

# SMEs fearful of 'franchise' plan

BY CORIN WILLIAMS AND  
MARK SMULIAN  
MRW staff

Six regional SME waste companies have joined together to lobby against Defra's proposal to allow councils to set up local franchises for commercial waste collections.

BPR Group, Cawleys, First Mile, Grundon, KP Waste and Simply Waste Solutions issued a warning that they could be driven out of business. Their rationale is that the move could create local monopolies in favour of larger firms that already run household collections – the “easiest choice” to make for councils.

Defra's proposal was laid out in the consultation on consistency in municipal recycling collections (*see box*), part of the resources and waste strategy. It said many businesses pay extra to recycle or are not offered a recycling service by their waste contractor, concluding: “Government intervention is needed to ensure that businesses separate materials for recycling and waste operators collect and recycle them.”

The local franchising solution would see councils issue contracts for commercial waste collection in defined areas, giving “exclusive rights for the operator concerned to collect waste”. Defra said this would reduce the number of operators and vehicles involved.

Bill Swan, managing director of BPR Group, which includes London commercial recycler Paper Round, is the spokesman for the six SMEs.

“We think Defra has diagnosed the problem incorrectly – it is not the case that recycling is too expensive for businesses or is not offered. On the basis of that wrong diagnosis, it has proposed a very radical solution,” he said.

Swan argued that local authorities providing their own household collection services would simply award commercial contracts to themselves, while elsewhere the work “would go to major firms who would be able to afford to bid aggressively then jack prices up”.

He added: “The obvious example is Westminster City Council being in bed with Veolia for 30 years – who do you think would be best placed to win that?”

**Spokesman Swan:**  
“Regional waste management companies are the bedrock of business recycling in the UK”



He said the six had banded together for their campaign because the Environmental Services Association (ESA) trade body was “a club for big boys” to which few of them belonged.

In its submission to the consultation, the SMEs said they were unaware of any waste management company that did not offer recycling alongside waste disposal, as Defra had suggested, and they “would suggest that recycling services are currently available with minimal effort to all businesses that subscribe to a waste management service”.

The group had criticised Defra for coming up with proposals after meeting only a “handful” of national waste firms companies and no regional SMEs which, it argued, are the real specialists in commercial waste services.

After lodging a complaint, it success-

fully secured a meeting with Defra on 18 June to discuss concerns. Swan said: “Regional waste management companies are the bedrock of business recycling in the UK. Defra's initial round of consultation did not engage with us and we are concerned that, as a result, Defra does not fully understand the business recycling market.

“Defra's invitation to meet us is therefore very welcome and, hopefully, the start of a positive dialogue to help achieve the high recycling rates of quality recyclables.”

The municipal business waste sector is vast. WRAP research estimated it to have produced 20.3 million tonnes in 2015, but its recycling rate is thought to be only around 35%. Defra says that through requirements for greater separation of materials and other measures, this could be boosted to 84%.

Waste management costs to the sector are estimated at £3.3bn a year, >>>

## DEFRA'S FRANCHISING PROPOSAL

“This model would allow local authorities or other operators to issue contracts for the collection of commercial waste in a particular area of a town or city. This would give exclusive rights for the operator concerned to collect waste.

“This would reduce the number of operators and hence vehicles involved in collecting waste and also make it more efficient for waste collectors by maximising the number of pick-ups they could make in a particular area.

“It would operate in a similar way to business-based collaborative contracts but be managed by local authorities and cover all businesses in a defined area. This approach would require further development and assessment and may require legislative change to be operational.”

## COMMENT PETER JONES

Principal consultant, Eunomia



## The aim is to reduce costs

Defra's most interesting proposals to drive down collection costs for small and micro businesses are:

- Collaborative procurement – a model that can be successful, but can only be deployed in areas where there is a co-ordinating body such as a BID.
- Exclusive franchising, or 'zoning', which would allow councils or other operators to issue contracts for the collection of commercial waste in a particular area of a town or city.
- Co-collection of household waste and commercial waste, presumably by local authorities.

Each of these options aims to reduce costs by improving collection logistics. Instead of multiple collection companies driving up and down each street, collecting from a small proportion of businesses, one company collects from every business.

Collaborative procurement has limitations as a means of improving efficiency: businesses must opt in and, for a variety of reasons, not all will do so. For example, chain stores often have national contracts that cannot easily be varied locally. If legal provision was made to allow franchising, it could be a more effective option because it ensures that all businesses in an area have the same collector.

Co-collection is potentially the most efficient because all businesses and households share a collector – but only if the services for commercial customers and householders are compatible (such as collection frequency).

It also relies on some prior action such as franchising, collaborative procurement or perhaps giving local authorities a duty to collect commercial waste from certain premises to get it off the ground.

## SMEs BY NUMBERS

Combined figures for BPR Group, Cawleys, First Mile, Grundon, KP Waste and Simply Waste Solutions



Turnover >£235m

Clients >55,000

Collections per week >250,000

Tonnes of waste a year >1.2 million tonnes

with micro and small businesses accounting for £1.4bn and £1bn of this total, respectively. It is no wonder the Government is worried about the effect of introducing new duties on the commercial sector to recycle a consistent set of materials.

Under the Government's preferred 'option 3' in the consultation – for separated dry mixed recyclables, glass and food waste in commercial collections – it is estimated that waste management costs for micro businesses could rise by up to £292m by 2035. This is because they are less likely than larger firms to reduce the number of refuse bins they need. At the same time, larger businesses would see their charges falling because it costs less to recycle material than send it to landfill or energy from waste.

The franchising model is one of seven rather sketchy proposals put forward in the consultation to cut the cost of recycling for small and micro businesses which, Defra argued, have less flexibility to reconfigure the services they pay for compared with larger organisations.

Defra included an example of businesses operating in a shopping mall which "may have little to no knowledge of the amount of cost savings they could make if they made use of the shared service provision or collectively reduce the size of their refuse containers, etc".

**WE THINK DEFRA HAS DIAGNOSED THE PROBLEM INCORRECTLY – IT IS NOT THE CASE THAT RECYCLING IS TOO EXPENSIVE FOR BUSINESSES OR IS NOT OFFERED."**

Bill Swan, BPR Group

Other ideas to drive down costs include achieving economies of scale through business improvement districts (BIDs), collaborative procurement projects and combining household and business collections.

Peter Jones, principal consultant at Eunomia, has examined Swan's arguments closely. He thinks that problems with the franchise model could be overcome to avoid smaller waste companies going to the wall.

He said: "It is understandable that waste collectors should be nervous about the huge shake-up of the commercial waste market that is in prospect. If Defra opts to move forward with franchising – and I hope it does explore this further – a great deal of design work needs to be done to allay such concerns, and to develop a fair system that benefits business and the local environment"

Jones argued that it "doesn't seem very plausible" that the monopolies created by the franchise system would lead to price increases.

"The BID contracts I have negotiated all limit price increases and any sensible franchising system will do the same. In Los Angeles, where franchising has been implemented, the bidding system ensured that no single company could dominate, making sure that there were enough operating in the city to maintain competition in future bid rounds" (*also see box left*).

In response to Swan's critical comments of the ESA, the association issued a statement: "We represent companies of all different shapes and sizes. The ESA's board and its working groups play a key role in helping to shape our policy positions, and include representation from SME businesses as well as larger operators."