Property Refit Service	Adults in contact with secondary mental health services	Social Landlords	NI 150

Bikes Minor Repairs	4 Young Offenders Projects	Schools Re-Cycling Project	NI 45
Bikes – Parts Replacement/Repaint	Prisoners & Offenders under probation supervision	Schools Re-Cycling Project	NI 144
Wood Reuse	Working age people claiming out of work benefits in worst performing neighbourhoods	4 secondary & 12 primary schools, 5 Transition Town groups, 23 allotment groups (for chicken sheds, raised beds, shed making) plus online sales	NI 153
Wood reuse	Care leavers	Bird, bat & insect boxes sold via local wildlife trust	NI 148
Paint Project	Adults with learning disabilities	Community Groups through Re>Paint scheme + Supply Void Property Refit Service	NI 146
Tools reuse	Whole Community	Schools, allotment & Transition Towns	NI 6

Appendix 1 - REalliance 2008/9 Sector Survey

REalliance is currently carrying out a survey of third sector organisations in England involved in reuse, recycling and composting.

This survey looks at:

- the types of waste management activity you are involved in
- materials collected
- number of people who work with you as staff, volunteers or trainees,
- types of income you receive
- working with public sector organisations

The results of the survey will be used by REalliance and its partners to help to promote community sector reuse/recycle/composting activities more broadly. They will support research into the opportunities and difficulties organisations such as yours may be facing and help us to provide appropriate services.

If you have any questions about the survey or would like to complete it over the telephone, please call me on 0117 942 0142.

Completed by:

Date:

1 Contact data:

1.1 Organisation Name:

1.2 Name of respondent:

1.3 Telephone no:

1.4 Email:

2 Organisational data

2.1 When was your organisation set up?

2.2 What is the legal form of organisation – **type 'Y' next to relevant category**

Community Interest Company
Industrial and Provident Society
Company Limited by Guarantee
Registered Charity
Co-operative
Private Company
Public sector body
Unincorporated Association
Other (please give details)

3 Organisation size – please type within the brackets.

3.1 How many staff do you employ in waste related activities:

full-time () part-time ()

3.2 How many of volunteers/placements in waste related activities

total number of placements () total hours per week ()

3.3 How many staff do you employ involved in non-waste activities

full-time () part-time ()

3.4 How many of volunteers/placements in non-waste related activities

total number of placements () total hours per week ()

3.5 Turnover (income) for your organisation 2007/08 £?

(If your waste-related project is part of a larger organisation please give the revenue of the project, including training and other related activities, not the whole organisation)

4 Waste management activities

Please indicate which activities are carried out by your organisation. Of the activities that describe your organisation please rank them numerically (1 being the activity most central to your organization, 2 being the next most central etc).

Enter Y if relevant	Ranking	
		Household kerbside scheme – dry recyclables
		Household kerbside scheme – garden waste
		Commercial/official waste collection
		Recycling banks/bring sites
		Civic amenity site operation
		Furniture/white goods refurbishment and reuse
		IT equipment refurbishment and reuse
		Composting
		Re>paint Scheme
		Wood recycling
		Scrapstore
		Waste auditing/analysis/consultancy
		Events recycling
		Waste awareness/minimisation/education
		Support organisation
		Waste exchange
		Other (please

5 Contract and leasing arrangements

5.1 Do you have a contract or any other agreement to provide services to a public sector organisation including local authorities at present?

If yes, please give more details

- which organisation is the agreement with?
- What services is it to provide?
- How long is the agreement for?
- Any other information about the agreement?

5.2 Have you had any such arrangements in the past?

If yes, please give more details

- which organisation is the agreement with?
- What services was it to provide?
- How long was the agreement for and why did it end?
- Any other information about the agreement?

5.3 Do you aspire to develop contract arrangements with a local authority in the future?

- If so what for?
- Do you have any idea when such opportunities may become available?

5.4 Have you experienced any barriers to contracting with a local authority?

- If yes, what was the nature of these barriers?

5.5 Do you have a sub-contract with a private sector waste management company providing a public service at present?

- which organisation is the agreement with and to provide services to which public sector organisation?
- what services is it to provide?
- How long is the agreement for?
- Any other information about the sub contract?

5.6 Have you had any sub-contract arrangements with a private sector waste management company in the past?

- If so give further details (including why they ended)

5.7 Do you lease any land or buildings?

- If so who do you lease from?
- How long is each lease for?
- Do you pay a commercial rent or do you have more favourable rental terms?

5.8 Do you lease any vehicles or equipment?

- If so are these on a finance lease or an operating lease?
- How long is each lease for?
- Which organisation(s) are your lease arrangements with?

6 Tonnages collected

Please indicate materials and quantities that your organisation handled in 2008 (if this is not readily available, then the most recent year for which you have records).

Please enter tonnage in figures and type 'Y' in 'Reuse' Recycle & Compost' as relevant to your organisation.

Figures for the year to (month) (year)

MATERIAL	Annual tonnage	Reuse Y/N	Recycle Y/N	Compost Y/N
BATTERIES				
Organics				

• compostable garden waste				
• compostable kitchen waste				
• compostable cardboard				
CONSTRUCTION/DEMOLITION WASTE				
ELECTRICAL APPLIANCES				
FURNITURE – domestic				
FURNITURE – office				
GLASS				
IT EQUIPMENT				
LIGHTING/LAMP EQUIPMENT				
METALS				
• Aluminium				
• Steel				
• scrap metal – ferrous				
• scrap metal - non-ferrous				
OIL				
PAINT				
PAPER / CARD				
PLASTICS				
TEXTILES				
VEHICLES/BICYCLES				
WOOD				
Other 1				
Other 2				
Other 3				
Other 4				

7 Funding sources

For the year you have given us a turnover figure of, **please indicate the split in funding as follows: (if you are not sure of %s you can enter '£')**

% of funding from each of the following sources (to nearest 5%)

% of total income (to nearest 5%)	Income source
	Grants
	Service Level Agreements

	Service contracts-
	Income from sale of reusable items to the public
	Income from sale of reusable items to local authorities
	Income from materials sales to merchants/reprocessors
	Recycling credits
	Reuse credits
	Training fees
	Commercial Loans
	Patient capital
	Other debt finance
	Equity finance
	Commercial sponsorship
	Other sources

8 REalliance

What would you like to see REalliance doing in the future?

9 Anything else

Is there anything else you'd like to add?

Many thanks for taking the time to complete this survey.

Please email this survey to survey@crn.org.uk or fax to 0117 934 9944

Appendix 2 - Summary Analysis: Responses to the REalliance 2008/9 Sector Survey

Total Number of Survey Returns: 461

Q2.1 When was your organisation set up?

250 TSOs provided their set-up date, only 54% of survey returns.

Set Up	Number	%
Pre-1980	18	7%
1980 - 1984	17	7%
1985 - 1989	29	12%
1990 - 1994	28	11%
1995 - 1999	54	22%
2000 - 2004	58	23%
2005 - 2009	46	18%
Total	250	100%

Q2.2 What is the legal form of your organisation

414 TSOs provided details of legal form.

Legal Form	No.	%
Industrial and Provident Society	3	1%
Co-operative	4	1%
Community Interest Company	8	2%
Public Sector	10	2%
Other	10	2%
Limited/Private Company	16	4%
Unincorporated Association	17	4%
Company Limited by Guarantee	53	13%
Registered Charity & Company Limited by Guarantee	140	34%
Registered Charity	153	37%
Total	414	100%

Organisation size

Q3.1 How many staff do you employ in waste related activities

Staff	Number	%
Full-time	2392	69%
Part time	1069	31%
Total	3461	100%

Q3.2 How many of volunteers/placements in waste related activities (total number of placements and total hours per week)?

30,985 volunteers and training placements were identified by 322 organisations.

Too few organisations responded to the question on total placement hours per week to provide meaningful data for analysis.

Q3.3 How many staff do you employ involved in non-waste activities full-time and part-time?

7064 full-time and 1302 part-time staff are employed by 85 organisations. 18% of the TSOs that responded to the survey are larger organisations that undertake a range of activities including some resource recovery.

Q3.4 How many of volunteers/placements in non-waste related activities (total number of placements and total hours per week)?

Too few organisations responded to the question on non-waste related volunteers and placements to provide meaningful data for analysis.

Q6 Estimated the revenue of your organisation 2007/08 £

(If your waste-related project is part of a larger organisation please give the revenue of the project, including training and other related activities, not the whole organisation)

392 TSOs provided waste-related turnover data, amounting to £95,185,115.

Q7 Please indicate which activities are carried out by your organisation.

The survey question asking TSOs to rank their activities in order of priority to the organisation did not produce clear enough data. Some TSOs responded with yes, or one for several activities. Analysis of activities has therefore been on the basis of the proportion of the TSOs that did provide activity information.

227 TSOs provided some information about the activities they undertake. Some TSOs carry out a large number of different resource recovery activities. For example 42% of all TSOs identify that they undertake some furniture and white goods reuse activity whereas only 4% of TSOs undertake waste exchange activities. The total percentage does not therefore add up to 100.

Activities	No.	%
Waste exchange	8	4%
Civic amenity site operation	13	6%
Events recycling	14	6%
Household kerbside scheme – dry recyclables	17	7%
Support organisation	17	7%
Re>paint Scheme	18	8%
Household kerbside scheme – garden waste	18	8%
Recycling banks/bring sites	24	11%
Scrapstore	25	11%
Waste auditing/ analysis/ consultancy	27	12%
IT equipment refurbishment and reuse	33	15%
Wood recycling	36	16%
Commercial/official waste collection	42	19%
Niche markets - bikes, textiles, mattresses, cooking oil, books etc	48	21%
Organics Recycling	54	24%
Waste awareness/ minimisation/ education	84	37%
Furniture/white goods refurbishment and reuse	95	42%

Q8 Tonnages by material stream

Recycling	2009
Paper/card	57,816
Plastics	6,963
Metals - aluminium	25,690
Metals – steel	1,233
Glass	37,874
Batteries	43
Wood	6,657
Mixed consumer packaging	
Nappies	572
Textiles	4,943

Appliances	795
Furniture	14,885
IT Equipment	169
Oil	361
Tyres	31
Toner Cartridges	2
Mattresses	93
Scrap metal – ferrous	92
Scrap metal - non-ferrous	6
Organics - Food waste	854
Organics - Garden waste	11,083
Organics - Cardboard	2,307
TOTAL Recycling	172,468
Reuse	
Appliances (small)	
Appliances (large)	6,083
Furniture	47,149
Textiles	229
Paint (in litres)	219
Construction and demolition waste	6,209
IT Equipment	1,692
Office furniture	14,229
TOTAL Reuse:	75,810

Q9 Current funding streams 2008/09

244 TSOs provided information on sources of income.

Sources of Income	No.	%
Materials to merchants	26	11%
Recycling Credits	28	11%
Training fees	44	18%
Private sector contracts/sub-contracts	45	18%
Public Sector Contracts	45	18%
Service Level Agreements	56	23%
Reuse credits	69	28%
Grants	121	50%
Sales to public	122	50%

Q10 Contract arrangements

1. Do you have a contract with a local authority at present?

Yes 141

No 105

No information 216

2. Have you had any contract arrangements with a local authority in the past?

Yes 77

No 146

No information 239

3. Do aspire to develop contract arrangements with a local authority in the future?

Yes 158

No 73

No information 231

4. Have you experienced any barriers to contracting with a local authority?

Yes 132

No 82

No information 248

This question was followed with a qualitative question around the nature of the barriers to contracting experienced by TSOs.

Appendix 3 - Assessing the Impact of the TSO Resource Recovery Sector in England: Extrapolating from the TSO Sector Survey 2008/9

This section sets out the assumptions that have been used in assessing the impact of the whole resource recovery sector based on the 461 surveys returned, not all of which were fully completed.

1. Number of organisations

To decide which organisations to contact to survey REalliance regional staff reviewed membership lists of network organisations. Where TSOs are known to be active but did not respond to telephone calls regarding the survey an estimate of current organisational size (small, medium or large) has been made by regional staff.

The 691 total does not include duplicate members (TSOs that are members of more than one network organisation), members outside England or non-trading members (such as local authorities that are members of network organisations). Some resource recovery TSOs that are not members of national or regional waste networks are also included in this count where their activity is known to regional TSO network staff.

Region	TSO Data Returned	Active but no reply	Total
London	81	37	118
SE	48	8	56
SW	72	35	107
WM	30	11	41
EM	33	4	37
EE	62	50	112
NW	51	30	81
Y&H	51	16	67
NE	34	38	72
Total	462	229	691

Scale of Organisation by Region

Using survey data and information from REalliance regional staff the scale of activity of resource recovery TSOs by region has been estimated.

	Small	Medium	Large
London	54	49	14
SE	26	30	2
SW	74	27	5
WM	21	16	2

EM	21	16	0
EE	76	35	1
NW	42	35	4
Y&H	32	32	1
NE	48	22	3
Total	396	263	32

2. Number of staff employed in waste related activities.

439 organisations reported how many staff they employ in waste related activities

Staff	Number	%
Full-time	2392	69%
Part time	1069	31%
Total	3461	100%

Staff	Average per organisation
Full-time	5.4
Part time	2.4
Total	7.9

Estimated staff for 691 TSOs

Staff	Number	%
Full-time	3765	69%
Part time	1683	31%
Total	5448	100%

Estimated staff: full-time equivalents

Staff	Number	Weighting	Total
Full-time	3765	1	3765
Part time	1683	0.5	841
Total	5448		4606

4. Number of volunteers/placements in waste related activities

Excluding one large provider creating 20,000 volunteering opportunities the average number of placements per TSO is 34. Over 691 organisations this average of 34 training and volunteering opportunities per TSO, added to the 20,000 placements, is estimated to produce 43,500 opportunities across the whole sector.

5. Turnover

392 organisations provided information on revenue. A further 60 have had income extrapolated on the basis of reported resource recovery staff numbers. 239 TSOs that are active on resource recovery but did not respond to the survey have had turnover estimated on the basis of regional network staff knowledge of organisation size and activity. This resulted in an estimated resource recovery related turnover of **£133,820,000** for 691 organisations.

This figure may well under-represent the full extent of sector activity. This study takes a more cautious approach to the attribution of resource recovery related turnover in large multifaceted TSOs than previous 'state of the sector' reports.

However, when comparing the turnover of the sector with the total tonnage of resource recovery this produces a cost of just under £400 per tonne. This is lower than the £450-£600 cost per tonne range that may be expected for bulky waste collection activities, that now make up a large part the sector. This may reflect the large contribution of some organisations providing lower cost per tonnes activities including commercial goods reuse.

Distribution of Income Annual Income	Number of TSOs	% of TSOs	Cumulative Value £	% value
Small £1 - <£100 K	398	58%	£18,265,000	14%
Medium £100 K - <£1 M	263	38%	£73,880,000	55%
Large >£1 million	31	4%	£41,675,000	31%
Total	692	100%	£133,820,000	100%

Appendix 4 - Financing Resource Recovery

TSO Engagement in Public Service Contracts

Financing Resource Recovery TSO Engagement in Local Authority Waste Services Contracts

In a private business the primary goal is to maximise profit and return on investment while managing the firm's financial risks. In TSOs the primary goals may be social and environmental, but in order to achieve those goals the TSO needs to be financially, making effective financial management and planning no less important than in profit motivated business.

Short Term – Working Capital

The key short term financial decisions for TSOs are around the management of working capital. This focuses around the short-term balance of current assets and current liabilities – particularly cash, stock and short-term borrowing and lending (such as the terms on credit extended to customers). There has been a culture of TSOs, in waste and many other sectors, rarely getting beyond this focus on the short-term. This makes building balance sheet strength difficult, which in turn often makes long term survival, let alone the potential to develop and thrive, very challenging.

If a resource recovery TSO is receiving income for the performance of a service, if the income received is covering the costs of providing the service and if the buyer of the service is paying promptly, the management of working capital ought to be relatively straightforward. However, those three 'ifs' determine a large part of whether TSOs are successful as businesses.

Is the TSO receiving income for the performance of a service?

Some TSO services are provided because they are consistent with the core values of the organisation, but these services do not yet (or perhaps no longer) produce an income. Un-funded services can occur because, for example, an organisation previously received grant funding for an activity which is continued, due to the perceived importance of that activity to the objectives of the TSO even after grant funding ceases. Sometimes this can be a temporary service continuation while other funding is sought – for example the results of a grant or loan application are being awaited. Whatever the cause, while the service is being performed the costs of the service will need to be met from other income. It is important that TSO understands the costs that are being incurred and fully recognises the consequences of continuing to carry out the service on such a cross-subsidy basis. The complexity of these situations can also present significant technical challenges to TSO financial managers.

Local authority staff may need information from the TSO to help them to see how income from more than one department is funding different elements of service delivery – and that it is appropriate to seek full cost recovery for each of the services rather than to require cross-subsidy from other departments or from other TSO funders. Even as resource recovery services have moved from pioneering to the mainstream, there can still be an expectation that TSOs will continue to secure grants to subsidise service delivery.

Is income received covering the costs of providing the service?

An operating margin is the ratio of operating income divided by net sales, usually presented as a percentage. It is a measurement of revenue left over before taxes and other indirect costs (such as rent and interest payments) after paying for the variable costs of production (wages, fuels etc).

TSOs can be profitable without being solvent (for example when they are expanding rapidly) and can be solvent even when they are losing money – for example by borrowing against future cash flows. But, like other forms of business, TSOs are bankrupt if they are both unprofitable and insolvent.

Insufficient income to cover the costs of the service means that service does not contribute financially to the business overall. If the income only covers the current costs of the service but there is no margin, this still presents problems for the business. Lack of margin makes it difficult for the TSO to invest in development or to build up reserves. A lack of reserves, in turn, makes it necessary for a TSO to act cautiously in their business dealings as they do not have a financial safety net.

If contracts include a margin on services and products it is possible to generate a surplus. This surplus can go into reserves to be used for organisational development.

TSOs may need to find approaches to reducing overhead costs in order to provide services more cost effectively. Credit unions are currently exploring 'shared specialist services' models. These aim to enable small scale geographically focused credit unions to secure access to specialist finance, marketing and development skills on an on-going basis, but without having to carry the costs of several full-time staff. In the main body of the report (see Chapter XX) we have discussed the concept of 'delivery and development hubs' whereby clusters of TSOs could, amongst other things, share support services (e.g. business development, finance, marketing, HR) in order to reduce overheads.

Is the buyer paying promptly?

If the buyer is paying in arrears, the TSO will need a mechanism to manage the payment of outgoings before income is received. This could be through an overdraft facility, a loan facility or through a factoring arrangement⁶⁸. In each case the need to pay their own suppliers and staff in advance of receiving payment will cost the TSO money to maintain their cash flow.

Impact of Short-Term Contracts on Costs and Financial Strength

Across a range of sectors in England where TSOs are reliant on grants and contract funding the day-to-day focus is on fire-fighting and survival. Survey data for England identified that across all sectors TSOs reported that their primary use of money was to maintain their current operations and service delivery and that they not focusing on investment to improve the security or develop the organisation⁶⁹.

The duration of contracts has an impact on TSO ability to be innovative. Innovation requires development time and therefore funding/finance extended over a sufficient period to cover this investment in innovation. The cost of innovation, such as new systems and structures to optimise service delivery, is usually incurred up front. Revenue returns that compensate for the additional investment take some time to generate.

Partnership development with key stakeholders is as much about individual relationships as it is about organisations. For relationships between a TSO and key stakeholders to develop and be sustained staff continuity over several years is important. Such continuity is difficult if funding is short-term and uncertain. Yet these relationships are important in building an organisation's strength and capacity. Where a TSO operation has been set up under the umbrella of a larger multi-service TSO such as a housing association, it is not unusual to find five years of investment in the 'waste TSO' organisation and key staff before the new organisation is expected to be self financing.

Equally importantly, it can be difficult to finance essential service assets (such as vehicles and equipment) efficiently if the term of the service contract or service level agreement (SLA) is much shorter than the lifetime of the assets in question. This can mean higher costs for both the TSO and the public sector customer, making the TSO solution appear uncompetitive in the long term with other options open to the customer. A worked example of this issue is included in Chapter XX of the main report.

Longer Term – Investment

Longer term financial decisions focus around capital investment in project expansion or new projects and whether to finance that investment with debt (i.e. borrowing from a third party) or equity (using the accumulated resources of the organisation itself). Government and the public sector have identified TSOs ability to innovate as a key element of their contribution to achieving social and environmental benefits, but this is often constrained by lack of access to finance for long-term investment.

TSOs need to make a business case to secure finance, whether that is in terms of debt or grant funding. Because TSO models vary from the mainstream, and therefore the proven and easily fundable, they can be (and often actually be) more financially insecure.

⁶⁸ Factoring, or a similar mechanism known as invoice discounting, is borrowing against the value of unpaid invoices, which are essentially used as collateral.

⁶⁹ SQW (2007)

The Impact of Service Type and Scale on Cost

Some services are more complex and require more investment in equipment and land or premises, including kerbside collection of recyclables, organics and residual waste, or the management of whole HWRC sites. Greater expense per tonne can also arise as a result of relatively small volumes of material that is labour intensive, like bicycle refurbishment. The most expensive services to finance, in terms of capital investment, are those requiring large amounts of relatively complex equipment such as anaerobic digestion or in-vessel composting plant, or materials recovery facilities.

Forms of Finance and Funding for TSOs

Grants

A grant is a gift or award of money for a specific purpose. Grant funding continues to be used as a source of income by 50% of resource recovery TSOs in 2008/9. Grants can be obtained from charitable sources such as charitable trusts or the Big Lottery fund. Grants can also be secured from local authorities and European Union funds.

Many resource recovery TSOs have previously focused on grant funding, finding grants relatively easy to secure and administer. Grant funding is familiar, and TSOs who have secured it in the past are confident of their skills and information needs to make further similar applications. Grant funding does not have repayment obligations, reducing the fear factor of not being able to repay a loan.

Earned Income

Earned income for resource recovery TSOs can come from sales of products to a range of markets, credits for waste reuse and recycling services performed for local authorities and service contracts for the public or private sector. From the 2008/9 REalliance sector survey analysis it appears that earned income now outstrips grant income by 3:1.

Local authority credits

Local authorities have the power to issue recycling or reuse credits to TSOs to recognise the financial benefit of waste being diverted from disposal.

Reuse credits were introduced in 2008. It is not necessary to have a collection services contract for the TSO to receive these credits, but an acceptable system of stock control and audit is required to ensure that all the material for which the credit is paid actually goes to reuse.

Sales

The margins from earned income can provide a valuable source of unrestricted independent money. Having money that is not tied to performing particular services is valuable in enabling investment in organisational development and growth. It is important to have the financial skills necessary to calculate appropriate margins for the variety of products and services being offered.

Rental income

Where physical assets are owned, asset-related income can be earned from short or longer-term rental arrangements.

Leasing

Leasing of equipment rather than purchase offers a range of advantages include tax benefits, the ability to use the equipment itself as security for the finance and the ability to get small firms loan fund guarantees.

Finance leases

A finance lease (also called a capital lease) effectively allows a TSO to finance the purchase of an asset, even if, strictly speaking, the TSO never acquires the asset. The TSO gains control of the asset for the majority of its useful life. The TSO would be responsible for maintenance, insurance, and taxes. Use of a finance lease requires the TSO to be quite confident that there will be a sufficient income stream to take out a lease for the majority of the useful life of the asset.

Operating leases

Assets, for example vehicles for carrying out waste collections, can be leased for a shorter period than the operating life of the asset. A vehicle that could reasonably be expected to last for seven years can be acquired on an operating lease for three years to fit with the term of an SLA. The TSO will pay a fixed monthly amount, but this amount will include a risk premium to cover the depreciation of the vehicle. An operating lease can be relatively expensive compared a finance lease or with purchasing and maintenance of vehicles.

Local Authority Financing of Service Delivery Equipment

A further option is for a local authority to purchase the assets needed to deliver a service. The purchase can be funded using prudential borrowing which may be cheaper than commercial borrowing rates. The assets are then provided to the service supplier for the delivery of the contract. This can be good risk management for the authority, as in the event of service breakdown they own the assets and can transfer them to an alternative service provider.

Loans

Loan (or debt) finance is "money lent which has to be returned to the lender usually with interest"⁷⁰. Loans can offer advantages over grant funding because they can be used by an enterprise to support daily operations, to finance capital investment, to facilitate growth, development and sustainability. The specific benefits of loans over grants include:

- loans are more flexible and not tied to achieving set outcomes;
- loan monies can be used for any purpose;
- assets acquired with loans can be used as security for future borrowing;
- loans are available for longer time periods than grants allowing time to develop the business;
- loans are useful for asset development to create sustainable income;
- loans promote and improve long term planning and management efficiency through the need to service the loan and develop realistic goals;
- grant funding is often for project work but loans can be used to develop and expand trading; and
- income generation.

Green Works won the 2008 Queen's Award for Enterprise in recognition of its contribution to sustainable development. Green Works is cited as a good practice example and long-term customer by Co-operative & Community Finance, and by the CDFI the London Rebuilding Society. Green Works collects unwanted furniture from corporate clients, refurbishing the items, and then selling the recycled furniture at discounted rates to not-for-profit organisations, charities and social enterprises. Green Works is involved in a range of employment and training programmes that include public sector contracting. It is an example of a TSO that uses waste resources very successfully to achieve public benefit, but does not engage in public sector waste contracts.

If a TSO is not currently generating surpluses, or does not have medium term contract security loan finance can be inaccessible or high risk. Yet use of loan finance could enable just the types of capacity building and diversification that would enable a TSO to become more robust and to offer better quality or a more diverse range of services.

This increased robustness and diversity is what many smaller TSOs that are dependent on short term grant and contract funding claim to aspire to. Securing a loan to support a project can be used as a lever to access other funding and earned income. It improves the credibility of the TSO that they can convince another funder – which in risk adverse public sector decision making can be important in underpinning officer confidence. By reducing dependence on particular grants or contracts loan finance can also improve the perceived power relationship between TSO and local authority – the TSO is in a stronger position to negotiate terms, which can enable the negotiation of more sustainable and less risky agreements.

⁷⁰ Community Development Finance Association. (www.cdfa.org.uk)

Patient Capital

Patient capital lowers the threshold for taking on loan finance. It can be a loan/grant package with a high grant component. The aim is to help a culture shift from grant to loan finance, including building up business management skills to enable loan repayments to be budgeted for and achievable.

Equity

Equity finance is a way of raising share capital from external investors in return for handing over a share of the business. This may take many forms, including a share of future profits, but is most frequently associated with sharing the ownership of the business to some degree. Equity finance is being promoted to TSOs as being more appropriate for financing larger capital projects that require upfront investment but will take several years to generate a revenue stream sufficient to begin repaying the investment. However, recent research identified that across the third sector the use of equity to finance operations and development was practically non-existent⁷¹. Possible reasons given were concern at the risk of loss of control over the organisation and an imperfect understanding of the benefits, the process and the implications of equity finance. However, 5 examples were identified through the REalliance sector survey of equity finance in use by resource recovery TSOs.

Legal Form – Impact on Access to Finance

Although some legal forms preclude borrowing, or make borrowing much more difficult, a review of TSO access to finance⁷² does not identify legal form as a significant barrier to accessing finance across a broad range of TSOs. Other factors appear to have more influence on decision making including a lack of awareness of sources of finance and the potential benefits; lack of collateral against which to secure a loan, and the risk associated with potentially insufficient and unpredictable income streams.

Providers of Finance Products

Mainstream banks

Mainstream banks have been an important source of debt funding to waste TSOs through overdrafts to existing customers. However the automated approach to determining suitability to access mainstream financial products and the high level of return on investment sought means that TSOs, or specific TSO projects, can be considered 'unbankable'. Key lending criteria for commercial banks include:

- sufficient collateral;
- acceptable credit rating;
- appropriate legal form; and
- the ability to repay the loan on commercial terms over an agreed timescale.

Social Banks

In recent years several specialist lenders have been launched that focus on providing finance to TSOs and small enterprises. These lenders aim to achieve wider social benefits through their investments. They have specialist lending techniques focusing around 'relationship banking' where lending decisions are based on the client's character, the economic viability and cash flow of the enterprise and commitment to repaying the loan - in contrast to the automated approach of mainstream finance based on credit risk factors. They also tend to seek a lower return on investment than mainstream finance providers.

Social banks are financial service providers dedicated to lending to social and community enterprises, not for profit organisations and charities for social and environmental initiatives. These banks take account of social and environmental criteria in assessing a loan, offer innovative approaches towards security and acknowledge the value of time and effort being invested in an enterprise. They offer customers opportunities to invest in accounts that provide loans to social enterprises and charities. Unity and Triodos are social banks.

⁷¹ SQW (2007)

⁷² SQW (2007)

Charity Bank is the first bank to be registered as a not-for-profit company and charity authorised to lend by the FSA. Charity Bank offers loans, loan guarantees and business support services to the charitable sector and social enterprises. Charity Bank encourages social investment by offering charitable trusts and foundations the opportunity to give loans as well as grants. It offers bridging loans and working capital loans to support asset development, building purchase and renovation, and environmental improvements.

Devon Furniture Forum secured a loan of £85,000 from Charity Bank, repayable over 3 years to by vehicles to support recycling and reuse activities on public contracts.

Social banks are employing specialist staff with a focus on asset leasing, particularly around lease purchase. This enables waste TSOs to integrate access to assets through leasing with other banking services such as loans and overdraft facilities.

Community Finance Sector

The growth of the community finance sector and new types of funding for TSOs is as a result of government policy on sustainable regeneration. There has been recognition that there is a need to move from grant to loan finance, and that the community finance sector offers effective approaches to achieving what is a cultural as well as an economic change.

Community Development Finance Initiatives (CDFIs) support community regeneration initiatives and businesses by providing community loan finance and other financial services to meet the needs not being met by mainstream banks. CDFIs recognise that local and community based enterprises contribute towards strengthening local communities by generating income and employment, local assets and recycling funds within the community.

CDFIs can be described as lead-in funders. By lending relatively small amounts they can act as a useful bridge between grant dependency and using finance to develop the TSOs ability to earn income through trading. For example some CDFIs have an 'Enterprise Fund' that provides grants of up to £5,000 for enterprise development and start-up costs, were seen as a practical and effective way of supporting culture change in TSOs.

Key Fund Yorkshire have supported Doncaster Refurnish iteratively to support business development, purchase of a property and most recently an £80,000 grant and loan package to support the opening of a new retail furniture outlet.

Social Banks and CDFIs have expressed a willingness to fund waste TSOs. Small geographically focused TSOs may seek CDFI finance of under £10,000 but are rarely engaging with the larger investment packages being offered by social banks. Finance providers have cited the short-term nature of current public sector contracting with waste TSOs as a barrier. The current length of many contracts is not bankable. If longer term contracts were available to TSOs, five to ten years rather than 1-3 years, banks would be happy to lend against current or even prospective contracts.

Table 4.1 sets out current finance providers and finance packages for TSOs, nationally and regionally. This data is based on material collected by the Community Development Finance Association⁷³ and regularly updated. Detailed product and eligibility information is available on the funders websites.

⁷³ Community Development Finance Association. (www.cdfa.org.uk)

Patient Capital Funds

Patient capital funds are a form of equity capital finance, traditionally called venture capital, investing private funds into enterprises over the long term to support growth and development. These initiatives have been designed bridge the gap between grants and loans to make loan funding less daunting to TSOs. Patient capital overcomes the constraints of mainstream venture capital to meet the needs of social enterprise by:

- Aligning the investors interests with the enterprise;
- offering long term and flexible repayment schedules;
- linking repayment to the success of the venture ie. deferral until end of loan or income received, tied to income, offering payment holidays;
- supporting both start-up and development funding;
- taking account of social as well as financial returns;
- offering freedom from the investor requiring control of the enterprise.

Futurebuilders is a government backed patient capital fund. The aim of the Futurebuilders England Fund is to invest in third sector organisations so they can win contracts to deliver public services. Futurebuilders funding has only been available to TSOs looking to win waste and environment services contracts since April 2008.

A key consideration for Futurebuilders funding of waste services has been 'state aid' legislation. European Commission legislation restricts the use of public money to distort competition in trade or service delivery across all member states. Public money cannot be used to give one organisation an unfair advantage over another where they might be operating in a competitive marketplace.

Futurebuilders has identified a difference in treatment between services in part A and part B in Schedule 3 of the Public Contracts Regulations, 2006. The ability to reconcile Futurebuilders funding with the state aid regulation has been largely resolved for services included in part A of Schedule 3. However, for services included in part B, including waste services, the state aid legislation presents more of a barrier to creating compliant and attractive Futurebuilders funding to support TSOs engagement in public waste contracts. The level of commercial competition to provide finance means Futurebuilders will probably only be able to offer a loan (rather than a loan plus grant) deal at a commercial (rather than a lower than commercial) interest rate to projects offering Part B services. In the current market this may be less attractive to a waste TSO than a straightforward commercial deal.

So far Futurebuilders England has not been able to agree a deal with a TSO for a waste focused project. There have been a small number of approaches but these have faced problems around the location of primary beneficiaries (these need to be in England). Futurebuilders have expressed a keen interest in developing their work with projects in waste and environment markets. The DEFRA third sector strategy identified Futurebuilders as a key element in securing TSO engagement in service delivery.

Table 4.1 Current Social Finance Providers and Product Types

National	Finance Types	Range £	Contact	Legal Form
Bridges Community Ventures Ltd	Equity	£100K - £2 Million	www.bridgesventures.com	registered charities and charitable projects
Charity Bank Ltd	Loans	£3K to £350K	www.charitybank.org	
Co-operative and Community Finance	Loans	£5K to £50K	www.co-opandcommunityfinance.coop	co-operatives, employee owned businesses and social enterprises Market - social enterprises social enterprises and CDFIs seeking to scale-up
Triodos Bank	Loan	£10K-£250K	mail@triodos.co.uk	
Big Issue Invest	Loans	Loans £50K - £500K; Contract financing £500K - £5million	nella@biginvest.co.uk	
Futurebuilders	Loan	Full Investment Loan (up to £50K), Tender Fund (£3K-£50K 3 yr interest free), Small Organisation Tender Fund (up to £15K)	info@futurebuilders-england.org.uk	

Regional	Finance Types	Range £	Contact	Area Covered
Aston Reinvestment Trust (ART)	Loan	£10k to £50k	www.reinvest.co.uk	Birmingham Area
Black Country Reinvestment Society	Loan	£10k to £50k	www.bcrs.org.uk	Dudley, Sandwell, Walsall and Wolverhampton
Bristol Enterprise Development Fund (BEDF)	Loan	£7.5K for start-ups, £15K for bus devt, Fast Track loans: up to £1.5K	www.bedf.co.uk	Bristol, South Gloucestershire, Bath, North East Somerset and North Somerset
Business Finance Solutions	Loan	£3K to £30K	www.business-finance-solutions.org.uk	Manchester, Salford, Stockport, Tameside and Trafford and the county of Cheshire
derbyloans	Loan	£5K for start-ups, £10K existing bus	www.derbyloans.co.uk	Derby
Foundation East	Loan	£500-£50K	www.foundationeast.org	Suffolk, Cambridgeshire, Norfolk or Essex
Gloucestershire Development Loan Fund	Loan	£500-£9.5K	www.gdlf.co.uk	Gloucestershire
Key Fund Yorkshire	Loan, grant, equity	£1K-£50K	www.kevfundyorks.org.uk	Yorkshire and Humberside
London Rebuilding Society	Loan	£500-£50K+	www.londonrebuilding.com	London
Merseyside Special Investment Fund	Loans, equity	£3K-£3M	www.afm.uk.com	Merseyside
Moneyline Greater Manchester	Loan	£100-£10K	loans@moneylinegm.co.uk	Greater Manchester
South West Investment Group	Loan	Various loans up to £50K	info@southwestinvestmentgroup.co.uk	South West
The Social Enterprise Loan Fund	Loan	15K-250K Up to £10K for new start ups and £30K for established small businesses	info@tself.org.uk	South East, North East, London, West and East Midlands
Business Finance North West	Loan	£5K-£20K	info@bbvonline.net	North Manchester
First Enterprise Business Agency	Loan	Up to £10K for new start ups and £100K for existing businesses, up to £250K for non-profit	rtvas@first-enterprise.co.uk	East Midlands
GLE oneLondon	Loan		loans@gle.co.uk	London
HBV Enterprise	Loan	£3K-£25K	mail@hbv.org.uk	Hackney, Camden, Islington, Barnet, Enfield, Haringey and Waltham Forest
NWES (Norfolk and Waveney Enterprise Services)	Loan	£1K upwards	advance@nwes.org.uk	Norfolk and Waveney?? Website doesn't say!
West Yorkshire Enterprise Agency Limited	Loans and grants	£500 - £20K (loans)	keith.gomersall@wyea.co.uk	West Yorkshire
Capitalise Business Support Limited (CBS)	Loan	£3K - £25K Enterprise Loan (£500 - £5,000, max period 36 months) Business Loan (£5,001 - £30,000 max period 60 months)	info@capitalise.org	Sussex, Surrey and Kent
Cumbria Community Asset and Reinvestment Trust Ltd	Loan	£1K - £50K	enquiries@ccart.org.uk	Cumbria
Impetus	Loans	£500 - £20K	info@impetus-marches.co.uk	Herefordshire, Worcestershire and Shropshire
Lincolnshire Development	Loans	Business £100 - £10K; Housing £100 - £12K; Personal £100 - £5K	development@lincolnshire.gov.uk	Lincolnshire
Preston Money Line	Loans		info@prestonmoneyline.co.uk	Preston
URBAN Partnership Group	No details on Loans		ung1@urbanpartnershipgroup.co.uk	East Midlands
Wessex Reinvestment Trust Group	Loans	£1K - £30K	enquiries@wessexrt.co.uk	Devon, Dorset and Somerset

If TSOs are focused on achieving cross-cutting benefits through materials reuse and recycling this may create new niche markets in which there is much less competition than traditional waste public contracts. Public Contracts Regulations, 2006 relating to services specified in both Parts A and B of Schedule 3 are to be provided under a single contract state that:

“Where services specified in both Parts A and B of Schedule 3 are to be provided under a single contract, then the contract shall be treated as:
(a) a Part A services contract if the value of the consideration attributable to the services specified in Part A is greater than that attributable to those specified in Part B; and
(b) a Part B services contract if the value of the consideration attributable to the services specified in Part B is equal to or greater than that attributable to those specified in Part A. For services where cross-cutting benefits are specified in a single contract, provided the waste services element is smaller than the other (Part A) benefits it would appear such project would be eligible for Futurebuilders funding that would be both compliant with state aid regulations and more attractive to TSOs than commercial alternatives.”⁷⁴

There would appear to value in exploring the extent of potential niche markets. Many resource recovery TSOs already have a combination of social, economic and environmental objectives would fit well with a predominantly 'Part B' services contract.

The Adventure Capital Fund offer development grants and patient capital to explore and develop enterprising activity in deprived and marginalized communities. The objectives of the fund include strengthening the resilience of participating organisations by increasing income, capital assets, financial reserves and organisational capacity. An evaluation of the operation of the fund from 2002-06 highlighted the importance of appraising the underlying business model of the TSO and the capacity of the applicant organisation before the viability of a project proposal is considered.

Fairfield Materials Management was a start-up business in 2003. Fairfield are based on the site of the New Smithfield wholesale market in East Manchester. They collect fruit and vegetable waste and in-vessel compost it on site. 6,500 tonnes of material have been composted to date. Fairfield has had 2 finance packages from the Adventure Capital Fund. An initial package of £200,000 of which £120,000 was a loan at 1% interest over 10 years, with a 3 year repayment holiday, with royalties on sales calculated at 2%. The other £80,000 was a grant. Because of the rapid growth of the business a further package was negotiated of £100,000 which comprised a £50,000 loan over 9 years at 5% interest with a 3 year repayment holiday, plus a £50,000 grant.

Bridges Community Ventures, is a privately owned venture capital company with a social mission who launched a new equity-like capital fund in November 2008. They invest in companies working in the most deprived quartile of electoral wards in England, and in businesses that offer a strong intrinsic social or environmental return. Their focus is on supporting high growth businesses.

⁷⁴ HMSO (2006) Public Contracts Regulations 2006, SI 2006 No. 5 <http://www.opsi.gov.uk/si/si2006/20060005.htm>

**Waste & Resources
Action Programme**

The Old Academy
21 Horse Fair
Banbury, Oxon
OX16 0AH

Tel: 01295 819 900
Fax: 01295 819 911
E-mail: info@wrap.org.uk

Helpline freephone
0800 100 2040

www.wrap.org.uk/thirdsector

